

Dropping the FRDI Bill – a belated but wise move

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The move to drop the Financial Resolution and Deposit Insurance (FRDI) Bill by the Union Cabinet is a wise one. If the Bill had indeed gone through, then, in the words of Sir Humphrey (of *Yes Minister* fame), it would not merely have been a ‘controversial’ decision (translation: a move that will lose votes) but a ‘courageous’ one (translation: guaranteed to lose the next election).

The FRDI Bill would have handed the Opposition parties a handy tool to beat the government with, especially in the run-up to the election due in less than a year. The ruling party was clearly fighting a losing battle as far as perception goes.

All their subtle arguments about the need for a new resolution framework for financial firms would not have cut ice with the common man, and it was a virtual certainty that the move would have alienated the masses.

Protests galore

Even last year, when the Bill was first mooted, there had been protests and plenty of outcry from depositors who were already in a state of panic. The losses posted by public sector bank in the past year were humongous, and should have in the normal course led even to a run on banks.

After all, nearly 70 per cent of depositor money is still in public sector banks. That it didn’t happen is only due to the fact that there is an implicit government guarantee for public sector banks. A larger crisis has been averted because of that trust and faith in government ownership.

It is that trust that was being weakened by the still-born FRDI Bill. The depositing public could only see this as an attempt by the government to run away from its responsibilities and let the depositors bear the brunt of any losses.

A bank is a place to store your earnings in the belief that while you may not get a great return claimed by mutual funds, at least your principal is safe. And you have the liquidity to discharge your payments and other obligations. To suddenly be confronted with a situation where you are expected to take on the burdens of equity ownership, when all you wanted was a temporary parking lot, is to actually experience a sense of betrayal. And although it was claimed that these provisions would go through only with depositors’ consent, it is a moot point as to how many depositors would be able to understand what was at stake.

The provisions would have simply been in fine print, wouldn’t they?

There is a time for bold moves, and there is a time to tuck the tail between the legs and quietly beat the retreat. This FRDI Bill is in the nature of the second option. The depositing public is in no frame of mind to share in the costs of follies and misdemeanours of either executives or bank owners.

To expect them to share in the losses would have also diluted a fundamental difference – that of debt and equity. In choosing to swallow its pride and stand down, the government has shown belated good sense.

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A sensible move which will help to restore the lost confidence in banking in general and the Government in particular. The image of the Government was badly damaged among the the middle class and lower middle class people with the introduction of this bill and literally they were cursing the Government and themselves for having elected such a government which promised heaven to the masses and was taking away all the benefits enjoyed by them one by one. Withdrawal of gas subsidy, increase in oil and gas prices, heavy GST rates for all consumption goods targeting the middle class, and practically ensuring nil benefits over a period on income tax concessions compared to the elction promise of hiking tax exemption to at least Rs 5 lakhs if not more. The fact that middle class which had great hopes and aspirations on this Government has been in a dilemma to continue to support this Government and this lack of credibility has been to some extent reduced with the withdrawal of FRDI bill.

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Better late than never. Happy that the govt has by late realised the reality.

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So the tax payer will pay? And this is wisdom? Just privatize the banks!! The Tax payers will see a windfall and be rid of these loss makers.

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