Concerns with FRDI Bill

What is the issue?

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

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What is the FRDI Bill?

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- It aims to limit the fallout of the failure of institutions like banks, insurance companies, non-banking financial companies, pension funds and stock exchanges.
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- 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.
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- The FRDI Bill is currently pending before a Standing Committee of Parliament.
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- The committee will submit its report in the upcoming winter session of Parliament.
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What are the concerns?

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

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- The government has so far responded defending the provisions of the Bill.
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- The FRDI Bill is said to be strengthening the system by adding a comprehensive resolution regime.
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- It argues that the clauses in the legislation provide additional protections to

the depositors in a more transparent manner.
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- 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.
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- Government defends the FRDI Bill as being far more depositor-friendly than many other jurisdictions that provide for statutory bail-in.
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- In a statutory bail-in, the consent of creditors/depositors is not required for bail-in.
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Source: The Hindu, Livemint

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