Financial Resolution and Deposit Insurance Bill

For Prelims: FRDI Bill, Insolvency and Bankruptcy, Prompt Corrective Action.

For Mains: Significance of FRDI Bill and issues related with it.

Why in News

Recently, the Finance Ministry has sought views of the **Reserve Bank of India (RBI)** on drafting a modified version of the **Financial Resolution and Deposit Insurance (FRDI) Bill** in order to deal with **Insolvency of Firms** in the financial sector.

- In 2018, the Government had **withdrawn the FRDI Bill 2017** amid concerns over the security of bank deposits.

Key Points

- **Background:**
  - The FRDI Bill, 2017 was **meant to address the issue of insolvency of firms** in the financial sector.
  - If a bank, NBFC, an insurance company, a pension fund or a mutual fund-run by an asset management company fails, **a quick solution is available to either sell that firm, merge it with another firm, or close it down,** with the least disruption to the system and other stakeholders.
  - **It aimed to limit the fallout of the failure of institutions** like banks, insurance companies, non-banking financial companies, pension funds and stock exchanges.
  - The Bill was withdrawn due to concerns among the public over safety of deposits despite assurances by the Central government.
  - A key point of criticism was the **so-called bail-in clause in the Bill** that said in case of insolvency in a bank, the depositors will have to **bear a part of the cost of the resolution by a corresponding reduction in their claims.**
- **About the New Bill:**
  - The bill will provide for establishing **a resolution authority, which would have powers to undertake prompt resolution** for banks, insurance companies and systemically important financial firms.
  - The legislation **will also provide for an** insurance of up to Rs 5 lakh for bank depositors, which already has a legal backing.
- **Need for legislative backing:**
  - Even as the RBI has come out with a **Prompt Corrective Action** framework for **NBFCs (Non Banking Financial Companies)**, a need is being felt for a legislative backing for the entire financial sector.
  - The current resolution regime **is especially inappropriate for private sector financial firms** in the light of significant expansion and many of these acquiring systemically important status in India.
  - The **provision of a single agency for resolution of financial firms is in line with the**

  - **recommendations** made by the Financial Sector Legislative Reforms Commission (FSLRC), 2011 headed by Justice B N Srikrishna.
  - The Insolvency and Bankruptcy Code, 2021 along with the FRDI bill would **have streamlined the procedure for the winding up or revival of an ailing financial sector firm.**

Insolvency and Bankruptcy Code

- It is a reform enacted in 2016. It amalgamates various laws relating to the insolvency resolution of business firms.
- It lays down clear-cut and faster insolvency proceedings to help creditors, such as banks, recover dues and prevent bad loans, a key drag on the economy.

Key Words

- **Insolvency:** It is a situation where individuals or companies are unable to repay their outstanding debt.
- **Bankruptcy:** It is a situation whereby a court of competent jurisdiction has declared a person or other entity insolvent, having passed appropriate orders to resolve it and protect the rights of the creditors. It is a legal declaration of one's inability to pay off debts.

Source: IE