



Withdrawal of FRDI Bill

Why in news?

\n\n

Union government has decided to withdraw the Financial Resolution and Deposit Insurance (FRDI) Bill.

\n\n

What is 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

- Bail-in clause of the bill gives banks the authority to issue securities in lieu of the money deposited.

\n

- According to this insurance option covers only Rs.1,00,000 of the principal, the remainder of the sum deposited with a bank will be converted to tradable financial assets which can be redeemed.

\n

\n\n

What are the reasons behind the withdrawal of the bill?

\n\n

\n

- **Objections** - The Union cabinet decision follows strong objections from several quarters about quite a few provisions of the Bill.

- \n
- Unions of workers in nationalised banks and in state-run insurance companies were particularly vociferous in their objections.
- \n
- **Poor drafting** - The bail-in provision was poorly drafted, with insufficient transparency in the text.
- \n
- There was also ambiguity about the scope of deposit insurance, Given that, this provision served as a poison pill for the Bill as a whole.
- \n
- **Concerns about the "Bail-in" provision** - "Bail -in" of the FRDI Bill had simply become too strong and, in the absence of any coherent defence from the Bill's backers in the government.
- \n
- It had also become too dangerous for confidence in the banking system overall.
- \n
- In particular, there were concerns that the bail-in provision would lead to depositors losing their money.
- \n

\n\n

What is the way forward?

\n\n

- \n
- The government has not abandoned the notion of insolvency legislation for the financial sector altogether.
- \n
- It will be important for work to start instantly on drafting a new Bill that serves the purposes that the FRDI Bill was supposed to.
- \n
- Hopefully, the new Bill will have clearer provisions for depositor protection.
- \n

\n\n

\n\n

Source: Business Standard

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative