CHAPTER 4

OVERVIEW OF INDIAN FINANCIAL SERVICE INDUSTRY

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4.1 Introduction

The Indian Economy has undergone vast changes since planned development was initiated in 1951. Early in the fifties total domestic savings as a percentage of GDP was hardly 5% and rate of growth of GDP was around 3%. The structure of Indian Economy in 1951-52 showed that the share of the primary sector, secondary sector and territory sector were 56%, 17% and 27% respectively. The primary sector consists of Agriculture, Forestry, Fishing, Mining and Quarrying. The secondary sector consists Manufacturing, Construction, and Electricity etc. The Tertiary sector consists of rest of the economy, viz. Transport, Communication, Trade, Finance, Real Estate and other Services. By the end of 1990- 1991, agriculture accounted for 35%, manufacturing sector 26% and tertiary sector accounted for 39%. At the beginning of new millennium, Primary sector accounted for 27%, Secondary Sector for 22% and Tertiary Sector for 51%. The importance of agriculture has gone down from 56% to 27%, while significance of Manufacturing and Services has gone up. The saving rate continued to be 22 to 24% of the GDP during the 1980's and 1990's while the same in 1950's was only 10%. In 2004-05, savings rate is around 28% and investment rate around 26%.

4.2 Development of the Economy

The last decade witnessed the maturity of India's financial markets. Since 1991, every governments of India took major steps in reforming the financial sector of the country. The important achievements in the following fields such as:

i. Financial Markets: In the last decade, Private Sector Institutions played an important role. They grew rapidly in commercial banking and asset management business. With the openings in the insurance sector for these institutions, they started making debt in the market. Competition among financial intermediaries gradually helped the interest rates to decline. Deregulation added to it. The real interest rate was maintained. The borrowers did not pay high price while depositors had incentives to save.

ii. Regulators: The Finance Ministry continuously formulated major policies in the field of financial sector of the country. The Government accepted the important role of regulators. The Reserve Bank of India (RBI) has become more independent. Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) became important institutions.

iii. The Banking System: Almost 80% of the businesses are still controlled by Public Sector Banks (PSBs). PSBs are still dominating the commercial banking system. Shares of the leading PSBs are already listed on the stock exchanges. The RBI has given licenses to new private sector banks as part of the liberalization process. The RBI has also been granting licenses to industrial houses. Many banks are successfully running in the retail and consumer segments but are yet to deliver services to industrial finance, retail trade, small business and agricultural finance. The PSBs will play an important role in the industry due to its number of branches and foreign banks facing the constraint of limited number of branches. Hence, in order to achieve an efficient banking system, the onus is on the Government to encourage the PSBs to be run on professional lines.

iv. Development of Finance Institutions: FI's access to SLR funds reduced. Now they have to approach the capital market for debt and equity funds. Capital adequacy norms extended to financial institutions. DFIs such as IDBI and ICICI have entered other segments of financial services such as commercial banking, asset management and insurance through separate ventures. The move to universal banking has started.

v. Non-Banking Finance Companies: In the case of new NBFC's seeking registration with the RBI, the requirement of minimum net owned funds, has been raised to Rs.2 cr. Until recently, the money market in India was narrow and circumscribed by tight regulations over interest rates and participants. The secondary market was underdeveloped and lacked liquidity. Several measures have been initiated and include new money market instruments, strengthening of existing instruments and setting up of the Discount and Finance House of India (DFHI).

vi. Long-Term Debt Market: The development of a long-term debt market is crucial to the financing of infrastructure. After bringing some order to the equity market, the SEBI has now decided to concentrate on the development of the debt market. Stamp duty is being withdrawn at the time of dematerialization of debt instruments in order to encourage paperless trading.

vii. The Capital Market: The number of shareholders in India is estimated at 25 million. However, only an estimated two lakh persons actively trade in stocks. There has been a dramatic improvement in the country's stock market trading infrastructure during the last few years. Expectations are that India will be an attractive emerging market with tremendous potential. Unfortunately, during recent times the stock markets have been constrained by some unsavory developments, which have led to retail investors deserting the stock markets.

viii. Mutual Funds: The mutual funds industry is now regulated under the SEBI (Mutual Funds) Regulations, 1996 and amendments thereto. With the issuance of SEBI guidelines, the industry had a framework for the establishment of many more players, both Indian and foreign players. The foreign owned AMC's are the ones which are now setting the pace for the industry. They are introducing new products, setting new standards of customer service, improving disclosure standards and experimenting with new types of distribution. The insurance industry is the latest to be thrown open to competition from the private sector including foreign players. Foreign companies can only enter joint ventures with Indian companies, with participation restricted to 26 per cent of equity.

ix. Overall Approach to Reforms: The last ten years have seen major improvements in the working of various financial market participants. The government and the regulatory authorities have followed a step-by-step approach, not a big bang one. The entry of foreign players has assisted in the introduction of international practices and systems. Technology developments have improved customer service. Some gaps however remain (for example: lack of an inter-bank interest rate benchmark, an active corporate debt market and a developed derivatives market). On the whole, the cumulative effect of the developments since 1991 has been quite encouraging. An indication of the strength of the reformed Indian financial system can be seen from the way India was not affected by the Southeast Asian crisis.

x. Deregulation of Banking System: Prudential norms were introduced for income recognition, asset classification, provisioning for delinquent loans and for capital adequacy. In order to reach the stipulated capital adequacy norms, substantial capital were provided by the Government to PSBs. Government pre-emption of banks' resources through statutory liquidity ratio (SLR) and cash reserve ratio (CRR) brought down in steps. Interest rates on the deposits and lending sides almost entirely were deregulated. New private sector banks allowed promoting and encouraging competition. PSBs were encouraged to approach the public for raising resources. Recovery of debts due to banks and the Financial Institutions Act, 1993 was passed, and special recovery tribunals set up to facilitate quicker recovery of loan arrears.

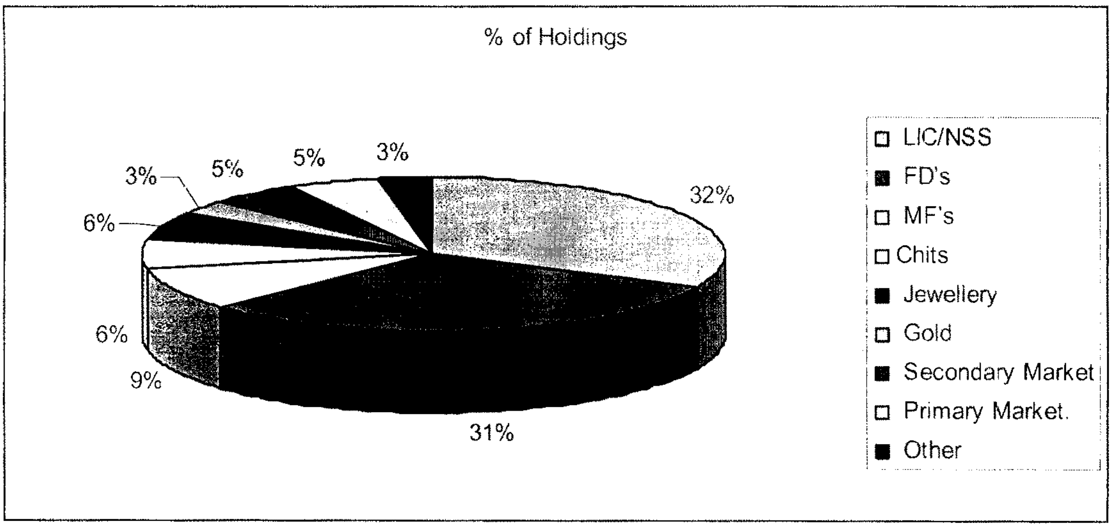
xi. Capital Market Developments: The Capital Issues (Control) Act, 1947, repealed, office of the Controller of Capital Issues was abolished and the initial share pricing were decontrolled. SEBI, the capital market regulator was established in 1992. Foreign institutional investors (FIIs) were allowed to invest in Indian capital markets after registration with the SEBI. Indian companies were permitted to access international capital markets through euro issues. The National Stock Exchange (NSE), with nationwide stock trading and electronic display, clearing and settlement facilities was established. Several local stock exchanges changed over from floor based trading to screen based trading.

xii. Consolidation Imperative: Another aspect of the financial sector reforms in India is the consolidation of existing institutions which is especially applicable to the commercial banks. In India the banks are in huge quantity. First, there is no need for 27 PSBs with branches all over India. A number of them can be merged. The merger of Punjab National Bank and New Bank of India was a difficult one, but the situation is different now. No one expected so many employees to take voluntary retirement from PSBs, which at one time were much sought after jobs. Private sector banks will be self consolidated while co-operative and rural banks will be encouraged for consolidation, and anyway play only a niche role.

4.3 Macro-Household Savings and Investment

As per the RBI data, published from time to time total financial savings and physical assets held by households are available. For recent years the data shows that the net investment in financial assets and physical assets are 45% and 55% respectively. The structure of financial assets presents the data on the proportion of investment in various forms by the public. As the Indian publics are risk averse, bulk of their investment is in LIC/PO/bank deposits. [18]

Diagram 4.1



LIC/NSS - 32%, Gold- 3%, FD's - 31%, Secondary Market - 5%, MF's- 9%, Primary Market - 5%, Chits - 6%, Other - 3%, Jewellery - 6%.

4.4 Investment Profile of Average Household

The asset preferences of an average Indian household can be analyzed from the data on the saving estimates of CSO and RBI. The data of RBI provide in particular the pattern of assets in the financial form of the household sector in India. If an average Indian saves Rs. 100(as net savings), nearly Rs. 55 is set apart for investment in physical assets like consumer

[18]. Dr. Avadhani V.A., Investment Management, Himalaya Publishing House, 5th Edition, p. 42

durables, housing, real estate, gold, silver etc. The remaining Rs. 45 flows into various forms of financial assets.

Taking savings in the financial form the preferences of the Indian household are such that the investor keeps 10% of it in cash and currency and 40% in bank deposits, which are both riskless assets but with nil return or low returns. There is also a category of contractual savings in the form of insurance, PF and pension funds whose return is also small or moderate but are based on the requirements of insurance coverage, contingency and precautionary requirements of individual savers. The investment in this category is 26% of total financial savings in 2003-04. The relatively less risky but voluntary investments relate to UTI units and mutual fund schemes whose return is about 10%. The investment in this category is around 1% of the financial savings of the household sector and these enjoy some tax benefits.

Another category of less risky return with tax concessions is that of investment in Government securities, PO schemes, PSU Bonds etc. The returns on these investments vary widely from 7-10% depending on income tax concessions. About 24% of the financial savings are invested in this category. Among the category of most risky investments is that of deposits with companies 1% and of shares and debentures 1.4%. If all the investments are arranged in the order of Riskiness to get risk aversion of the average Indian Investor, only 10% of savings are attracted by the high return, 30% flow in the form of contractual savings and 50% as currency and bank deposits. Moderately risky or less risky investments like PO instruments, government bonds, UTI units, etc. attract only 24% of the total savings in financial form.

4.5 Gross Domestic Savings and Gross Domestic Investment

The Household Sector Savings rate was 15.7% during the 1980's and increased to 19.1% during 1992-93 to 1996-97 and stood at 19% in 1997-98 and at 24.3% in 2003-04. [19]

Table 4.1

Savings and Investment

(as percentage of GDP)

Sr. No.	Gross Domestic Saving:	**1997-98**	**1999-2000**	**2003-04**
1	Household Sector	19.0	19.8	24.3
2	Private Corporate Sector	4.3	3.8	4.1
3	Public Sector	1.4	—	-0.3
4	- Public Authorities	-2.1	-1.2	—
5	- Non-Dept. Enterprises	3.5	—	—
	Total	**24.7**	**22.3**	**28.1**
6	Net Capital Inflow	2.6	1.0	-1.8
	Gross Domestic Investment	**26.2**	**23.3**	**26.3**

The rise on this account was mainly due to a large increase in the Household Sector Savings in financial form in the form of Bank deposits, PF, small savings due to financial reforms. Gross Domestic Investment as a Percentage of GDP was 24.8% during 1993-94 to 1997-98 and stood at 26.2% in 1997-98 and 23.3% in 1999-2000. The savings and Investment rate declined in 1999-2000, as seen from the attached Table, despite the rise in GDP at constant prices to 4% in 2002-03 and 8.5% in 2003-04 as compared to 5% in 1997-98 and around 4-6% in last three years.

[19]. Dr. Avadhani V.A., Investment Management, Himalaya Publishing House, 5th Edition, p. 52.

4.6 Analysis of Household Sector Savings

The savings of the household sector represent the macro saving habits of the public. The table presents the data on savings of the Household sector in financial form. [20]

Table 4.2

Savings of Household in Financial Assets

(Percentage distribution of total)

Sr. No.	Financial Assets	1990-91	92-93	94-95	95-96	97-98	99-2000	2004-05
1	Currency	10.6	8.2	10.9	13.2	7.2	8.9	9.2
2	Bank Deposits	31.9	36.8	38.4	32.0	44.5	33.6	37.1
3	Non-Banking Deposits	2.2	7.5	7.9	10.6	4.4	3.6	0.3
4	Life-Insurance	9.5	8.8	7.8	11.1	10.9	12.1	13.2
5	PF & Pension Fund	18.9	18.4	14.6	17.8	18.4	23.1	13.2
6	Claims on Government	13.4	14.8	9.1	7.7	12.4	12.2	24.0
7	Shares & Debentures	8.4	10.2	9.3	7.1	2.1	6.3	1.1
8	Units of UTI	5.8	7.0	2.7	0.2	0.3	0.4	-0.1
9	Trade Debt	-0.8	-1.7	-0.8	0.3	-0.2	-0.1	0.0

(Source: RBI Report)

The Household sector savings in both physical and financial form constitute about 24% of GDP. The savings in financial form are about the same as in physical form, indicating the role of intermediation and the deepening and widening of the financial system. The savings in financial form rose from 7% of GDP in 80's to 12% of GDP in 2003-04. The Gross Domestic Savings rate of all sectors in around 24%-28% in recent years, bulk of which is coming from Household Sector.

[20]. Dr. Avadhani V.A., Investment Management, Himalaya Publishing House, 5th Edition, p. 54.

The pattern of distribution of financial assets of the Household sector is seen from the above table. The precautionary investment is in contractual form of savings in Insurance, PF, pension etc. which account for about 26% of total in financial form. The motive in transactions is seen in the currency and bank deposits, held by households at around 48%. These two forms of investment for transactions and precautionary purposes account for about 75% of the total financial savings. The most risky forms of investment indicating the risk taking by households are in shares, debentures and non-banking deposits with companies, which account for only about 2% of financial savings of household sector in India in 2005. This indicates the degree of risk aversion of average Indian households.

4.7 Overview of Indian Financial System

The Finance is the science of money management. We can say that finance is something related to management of money and other assets. Finance represents the resources by way funds needed for a particular activity. Finance is also referred to as "Funds" or "Capital", when referring to the financial needs of a corporate body. Now you can finance anything that you want for example you can have home loans, business loans, education economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate sector, government and household sector. While performing their activities these units will be placed in a surplus / deficit / balanced budgetary situations.

There are areas or people with surplus funds and there are those with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities. The word "system", in the term "financial system", implies a set of complex and closely connected or interlined institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit and finance-the three terms are intimately related yet are somewhat different from each other. Indian financial system consists of financial market, financial instruments and financial intermediation. These are briefly discussed below;

4.7.1 Financial System Overview

A Financial Market can be defined as the market in which financial assets are created or transferred. As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset. Financial Assets or Financial Instruments represents a claim to the payment of a sum of money sometime in the future and /or periodic payment in the form of interest or dividend.

i. Money Market- The money market is a wholesale debt market for low-risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

ii. Capital Market – The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year.

iii. Forex Market – The Forex market deals with the multicurrency requirements, which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated market across the globe.

iv. Credit Market- Credit market is a place where banks, FIs and NBFCs purvey short, medium and long-term loans to corporate and individuals.

4.8 Financial Intermediaries

Having designed the instrument, the issuer should then ensure that these financial assets reach the ultimate investor in order to garner the requisite amount. When the borrower of funds approaches the financial market to raise funds, mere issue of securities will not suffice. Adequate information of the issue, issuer and the security should be passed on to take place. There should be a proper channel within the financial system to ensure such transfer. To serve this purpose, financial intermediaries came into existence. Financial intermediation in the organized sector is conducted by a wide range of institutions functioning under the overall surveillance of the Reserve Bank of India. In the initial stages, the role of the intermediary was mostly related to ensure transfer of funds from the lender to the borrower. This service was offered by banks, FIs, brokers, and dealers. However, as the financial system widened along with the developments taking place in the financial markets, the scope of its operations also widened. Some of the important intermediaries operating the financial markets include; investment bankers, underwriters, stock exchanges, registrars, depositories, custodians, portfolio managers, mutual funds, financial advertisers, financial consultants, primary dealers, satellite dealers, self regulatory organizations, etc. Though the markets are different, there may be a few intermediaries offering their services in more than one market e.g. underwriter. However, the services offered by them vary from one market to another.

4.9 Regulatory Authorities

The Finance Ministry continuously formulated major policies in the field of financial sector of the country. The Government accepted the important role of regulators. The Reserve Bank of India (RBI) has become more independent. Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) became important institutions. Opinions are also there that there should be a super-regulator for the financial services sector instead of multiplicity of regulators.

4.9.1 Reserve Bank of India

i. Establishment: The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated. Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

ii. Preamble: The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as: "...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

iii. Central Board: The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

1. Appointed/nominated for a period of four years
2. Constitution

3. Official Directors

4. Full-time: Governor and not more than four Deputy Governors

5. Non-Official Directors

6. Nominated by Government: ten Directors from various fields and one government Official

7. Others: four Directors - one each from four local boards

iv. Local Boards:

1. One each for the four regions of the country in Mumbai, Calcutta, Chennai and New Delhi

2. Membership:

3. Consist of five members each

4. Appointed by the Central Government

5. For a term of four years

v. Functions: To advise the Central Board on local matters and to represent territorial and economic interests of local cooperative and indigenous banks; to perform such other functions as delegated by Central Board from time to time.

vi. Financial Supervision: The Reserve Bank of India performs this function under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India.

vii. Objective: Primary objective of BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

viii. Constitution: The Board is constituted by co-opting four Directors from the Central Board as members for a term of two years and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, usually, the Deputy Governor in charge of banking regulation and supervision, is nominated as the Vice-Chairman of the Board.

ix. BFS meetings: The Board is required to meet normally once every month. It considers inspection reports and other supervisory issues placed before it by the supervisory departments. BFS through the Audit Sub-Committee also aims at upgrading the quality of the statutory audit and internal audit functions in banks and financial institutions. The audit sub-committee includes Deputy Governor as the chairman and two Directors of the Central Board as members.

x. Functions: Some of the initiatives taken by BFS include:

1. Restructuring of the system of bank inspections
2. Introduction of off-site surveillance,
3. Strengthening of the role of statutory auditors and
4. Strengthening of the internal defenses of supervised institutions.

The Audit Sub-committee of BFS has reviewed the current system of concurrent audit, norms of empanelment and appointment of statutory auditors, the quality and coverage of statutory audit reports, and the important issue of greater transparency and disclosure in the published accounts of supervised institutions.[21]

xi. Current Focus: Supervision of Financial Institutions

1. Consolidated accounting
2. Legal issues in bank frauds
3. Divergence in assessments of non-performing assets and
4. Supervisory rating model for banks.

xii. Legal Framework: Umbrella Acts

1. Reserve Bank of India Act, 1934: governs the Reserve Bank functions
2. Banking Regulation Act, 1949: governs the financial sector

a. Acts governing specific functions:

1. Public Debt Act, 1944/Government Securities Act (Proposed): Governs government debt market
2. Securities Contract (Regulation) Act, 1956: Regulates government securities market
3. Indian Coinage Act, 1906: Governs currency and coins
4. Foreign Exchange Regulation Act, 1973/Foreign Exchange Management Act, 1999:
5. Governs trade and foreign exchange market

[21]. http://www.rbi.crg.in/scripts/OccasionalPublications.aspx?head=ReserveBankofIndiaAct 16.5.2012 1658hrs

b. Acts governing Banking Operations:

1. Companies Act, 1956: Governs banks as companies

2. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980: Relates to Nationalization of banks

3. Bankers' Books Evidence Act

4. Banking Secrecy Act

5. Negotiable Instruments Act, 1881

c. Acts governing Individual Institutions:

1. State Bank of India Act, 1954

2. The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003

3. The Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993

4. National Bank for Agriculture and Rural Development Act

5. National Housing Bank Act

6. Deposit Insurance and Credit Guarantee Corporation Act

xiii. Main Functions: Main functions of the RBI have been discussed as under:

a. Monetary Authority: Formulates, implements and monitors the monetary policy.

1. Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

b. Regulator and supervisor of the financial system:

1. Prescribes broad parameters of banking operations within which the country's banking and financial system functions.

2. Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

c. Manager of Foreign Exchange:

1. Manages the Foreign Exchange Management Act, 1999.

2. Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

d. Issuer of Currency:

1. Issues and exchanges or destroys currency and coins not fit for circulation.

2. Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

e. Developmental Role: Performs a wide range of promotional functions to support national objectives.

f. Related Functions:

1. Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.

2. Banker to banks: maintains banking accounts of all scheduled banks.

xiv. Offices Has 22 regional offices, most of them in state capitals.

xv. Training Establishments:

1. Three, namely, College of Agricultural Banking, Bankers Training College and Reserve Bank of India Staff College are part of the Reserve Bank

2. Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

xvi. Subsidiaries: Fully owned: National Housing Bank(NHB), Deposit Insurance and Credit Guarantee Corporation of India(DICGC), Bharatiya Reserve Bank Note Mudran Private Limited(BRBNMPL)

xvii. Majority Stake: National Bank for Agriculture and Rural Development (NABARD) The Reserve Bank of India has recently divested its stake in State Bank of India to the Government of India.

4.9.2 Insurance Regulatory and Development Authority (IRDA)

i. Introduction: The Insurance Regulatory and Development Authority (IRDA) is a national agency run by the Government of India. IRDA is based in Hyderabad and was formed by an act of Indian Parliament called as IRDA Act of 1999. Considering some of the emerging requirements of the Indian insurance industry, IRDA was amended in 2002. As stated in the act mission of IRDA is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto." Indian insurance industry is regulated by the terms and conditions of the IRDA.

Indian law has certain expectations from the IRDA to perform in the Indian insurance industry. IRDA should protect the interest of policyholders by ensuring fair treatment by the insurance companies. The growth of insurance companies in a speedy and orderly manner should be taken care by the IRDA. It should monitor and implement quality competence and fair dealing of the insurance companies in the industry. IRDA should make sure that the insurers are providing precise and correct information about the products offered by them for the insurance customers. IRDA should also ensure speedy settlement of genuine claims of the policyholders and prevent malpractices in the process of claims settlement.

ii. The law of India has following expectations from IRDA:

1. To protect the interest of and secure fair treatment to policyholders.

2. To bring about speedy and orderly growth of the insurance industry (including Annuity and Superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy.

3. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.

4. To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard.

5. To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.

6. To promote fairness, transparency and orderly conduct in Financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players.

7. To take action where such standards are inadequate or ineffectively enforced.

8. To bring about optimum amount of Self-regulation in day to day working of the industry consistent with the requirements of prudential regulation.

iii. Duties, Powers and Functions of IRDA:

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA:

a. Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

b. Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include,

1. issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
2. protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of Insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
3. specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;
4. specifying the code of conduct for surveyors and loss assessors;
5. promoting efficiency in the conduct of insurance business;
6. promoting and regulating professional organizations connected with the insurance and re-insurance business;
7. levying fees and other charges for carrying out the purposes of this Act;
8. calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;
9. control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
10. specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
11. regulating investment of funds by insurance companies;
12. regulating maintenance of margin of solvency;
13. adjudication of disputes between insurers and intermediaries or insurance intermediaries;
14. supervising the functioning of the Tariff Advisory Committee;
15. specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);
16. specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and exercising such other powers as may be prescribed from time to time.

iv. Advisory Committee:

IRDA consists of a Chairman and some permanent as well as part time members. The regulations, however, are enacted under the guidance of a statutory advisory committee. The advisory committee consists of following individuals and ex-officio authorities:

1. Chairman: Hari Narayan J. is the current Chairman of IRDA.

2. Full-time Members: Currently, they are Mr M. Ramaprasad (Nonlife Member), Sri G Prabhakara (Life Member), Dr R Kannan(Member, Actuary) and Sri R.K. Nair (Member, F & I). There is provision for a panel of other members and part time members. IRDA formed a high powered Insurance Law Reforms Committee known as KPN Committee with important insurance advisors like Mr N Govardhan and Dr K C Mishra as its members. There were also a few non-advisory committee members like Mr Liaquat Khan and Mr T Viswanathan etc.

Full force and utility of various institutions like Advisory Committee and self-regulatory organizations are not yet realized as the regulator seems to be in a long learning mode. Due to over delegations, Individual incumbents decide the pace and extent of utilization of prudential and statutory bodies. Research is limited to opinion seeking through legacy channels. Market waits for revision of insurance act and establishment meaningfully functioning regulatory organs devoid of excess delegation and subjective localization of development agencies.

4.9.3 Securities and Exchange Board of India (SEBI)

i. Introduction: Securities Exchange Board of India (SEBI) was established on April 12, 1988 with the dual objective of protecting the rights of small investors and regulating and developing stock markets in India. The Board was subsequently upgraded as a fully autonomous body in the year 1992 by passing SEBI act on 30th Jan, 1992. In place of government control, a statutory and autonomous regulatory board with defined responsibilities to cover both development and regulation of the market and independent powers has been setup.

ii. The basic objectives of the board were identified as:

a. To protect the interest of investors in securities.

b. To promote the development of securities market.

c. To regulate the securities market.

d. To promote fair dealing by the issuers of securities and ensure a market place where they can raise funds at relatively low cost.

e. To provide a degree of protection to investors and safeguard their rights and interests so that there is steady flow of savings into the market.

f. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, and merchant bankers with a view to make them competitive and professional.

Since inception SEBI has been working towards targeting of securities and trying to fulfill its objectives with commendable zeal and dexterity.

iii. Administration of SEBI:

a. The SEBI Act 1992 came into force on Jan 30, 1992. Under this Act a Board named Securities and Exchange Board of India was constituted under the SEBI Act to administer its provisions.

b. It consists of one chairman and five members: One each from the department of Finance and Law of the central Government, one from the RBI and Two other persons and having its head office in Bombay and regional offices in Delhi, Calcutta and Madras.

c. Section 11 of the SEBI Act provides that to protect the interest of investors in securities and to promote the development and regulate the securities market by measures, is the duty of the board.

d. All the stock brokers, sub-brokers, bankers to an issue, merchant bankers, underwriters, portfolios managers, investment advisors and other such intermediary who may be associated with the securities market are to register with the board under the provisions of the act.

iv. Activities of the SEBI:

SEBI has introduced from time to time the comprehensive regulatory measures, prescribed registration norms, code of obligation and code of conduct for different intermediaries like stock brokers, sub-brokers, bankers to an issue, merchant bankers, underwriters, portfolios managers, investment advisors and others.

a. SEBI & Primary Market: Any company or a listed company making a public issue or a rights issue of value of more than Rs. 50 lakhs is required to file a draft offer document with

SEBI for its observations. The company can proceed forward only after getting observations from SEBI.

b. SEBI & Secondary Market: Section 3 of the SEBI act protects the interest of the investors in securities and also promotes the development of and regulates the security market & related matters.

Following are the financial products/ instruments which are controlled by SEBI:

Equity Shares, Right Issue, Bonus Shares, Preference Shares, Bond, Zero Coupon Bond, Convertible Bond, Debentures, Commercial Paper and Treasury Bills.

c. SEBI & Mutual Funds: SEBI formulates policies to regulate the mutual funds for protecting the interest of investors. Mutual Funds either promoted by public or by private sector entities including ones promoted by foreign entities are governed by these regulations.

d. SEBI & FII: SEBI has laid down provisions regarding Foreign Institutional Investment. Under these provisions an application for registration has to be made in form.

e. SEBI & Derivatives Trading: Derivatives trading takes place under the act 1992, and the framework including suggestive by lay and its clearing corporation has been laid down by Dr. L.C. Gupta committee.

f. Roll of SEBI in Collective Investment Schemes: Registered with SEBI under the SEBI Regulations 1999 & incorporated under the provisions of the companies act 1956 whose object is to organize, operate and manage a collective Investment scheme forms a collective Investment Management Company.

4.10 Conclusion

This chapter contains the structure of the Indian Economy, Macro Household Savings and Investments, Investment Profile of Average Household, Gross Domestic Savings and Investment, Financial Intermediaries and Regulatory Authorities etc. Thus it helps to well acquaint with the overall Indian Financial Service Industry. It also helps to the investors to understand the overall economy, economic growth, new issues regarding international economic trends. By understanding the overall economic development, investors can deposits their money in right investment options.