

SAFETY NETS: ON BANNING UNREGULATED DEPOSIT SCHEMES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

The savings of low-income Indian households have traditionally remained unprotected by the government when compared to those of the more affluent economic groups. But that may be about to change now. President Ram Nath Kovind on Thursday promulgated the [Banning of Unregulated Deposit Schemes Ordinance](#), which bars all deposit schemes in the country that are not officially registered with the government from either seeking or accepting deposits from customers. The ordinance will help in the creation of a central repository of all deposit schemes under operation, thus making it easier for the Centre to regulate their activities and prevent fraud from being committed against ordinary people. The ordinance allows for compensation to be offered to victims through the liquidation of the assets of those offering illegal deposit schemes. Popular deposit schemes such as chit funds and gold schemes, which as part of the huge shadow banking system usually do not come under the purview of government regulators, have served as important instruments of saving for people in the unorganised sector. But these unregulated schemes have also been misused by some miscreants to swindle the money of depositors with the promise of unbelievably high returns in a short period of time. The [Saradha chit fund scam](#) in West Bengal is just one example of such a heinous financial crime against depositors. The Centre's latest attempt to curb unregulated deposit schemes through an ordinance reflects a timely recognition of the need for greater legal protection to be offered for those depositors with inadequate financial literacy.

While the intent of the ordinance, which is to protect small depositors, is indeed commendable, the benefits that depositors will eventually derive from the new legislation will depend largely on its proper implementation. For one, policymakers will have to make sure that the bureaucrats responsible for the on-ground implementation of the ordinance are keen on protecting the savings of low-income households. There must also be checks against persons in power misusing the new rules to derecognise genuine deposit schemes that offer useful financial services to customers in the unorganised sector. In fact, in the past there have been several cases of politicians acting in cahoots with the operators of fraudulent deposit schemes to fleece depositors of their hard-earned money. Another potential risk involved when the government, as in this case, takes it upon itself to guarantee the legitimacy of various deposit schemes is that it dissuades depositors from conducting the necessary due diligence before choosing to deposit their money. The passing of tough laws may thus be the easiest of battles in the larger war against illicit deposit schemes.

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The Meghalaya government must urgently ensure that all illegal mines are shut down

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