

## Open House Discussion on Financial Resolution and Deposit Insurance (FRDI) Bill 2017

Friday, 16th February 2018 at PHD Chamber, New Delhi

PHD Research Bureau, the research arm of PHD Chamber in collaboration with Banking & Financial Services Committee organized an Open House Discussion on Financial Resolution and Deposit Insurance (FRDI) Bill 2017 on Friday, 16th February 2018 at PHD Chamber, New Delhi. The eminent speakers of the Open House Discussion were **Shri Bhagwan Dass Narang**, Former Chairman and Managing Director, Oriental Bank of Commerce, **CMA Chandra Wadhwa**, Former President, The Institute of Cost Accountants of India, **Shri R K Dubey**, Former Chairman and Managing Director, Canara Bank and **Prof. Dr. C. P. Gupta**, Department of Financial Studies, South Campus, University of Delhi. Other panelists were **Shri D K Aggarwal**, Vice President, PHD Chamber, **Shri Ashish Agrawal**, Co-Chairman, Banking & Financial Services Committee, PHD Chamber, **Shri Shyam Poddar**, Chairman, Forex and FEMA Committee, PHD Chamber and **Dr. S P Sharma**, Chief Economist, PHD Chamber

### Glimpse of the Open House Discussion on Financial Resolution and Deposit Insurance (FRDI) Bill 2017



Photo caption from left to right: Dr. S P Sharma, Chief Economist, PHD Chamber , Shri Shyam Poddar, Chairman, Forex and FEMA

Committee, PHD Chamber, Prof. Dr. C. P. Gupta, Department of Financial Studies, South Campus, University of Delhi, Shri Bhagwan Dass Narang, Former Chairman and Managing Director, Oriental Bank of Commerce, Shri D K Aggarwal, Vice President, PHD Chamber, CMA Chandra Wadhwa, Former President, The Institute of Cost Accountants of India, Shri Ashish Agrawal, Co- Chairman, Banking & Financial Services Committee, PHD Chamber and Shri R K Dubey, Former Chairman and Managing Director, Canara Bank

While presenting the welcome remarks, **Shri D K Aggarwal, Vice President, PHD Chamber** stated that the idea of the Open House Discussion on FRDI Bill is that we want to present our views and suggestions on this proposed bill to the Joint Parliament committee. He briefed the audience about the developments in the FRDI Bill 2017 which was presented in Parliament in the month of August 2017 and discussed its objectives. He threw light on the situations of investors and depositors whose money stuck for years. He also mentioned about the financial meltdown year 2008 which impacted the financial sector of the entire economy of the world. He stated that financial services sector is like the life blood of an economy and if something happens to the financial sector it can really affect the world economy. He added that Indian economy didn't have any major impact including banks or financial sector, but the economies which were market determined economies which had lot of influence of private banks, they were severely affected. Post 2011, the financial stability board decided that having a resolution mechanism in case of financial failure is very important to put a framework for resolution of such a failure. However, there are lot of apprehensions about this FRDI bill. Going ahead, it is necessary to deliberate on the FRDI Bill so that effective resolution mechanism should be evolved for the overall growth of economy.

**Shri Bhagwan Dass Narang, Former Chairman and Managing Director, Oriental Bank of Commerce** shared his views on the importance of banks in Indian economy and the need of the FRDI Bill. He stated that there could be pressure from the international community to make the banks more competitive as in the western world, G 20 banks are very competitive and Indian Banks should become competitive too. He also briefed the audience about the difference between the bail-in and the bailout clauses. He said that in India, the banks have been going together for the centuries all over the world but in India, nobody ever lost money because somebody came to the rescue either the state or some bigger bank at the instance of the government or without the instance of the government but no depositor has ever lost money. He also said that in India, perception matter and effectively managing this perception is important. He suggested that depositors or unsecured creditors should be educated about the bail-in clause. Second issue he stated that if the banks go down under then how the assets gets distributed. He also suggested that the depositors should be treated and categorized as secured creditors technically. He said that if deposit insurance limit is raised to Rs 10 to 15 lakhs, then 50-60% of the deposits will be covered and all the retirees will get covered. He also said that duality of control is the problem which must be avoided at all costs.

**CMA Chandra Wadhwa, Former President, The Institute of Cost Accountants of India** talked about two school of thoughts regarding FRDI Bill. One thought states that Bill should not be there as 28% of this economy is below poverty line. Further, he added that so far the perception regarding depositing money into banks is safety and for meeting future needs. Another school of thought he added that the economy is rapidly growing and if our country don't have these kind of regulations and in case anything happens, can we sustain the development. He stated that one of issue that will arise amongst the depositors is the safety concern of their deposits in the banks which might result in the withdrawal of money from the banks accounts and will not be good for our economy. Further, he added that there might be a possibility that in case of fixing the deposit, a smart depositor could deposit their funds into multiple banks and whether insurance companies will be charging higher rate of premium or not because on one hand, risk is growing and on

the other hand cost. Hence, going ahead, carefully examining is required for the implementation of FRDI Bill.

**Shri R K Dubey, Former Chairman and Managing Director, Canara Bank** said that FRDI act must be there for the safeguard of the financial institutions in the future. He added that there is no guarantee that if banks have not failed in the past, they will not fail in the future. The mergers of the public sector banks in our country is not easy but very difficult, hence there should be system in place to deal with the failure of financial institutions. He added that we must have safeguards in place in the act itself so that depositors money is used judiciously. He agreed upon that the one lakh deposit insurance limit is too less. He also added that FRDI Bill does not limit the scope of the power for the government to extend financing and resolution support to banks including public sector banks. As can be seen from the banking sector recapitalisation plan, the government is committed to safeguard their banks and with public and our democracy being so vigilant there is not anything contrary to depositors. So, there is a need for this bill but the amount should definitely be debated whether it should be Rs 5 lakh or Rs 10 lakh.

**Prof. Dr. C.P. Gupta, Department of Financial Studies, South Campus, University of Delhi** talked about the motivation behind the bill and complemented the government to come out with this bill. He stated that though there is no case of a failure but still there is a need to prepare for the future and this is one of the step in that particular direction. He said that whenever any kind of failure is happening then there has to be a mechanism for resolution like for non-financial institutions, it is already in place but for financial institutions it is not there. He talked about the content of the bill which has 18 chapters, 146 clauses and 4 schedules. He added that the bill is comprehensive and is applicable with respect to specified service provider. In brief, this act is going to apply to all the players in the financial service sector. He suggested that section 22 may provide further that the corporation insurance fund should be managed by the persons having expertise in the area of insurance. He also suggested that insurance companies in India may be encouraged to come out with deposit insurance products in consultation with the resolution corporation and the regulator.

Concluding Remarks and Vote of Thanks were proposed by **Shri Ashish Agrawal, Co- Chairman, Banking & Financial Services Committee, PHD Chamber**. In his remarks, he stated that the FRDI Bill should come up and debate needs to be undertaken on the deposits insured under the FRDI Bill. Further, the amount of the deposit cover should need to be finalized on the basis of certain parameters like per capita income, among others. Going ahead, there is a need to modify and evaluate the Bill as per the developing economy needs and demands serious attention. It is hopeful that the introduction of Bill will be good for industry and people in the coming times for the growth of the overall economy.

**Shri Shyam Poddar, Chairman, Forex and FEMA Committee, PHDCCI** shared his views on the limit of Rs 1 lakh insurance and stated that the fixed deposits in case put as security or as a collateral to the government agencies then they should be fully insured. Further, he shared his views on stressed assets regulations where there are so many restrictions and how far those restrictions will be abled because in most of the companies they have got fixed deposit as a security or collateral, that asset whether it will be frozen as per the stressed assets management and it would be contrary to the FRDI bill. So, this should also be examined very closely before we pass on suggestions to the committee to look into this matter.

**Dr. S P Sharma, Chief Economist, PHD Chamber** moderated the Open House Discussion and stated that after 2016, as the bill on insolvency act 2016 was for non-financial companies, in the same line this bill is going to benefit financial companies and regulate

financial companies and depositors in a significant way because the economy is growing and we are now at around 6.5% of our growth rate and global growth is again reviving and our financial markets are becoming more and more matured day after day and we have to participate in global growth in the coming times very significantly. This is the good move by the government and one positive thing is that this bill is not going to change anything in the previous regime. He added that there was not any specific regulatory body for the financial resolution and powers were scattered in the government, courts and the other regulatory bodies. Now, FRDI Bill will become a regulation for all the financial institutions and banks which will be a good move and that will be in the favour of our economy and depositors. Dr Sharma thanked the sponsorer of the session i.e. SMC Investments and Advisors Ltd.

### Glimpses of the Open House Discussion on Financial Resolution and Deposit Insurance (FRDI) Bill 2017



Eminent dignitaries on the dais at Open House Discussion on FRDI Bill



Eminent dignitaries on the dais at Open House Discussion on FRDI Bill



Participants at the Open House Discussion on FRDI Bill



Shri D K Aggarwal, Vice President, PHD Chamber and CMA Chandra Wadhwa, Former President, The Institute of Cost Accountants of India



Audience at the Open House Discussion on FRDI Bill



Eminent speakers of the Open House Discussion and Team, PHD Research Bureau, PHDCCI

Warm regards,

Dr. S P Sharma  
Chief Economist

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