Restoring depositors’ faith in banking: Govt’s crucial framework amendment may prop up banks’ rating

By: PTI

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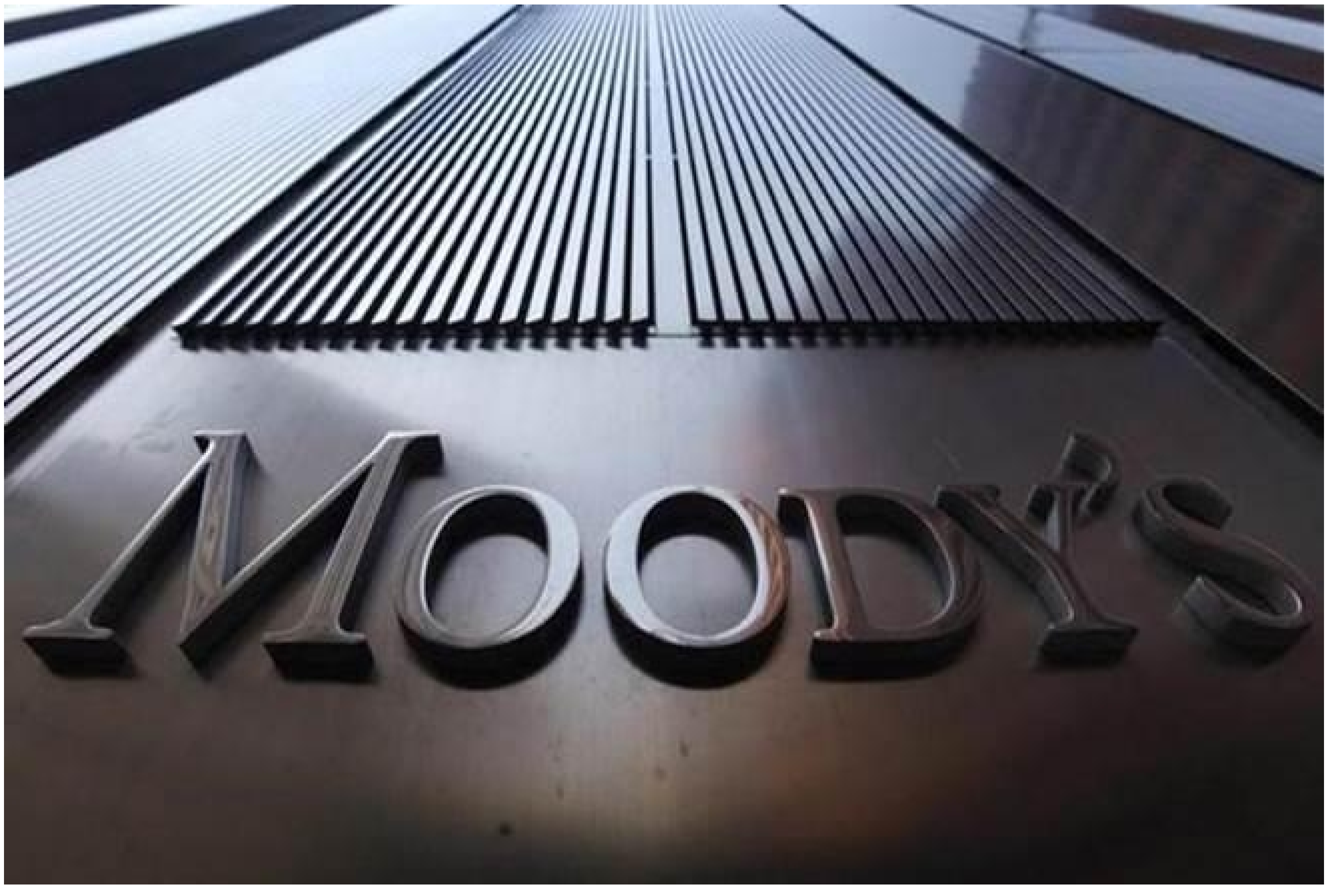
Moody's Investors Service on Thursday said the amendments to India's bank resolution framework are credit positive as they will help preserve depositor confidence.



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Moody's Investors Service on Thursday said the amendments to India's bank resolution framework are credit positive as they will help preserve depositor confidence. On June 26 the government amended the Banking Regulation Act, 1948, allowing the Reserve Bank of India (RBI) to initiate the resolution of a weak bank by reconstructing its capital or merging it with another bank without the prior requirement of imposing a moratorium on its depositors or creditors.

"The amended resolution process is credit positive because it will help preserve depositor confidence and avoid deposit flight from a weak bank as the risk of a moratorium is reduced," Moody's said in a statement.

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The amendments are also credit positive for the bank's depositors and creditors because their ability to obtain full and timely repayments during the resolution process are unaffected, it afford. Moody's said before the amendments, the RBI could only initiate the resolution process of a weak bank after seeking approval from the government to impose a moratorium on the bank's assets and liabilities for up to six months.

In March, RBI had imposed a moratorium on Yes Bank because of its weakening solvency and liquidity. Although the moratorium was lifted after 14 days, the bank saw a significant outflow of deposits in the run up to the moratorium and after it was lifted, the rating agency said. Between December 2019 and March 2020, the bank's deposits fell 36 per cent leading to sharp deterioration in its liquidity.