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# The Bill that spooked bank customers across India has been withdrawn

BY ET ONLINE | UPDATED: AUG 07, 2018, 01.59 PM IST

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The Bill that launched wild rumours all over the country, sowing seeds of distrust among bank customers, now stands withdrawn. The government today withdrew the Financial Resolution and Deposit Insurance (FRDI) Bill from the [Lok Sabha](#).

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The government tabled the [FRDI Bill](#), 2017, in August in the Lok Sabha, which was referred to a joint parliamentary committee.

Finance Minister [Piyush Goyal](#) had informed [JPC](#) that the government had decided to withdraw Bill due to apprehensions among the public about the the 'bail-in' clause for resolution of bank failure which was perceived to be against the interest of the depositors. The clause led to fears that customer deposits could be used to bail out a failing bank. There were concerns over deposit insurance cover too.

However, the withdrawal of the Bill does not mean the end of the efforts to create framework to resolve bank failures. The government will bring back the Bill in a new form. "The Bill which we presented did have some design issues, some serious issues about deposits, bail-in clause and issues related to public sector [banks](#). Since these issues were a little big, it was thought better that we withdraw it and reframe it to bring a better law for financial firms," Economic affairs secretary Subhash Chandra told DNA.

The FRDI bill sought to deal with insolvency of financial service providers. It provided for establishment of a resolution corporation with powers relating to transfer of assets to a healthy financial firm, merger or amalgamation, liquidation to be initiated by an order of the National Company Law Tribunal.

The Bill said that in case of a bank failure, the proposed corporation would provide deposit insurance up to a certain limit, which has not been specified. Currently, bank deposits of up to Rs 1 lakh are insured but there are few banks that have failed in India in recent years as the Reserve Bank of India (RBI) has stepped in to work out a resolution plan without creating any risk for depositors

The Bill had suggested that the use of the 'bail-in' provision might result in cancellation of a liability, which could extend to bank deposits or could lead to modification of the terms or changing the form of the asset class. This provision would have been last in the line for payments in case of liquidation

When the Bill led to rumours among the public, the government had clarified that it was far more depositor-friendly than many other jurisdictions, which provided for statutory bail-in, where consent of creditors/depositors was not required for bail-in. The FRDI Bill did not propose in any way to limit the scope of powers for the government to extend financing and resolution support to banks, including public sector banks, it had said, adding that the Government's implicit guarantee for public sector banks would remain unaffected.

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