The Financial and Deposit Insurance Bill, 2017

Why in news?

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FRDI Bill was introduced in Parliament during Monsoon Session 2017.

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What are financial firms?

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- Financial firms include banks, insurance companies, and stock exchanges, among others.
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- Since they transact with each other, their failure may have an adverse impact on financial stability and result in consumers losing their deposits and investments.
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- e.g In 2008, the failure of a Lehman Brothers impacted the financial system across the world.
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- Currently, there is no specialised law to resolve financial firms.
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- Provisions to resolve are found scattered across different laws.
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What are the highlights of the bill?

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- The Bill seeks to create a consolidated framework for the resolution of financial firms.
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- It repeals the Deposit Insurance and Credit Guarantee Corporation Act, 1962 and amends 12 other laws.
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- **Resolution Corporation -** The central government will establish a

Resolution Corporation.
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- The Corporation will have a Chairperson and its members will include representatives from the Finance Ministry, RBI, and SEBI, among others.
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- The Corporation will-\n
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1. Provide deposit insurance to banks
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2. Classify service providers based on their risk, and
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3. Undertake resolution of service providers in case of failure.
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- It may also investigate the activities of service providers, or undertake search and seizure operations if provisions of the Bill are being contravened.
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- **Risk based classification -** The Corporation, in consultation with the respective regulators specify criteria for classifying service providers based on their risk of failure.
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- A service provider categorised under the ‘imminent’ or ‘critical’ category will submit a restoration plan to the regulator, and a resolution plan to the Corporation. These plans will contain information, including: (i) details of assets and liabilities, (ii) steps to improve risk based categorisation, and (ii) information necessary for resolution of the service provider.
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- **Administration -** The Corporation will take over the management of the service provider from the date when it is classified as ‘critical’.
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- **Resolution -** The resolution of a service provider classified under the ‘critical’ category can be done by using\n
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1. Transfer of its assets and liabilities to another person,
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2. Merger or acquisition, and
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3. Creating a bridge financial,

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4. Bail-in and
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5. Liquidation
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- **Time limit -** The service provider will automatically be liquidated if its resolution is not completed within the maximum time period of two years.
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- **Liquidation and distribution of assets -** The Corporation will require the approval of the National Company Law Tribunal to liquidate the assets of a service provider.
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- **Offences -** The Bill specifies penalties for offences such as concealment of property, and destruction or falsification of evidence.
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Does the Bill guarantee the repayment of bank deposits?

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- Currently, the Deposit Insurance and Credit Guarantee Corporation (DICGC) provides deposit insurance for bank deposits up to 1 lakh rupees per depositor.
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- The Bill proposes to subsume the functions of the DICGC under the Resolution Corporation.
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- It will guarantee the repayment of a certain amount to each depositor in case the bank fails.
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