Basics of FRDI Bill 2017 – Latest Economic Reform

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Abstract-The main objective of the paper is to create awareness on major issues of recently introduced FRDI Bill. This paper makes an effort to know about the basic elements of bill – Its background, reasons behind introduction and process of introduction .Information is collected on number of clauses under various parts of the bill with special reference to clause number 52 – "Bail in". The focus is to know about the difference between bail in and bail out and how banks and how other financial institutions are protected before and after the introduction of FRDI bill. Information is also collected on the view points of depositors and some of the government clarifications regarding the safety of savings bank deposits and other term deposits with reference to bill.
Key Words: FRDI bill, Bail in, Bail out.

I. INTRODUCTION

Financial Resolution and Deposit Insurance Bill is another new reform introduced by the present government after successful implementation of Demonetization and Demonetization. Though the bill is pending and not yet launched, this paper intends to provide information on some basic issues of this new bill.

- Background of introduction of bill and committee formation:

Finance minister Mr. Arun Jaitley on March 2015, in the budget session announced about an introduction of a new bill as a resolution mechanism for bankruptcy. This bill is not just for banks, but covers all financial firms. With this regard a committee was formed to propose a new bill. The committee was headed under the chairmanship of Shri Ajay Tyagi, Additional Secretary (Investment), Department of Economic Affairs and representatives from various departments were members of the committee. Some of the departments are:

Reserve Bank of India

Deposit Insurance and Credit Guarantee Corporation

Securities and Exchange Board of India

Insurance Regulatory and Development Authority of India

Pension Fund Regulatory and Development Authority

- Scope of the study:

Scope is confined to some major issues of the bill such as Bail In clause and employees view points on the introduction of the bill.

- Need for the study:

The main aim of the study is to know about the difference between earlier systems in FRDI with special reference to clause no: 52.

- Limitations of the study:

As the bill is not yet launched and the major source is secondary data for the paper, summary and conclusions may vary from real time.

II. SYSTEM MODEL

This paper mainly concentrates on chapter 10, clause no: 52, doughts raised by depositors and clarifications given by government regarding the same.

The bill which was introduced in Lok sabha has 146 clauses arranged under 18 chapters.

The chapters list is as follows:

Chapters:	Title	Clauses
I.	Preliminary information	1 and 2
II.	Resolution corporation	3 to 24
III.	Systematically important financial institutions	25 to 28
IV.	Liability of corporation to insured depositors of insured service providers.	29 to 32
V.	Registration	33 to 35
VI.	Resolution of specified service provider.	36 and 37
VII.	Restoration plan and resolution plan	38 to 41
VIII.	Material, Imminent And Critical Risk To Viability.	42 to 46
IX.	Effect On Termination Rights Under Specified Contracts	47
X.	Methods and time limit of Resolution	48 to 57

XI.	Administration	58 to 62
XII.	Liquidation	63 to 92
XIII.	Voluntary Liquidation And Winding Up	93 and 94
XIV.	Foreign Resolution Action	95 to 97
XV.	Offences and penalties	98 to 113
XVI.	Compensation	114 to 119
XVII.	Special Provisions Relating To Eligible Co-Operative Banks	120 and 121
XVIII.	Miscellaneous	122 to 146

Link to know about complete information on all the clauses: http://164.100.47.4/BillsTexts/LSBillTexts/Asintroduced/165_2017_LS_Eng.pdf

III. PREVIOUS WORK

According to a Karvy research analyst "If the firm is classified as "critical" in that case, the administration would be taken and help the bank resolve the crisis by one of the five methods. First, it can transfer assets and liabilities to another firm. Second, it has the old resort to have a stronger bank to acquire it. Third, it can create a SPV for the transfer of assets and liabilities. Fourth, use the bail-in provision. Fifth, it can liquidate the firm. In the current framework, only banks lenders are being protected in case of insolvency, but not all financial firms are covered. In this new bill, all the financial firms apart from banks such as NBFCs, insurance companies, stock exchanges, depositories and pension funds are also included."

(Jafar, 2018)

According to Equity Research analyst "FRDI is a better (not the best) framework by limiting the risk to one bank and not the system when compared with the existing framework ill-equipped to prevent possible systemic risks by a couple of financial institutions.-"*An ounce of prevention is worth a pound of cure*". But the bill doesn't address the primary issue- irresponsible lending by banks, the cause of the crisis in India. Also, the bill doesn't guarantee its customers of their deposits, breaching the fiduciary duty, the trust on which whole banking sector survives. Further, the autonomy of RBI is of prime importance, an indisputable fact which needs to be preserved by all means."

(Nimmagadda, 2018)

IV. PROPOSED METHODOLOGY

As this is an informative paper which is related to latest economic reform, secondary data has been used. Information is collected from various news papers and websites.

Major issues covered in this paper are:

- "Bail In" clause which stood as one of the major issues of the bill, which raised many doubts among depositors.
- Employees view points on the bill.
- Clarifications given by government.

V. ANALYSIS ON MAJOR ISSUES

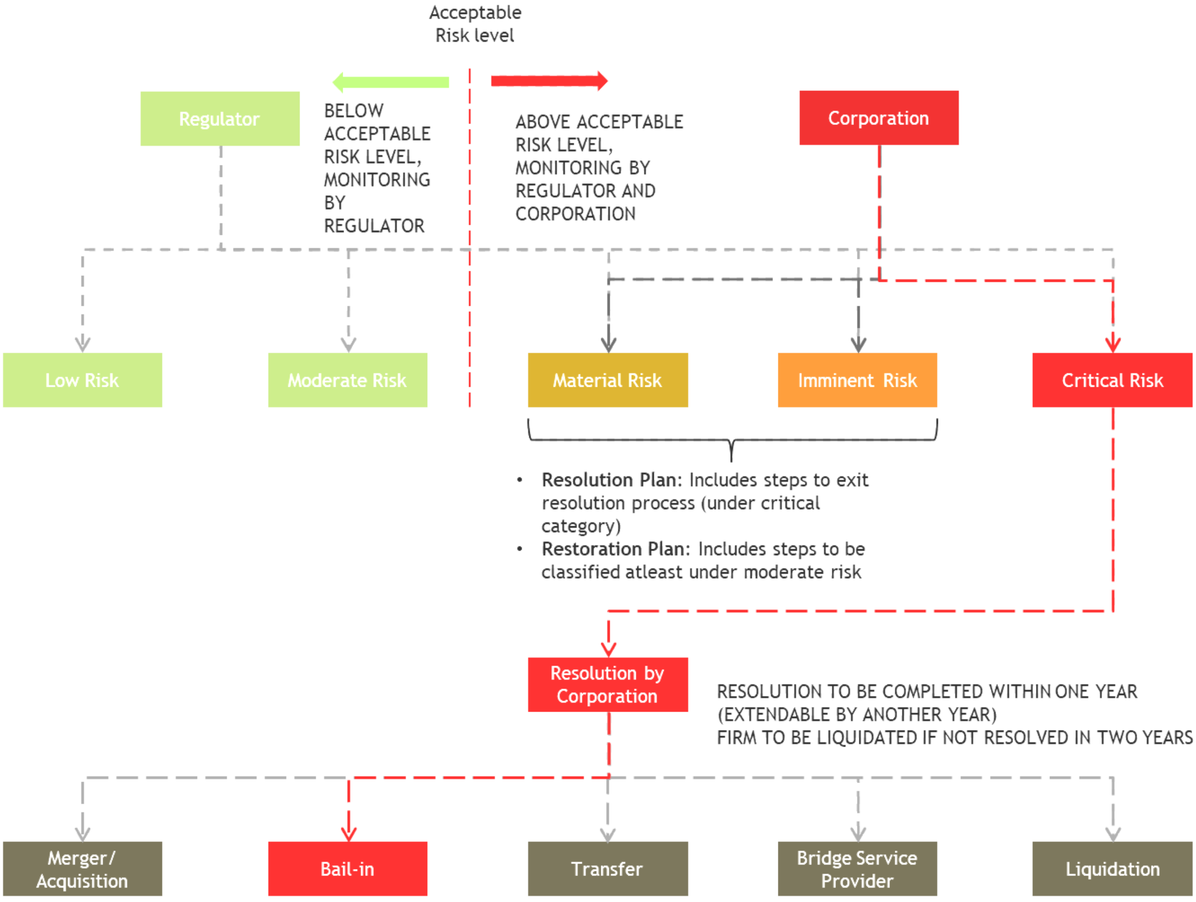
The main aim of the bill is to monitor all financial institutions including banks and divide them into five types based on risk.

The monitoring process is explained clause wise referred in chapter II. Among them the major issues are:

- Depositor Issues – Bail In

Bail In clause: One of the major issues which were under high concerns was clause no: 52: "Bail In". This clause speaks about usage of deposits for rescue. In order to understand the concept one should know about the earlier method "Bail Out" Earlier method helps banks to rescue from crisis with the help of government.

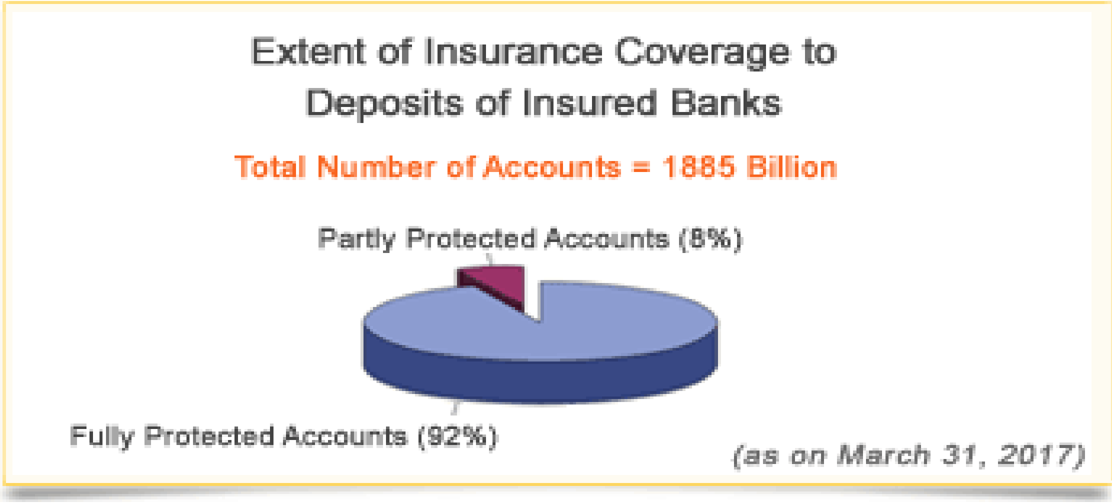
Depositor concerns: depositors faced lot of chaos and many have withdrawn their deposits anticipating that there hard earned money will be lost; if government is not protecting them rather using them to rescue. Currently deposits are protected for up to 1lakh rupees.



Source: PRS

Understanding the protection process under DICGC and FRDI:

	DICGC	FRDI
Full form	Deposit Insurance and Credit Guarantee corporation	Financial Resolution and Deposit Insurance
Formation year	Since 1960	2017 (Pending Bill)
Maximum value to be claimed	Up to 1,00,000	Not specified



Source: DICGC website

- Employee Issues: FRC

The FRDI bill proposes to have an agency, 'Financial Resolution Corporation,' which will have rights/powers to order liquidation and acquisition of any bank, insurance company or non-banking finance companies, if it feels that the concerned is falling under the category of 'critical risk'.

As per the above powers of the corporation, the major issues raised by bank employees were:

- If any bank or financial institution is liquidated immediately, employees may lose their regular jobs.
- As all the powers will be vested in few hands, there is chance of losing the current benefits.

- Government Clarifications

recently in January 2018 government of India has given certain clarifications on above mentioned issues.

Published review in news paper:

"According to the source, there is no risk of public sector banks being required to avail themselves of the bail-in clause because the government always stands ready to take care of the capital needs of the public sector banks."

If government succeeds in clearing the blockage and gets more transparency, the FRDI Bill – 2017 can be implemented.

"The statement said the FRDI Bill includes formal safeguards for the use of the bail-in clause and the protection of depositors' interests that current legislations do not. "Cancellation of the liability of the depositor beyond insured amount will be possible only with the prior consent of the depositor," it said."

VI. CONCLUSION

Though government has given many clarifications on FRDI Bill, the clarity is not appropriately reached to many of the depositors. More transparency and few additional changes would help to solve the chaos. Bank union's support is also needed to implement the bill.

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