



Concerns with FRDI Bill

What is the issue?

\n\n

The Financial Resolution and Deposit Insurance (FRDI) Bill has raised many concerns with Bank unions and depositors.

\n\n

What is the FRDI Bill?

\n\n

\n

- It aims to limit the fallout of the failure of institutions like banks, insurance companies, non-banking financial companies, pension funds and stock exchanges.

\n

- The FRDI Bill is aimed at insuring the money of a bank's depositors in the case of an eventuality where the bank would have to be liquidated.

\n

- The FRDI Bill is currently pending before a Standing Committee of Parliament.

\n

- The committee will submit its report in the upcoming winter session of Parliament.

\n

\n\n

What are the concerns?

\n\n

\n

- It has been criticised that people's money was being used to bail out banks that made bad lending decisions.

\n

- It is also apprehended to be compromising on the interests of the depositors.
\n
- **Power** - The bill proposes the setting up of a Resolution Corporation.
\n
- The direction and management of the corporation vests with the Board, subject to the terms and conditions of the Act.
\n
- Six of the 11 members of the Board will be nominated by the government, giving it the final say in decision-making.
\n
- The greater representation in the Resolution Corporation gives the government overweening powers.
\n
- Notably, debt restructuring and ensuring the robustness of financial institutions was previously the domain of the RBI.
\n
- **Bail-in clause** - This clause gives banks the authority to issue securities in lieu of the money deposited.
\n
- The insurance option covers only Rs.1,00,000 of the principal.
\n
- The remainder of the sum deposited with a bank will be converted to tradable financial assets which can be redeemed.
\n
- The contention is that their value will not be immediately commensurate with the deposit amount.
\n
- As the bank has filed for bankruptcy, the value of assets held would have also eroded.
\n
- Notably, other countries that have experimented with a bail-in clause have not fared well.
\n
- E.g. In Cyprus, depositors lost almost 50% of their savings when a “bail-in” was implemented by the resolution corporation.
\n

\n\n

What does the government say?

\n\n

- The government has so far responded defending the provisions of the Bill.
\n

- The FRDI Bill is said to be strengthening the system by adding a comprehensive resolution regime.
\n
- It argues that the clauses in the legislation provide additional protections to the depositors in a more transparent manner.
\n
- And that in the event of failure of a financial service provider, there is a system of quick, orderly and efficient resolution in favour of depositors.
\n
- Government defends the FRDI Bill as being far more depositor-friendly than many other jurisdictions that provide for statutory bail-in.
\n
- In a statutory bail-in, the consent of creditors/depositors is not required for bail-in.
\n

\n\n

\n\n

Source: The Hindu, Livemint

\n



IAS PARLIAMENT
Information is Empowering
 A Shankar IAS Academy Initiative