Withdrawal of FRDI Bill

Why in news?

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

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What is 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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- Bail-in clause of the bill gives banks the authority to issue securities in lieu of the money deposited.
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- 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.
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What are the reasons behind the withdrawal of the bill?

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- **Objections -** The Union cabinet decision follows strong objections from several quarters about quite a few provisions of the Bill.
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- Unions of workers in nationalised banks and in state-run insurance companies were particularly vociferous in their objections.

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- **Poor drafting -** The bail-in provision was poorly drafted, with insufficient transparency in the text.
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- 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.
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- **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.
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- It had also become too dangerous for confidence in the banking system overall.
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- In particular, there were concerns that the bail-in provision would lead to depositors losing their money.
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What is the way forward?

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- The government has not abandoned the notion of insolvency legislation for the financial sector altogether.
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- 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.
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- Hopefully, the new Bill will have clearer provisions for depositor protection.
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Source: Business Standard

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