# Unregulated Deposit Schemes Ordinance

## Why in news?

The President recently promulgated the Unregulated Deposit Schemes Ordinance, 2019.

## What does the ordinance contain?

- **Objective** - The legislation bans deposit takers from promoting, operating, issuing advertisements or accepting deposits in any unregulated deposit scheme.
- Thus, it bars all deposit schemes in the country that are not officially registered with the government from either seeking or accepting deposits from customers.
- **Offence** - The law proposes to create three different types of offences –

1. Running of unregulated deposit schemes
2. Fraudulent default in regulated deposit schemes
3. Wrongful inducement in relation to unregulated deposit schemes

- It provides for severe punishment ranging from 1 year to 10 years and pecuniary fines ranging from Rs 2 lakh to Rs 50 crore to act as deterrent.
- **Compensation** - The ordinance allows for compensation to be offered to victims through the liquidation of the assets of those offering illegal deposit schemes.
- Accordingly, the law provides for attachment of properties or assets and subsequent realisation of assets for repayment to depositors.
- Along with that, clear-cut timelines have been provided for attachment of property and restitution to depositors.
- **Exemptions** - The ordinance exempts Individual, Firm, Companies & LLP etc. for taking any loan and deposit for their course of business.
- Eg: Chit fund is regulated by Chit Fund Act, 1982 and is treated as Regulated Deposit as per Schedule 1 of Banning of Unregulated Deposit Ordinance, 2019.
- Besides, amount received by an individual by way of loan from his relatives or amount received by any firm by way of loans from relatives of any of its persons are exempt among other exemptions.

## What are the advantages?

- 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.
- These have served as important instruments of saving for people in the unorganised sector.
- But these unregulated schemes have also been misused 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.
- Thus, the ordinance will help in curbing unregulated deposit schemes by providing greater legal protection to be offered for those depositors with inadequate financial literacy.
- It will also help in the creation of a central repository of all deposit schemes under operation.
- This will make the Centre to regulate their activities and prevent fraud from being committed against ordinary people.

## What should be done?

- In the last four years, the CBI has lodged about 166 cases related to chit funds and multi-crore scams, with the maximum in West Bengal and Odisha.
- Hence, 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.
- The ordinance should not be used to derecognise genuine deposit schemes that offer useful financial services to customers in the unorganised sector.
- Also, the government should ensure legitimacy of various deposit schemes by conducting the necessary due diligence of every regulated deposit schemes.

**Source: The Hindu, The Economic Times**

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