FRDI Bill Withdrawal

What is the issue?

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- The Centre has recently withdrawn the Financial Resolution and Deposit Insurance Bill, 2017. Click here to know more on the Bill
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- However, there are lot many issues in relation with this, that remain unaddressed.
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Why was the opposition?

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- The “bail-in” clause is one of the major provisions that had triggered opposition to the Bill.
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- Banks, by the very nature of their business, are essentially dependent on the funds lent to them by depositors.
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- This serves as the pool of lendable resources from which they provide credit to borrowers.
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- The Bill essentially disturbs this crucial aspect.
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- The bill makes a depositor apprehend of risking her hard-earned savings placed in a bank.
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- The depositor is forced to partake in the pain of financial losses if the bank is forced into resolution on account of distress.
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What is the rationale for withdrawal?

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- The government did make efforts to reassure the public, explaining the rationale for the Bill.
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- It also tried convincing the public on the built-in “safeguards” relating to the bail-in provision.
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- However, it failed to make any progress.
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- So resolving the issues require a comprehensive examination and reconsideration of the Bill.
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- Therefore the government deemed it “appropriate” that the Bill be withdrawn.
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What are the concerns and way forward?

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- A bank failure can pose risk to the overall financial stability.
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- So it does need specialised considerations to cope with large financial corporations on the verge of breaking down.
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- But the existing frameworks have shortfalls in resolving bankruptcy scenarios among financial entities.
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- The withdrawal of the FRDI Bill is thus not a solution; policymakers should reappraise the existing mechanisms.
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- The progress of Insolvency and Bankruptcy Code in addressing debt resolution in the banking sector must be evaluated.
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- It must also look at ways to strengthen the Deposit Insurance and Credit Guarantee Corporation.
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- Holistic measures to prevent further erosion of public faith in the banking system are essential.
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Source: The Hindu

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