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Depositors seek RBI protection against waiver of bank interest

BY JOEL REBELLO, ET BUREAU | JUN 17, 2020, 04.29 PM IST

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Depositors are seeking protection from the Reserve Bank of India (RBI) against any attempts to stop paying interest on deposits by banks. In a letter to RBI the [All India Bank Depositors Association \(AIBDA\)](#) has asked the central bank to freeze interest rate on deposits at pre Covid levels. The association has expressed apprehension that banks will stop paying interest on deposits if the Supreme Court allows complete waiver of interest due to Covid.

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If banks are not allowed to charge interest from borrowers they will not be in a position to fulfill their obligation towards depositors, AIBDA said.

"This would tantamount to violation of section 22(3) of the [Banking Regulation Act, 1949](#), which protects payment of interest due to the depositors. This may have far-reaching consequences. If not compensated, some banks may even go for liquidation. There may be serious disruption in the process of financial intermediation. Financial savings in the country may dwindle remarkably making it hard to finance domestic investment," AIBDA said.

The association's concerns stem from a public interest litigation (PIL) being heard in the Supreme Court demanding waiver of interest on loans which have been granted moratorium by the [RBI](#) due to economic collapse caused by the Covid 19 pandemic.



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August and asked the central government, [Indian Banks' Association](#) and the RBI to review the situation and examine whether they can bring new guidelines on loan moratorium. Agra resident Gajendra Sharma had filed a plea in the apex court against banks charging interest on loans which have been granted a six month moratorium by RBI.

In its letter to the RBI AIBDA said any waiver granted by the Supreme Court would discriminate against borrowers those who havenot opted for the moratorium vitiating credit culture, which will be detrimental to the survival of banks.



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"If banks do not charge interest from their borrowers during the period of moratorium, it would be difficult for them to honour their obligation to depositors. In the absence of a good social security system, depositors as a group will be deprived of their means of livelihood, particularly the senior citizens, who depend largely on interest income," AIBDA said.

The association's views have been seconded by bankers. "Banks have interest income through loans and expenses that we pay on deposits. If we do not receive income how will be pay expenses. The apex court agreeing to this frivolous petition could put the Indian banking system in jeopardy," said a senior bank executive.

AIBDA said that depositors have already suffered a setback due to RBI's rate cuts with real returns on deposits becoming negative during the last several months.

"In the light of likely consequences of loan interest waiver of any format (including interest on accrued interest to a loan during the period of moratorium) on the interest income of bank depositors – (many of whom are senior citizens, pensioners and small depositors) - AIBDA strongly suggests that the RBI as the statutory regulator of the banking business should keep in mind, that blanket and indiscriminate waiver of loan interest, is going to be detrimental to the health of the banking industry, as well as, to fiscal prudence."



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