

## Financial Regulation

### Regulators

- Form of regulation / supervision that makes sure financial institutions adhere to certain restrictions and guidelines aiming to maintain the integrity of the financial system.
- Such a regulation can be handled by a government or a non-government entity.
- The financial system in India is regulated by independent regulators in the field of banking, insurance, capital market, commodities market, telecommunication, electricity, food, and pension funds.
- Govt. of India also plays a significant role in controlling the financial system in India and influences the role of such regulators to some extent.
- Provides stability to the markets and serves to protect customers, workers, and tax payers from moral hazards
- Summary of the regulators (in portion) is given below:

Regulatory	Abbreviation	Sector
Reserve Bank of India	RBI	Banking, Finance and Money Market
Securities Exchange Board of India	SEBI	Securities (Stock) and Capital Market
Insurance Regulatory Development Authority of India	IRDAI	Insurance
Pension Fund Regulatory Development Authority of India	PFRDAI	Pension
Association of Merchant Bankers of India	AMBI	Investment
Association of Mutual Funds of India	AMFI	Mutual Funds
National Housing Bank	NHB	Financing Housing
Forward Market Commission of India	FMC	Commodity market

### Reserve Bank of India (RBI)

- It is the apex monetary institution of India (fully owned by the Govt. of India)
- India's central bank that controls the issue and supply of the Indian currency
- Regulator of entire banking in India
- Carries out India's monetary policy and exercises supervision over banks and non-banking finance companies in India
- **Objectives of RBI:**
  - Maintain internal value of Indian rupee
  - Preserve external value of Indian rupee
  - Ensure price stability
  - Promote economic growth
  - Promote financial institutions
- **Role (functions) of RBI:**
  - Regulator and supervisor of financial system
    - Prescribes broad parameters of banking operations within which the country's financial system functions
    - Maintain public confidence in the system
    - Protect depositor's interest
    - Provide cost – effective banking services to public
  - Regulator and supervisor of payment and settlement systems
    - Focuses on development and functioning of safe, secure and efficient payment and settlement mechanisms
    - National electronic fund transfer (NEFT) and Real time gross settlement (RTGS) allows individuals, companies, firms to transfer funds from one bank to another (can be used to transfer money within country only)

- Banker to government
  - Maintains govt.'s accounts
  - Makes and receives payments
  - Helps to raise money for govt. by issuing bonds and govt. approved securities
- Managing foreign exchange
  - Facilitates external trade and payment
  - Promotes orderly development and maintenance of foreign exchange market in India
  - RBI also manages forex and gold reserves of the nation
- Issue of currency
  - Sole body authorized to print notes
  - Also destroys bank notes that are not fit for circulation
  - Enhance public confidence in paper money
  - Give public adequate supply
  - Maintain currency and credit system of the country to utilise it in its best advantage
  - Maintain money reserves
- Banker's bank
  - Commercial bank can hold accounts and deposit money
  - Commercial banks create credit
  - RBI's duty to control credit through bank rate, and open market operations
  - Facilitates clearing of cheques between commercial banks and helps inter-bank transfer of funds
  - It also grants financial accommodation to banks
  - Acts as lender of last resort by providing emergency money to banks
- Regulator of banking system
  - Uses methods like on-site inspections, off-site surveillance, and periodic meetings to supervise bank licenses, regulating interest rates in specific areas
- Detection of fake currency
  - Has launched website to raise awareness about fake banknotes
  - New currency notes have added security features which would help in reducing the danger of fake currency
- Developmental role
  - Promotes small local banks
  - Encourages commercial banks to open branches in rural areas to include larger section of society in banking net
- Custodian to foreign exchange
  - Has custody of country's reserves of international currency
  - Enables RBI to deal with crisis connected with adverse balance of payments position

### Securities Exchange Board of India (SEBI)

- Regulator for securities (stock) market in India
- Protects the interests of investors in securities
- Promotes the development of; and regulates the securities market
- Since this deals with stock market and other financial activities, it is one of the most significant regulatory bodies of India
- Has to be responsive to three groups which constitute the market:
  - Issuer of securities
  - Investors
  - Market intermediaries
- Enforces certain rules and regulations that provide safety of investment, check price rigging, prohibit insider trading, prohibits fraudulent and unfair trade practices.
- **FMC (Forward Market Commission)** was merged with SEBI in 2015

- **Powers of SEBI:**
  - To approve laws of security exchanges
  - To require the security exchanges to amend their laws
  - Inspect the books of accounts and call for periodic returns
  - Inspect the books of accounts of financial intermediaries
  - Registration of brokers and sub-brokers
  - Compel certain companies to list their shares in one / more security exchanges
- **Functions of SEBI:**
  - Issuers of securities
    - Companies that issue securities are listed on the stock market
    - They issue shares to raise funds
    - SEBI ensures that the issuance of IPO's (initial public offering) and FPO's (follow-up public offers) can take place in a healthy and transparent way
  - Protects the interests of traders and investors
    - Ensures that investors do not become victims of any stock market fraud or manipulation
  - Financial intermediaries
    - SEBI acts as a mediator in the stock market to ensure all the market transactions take place in a secure and smooth manner
    - Also monitors every activity of the financial intermediaries such as broker, sub-broker, NBFC's etc.

## Insurance Regulatory Development Authority of India (IRDAI)

- It is statutory body that promotes insurance and re-insurance industries in India
- Protects the interests of policy holders
- To regulate, promote and ensure orderly growth of insurance industry
- One of the most important financial regulatory bodies in India which controls all types of Life insurances and general insurances, as well as its claims
- **Powers of IRDAI:**
  - It specifies code of conduct and practical training for financial intermediaries or insurance intermediaries or agents
  - It can call for information from, undertake inspection of, conduct inquiries and investigations including auditing of insurers, intermediaries, and other organizations connected with life and general insurance
  - Can issue to the applicant a certificate of registration, renew, modify, withdraw, suspend, or cancel such registration
  - To register companies who run insurance businesses
  - Controls and regulates the rates, advantages, terms and conditions that may be offered by insurers
  - Specifies the form and manner in which books of account shall be maintained
  - Regulates maintenance of margin of wealth
  - Specifies the percentage of premium income of the insurer
  - Specifies the percentage of life insurance business and general insurance business in the rural sector; and accordingly exercises powers when needed
- **Functions of IRDAI:**
  - Protect the interest of; and ensure fair treatment to policyholders
  - To bring about speedy and orderly growth of insurance industry for the benefit of common man
  - To provide long term funds for accelerating growth of economy
  - To set, promote, monitor, and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates
  - To ensure speedy settlement of genuine claims
  - To prevent insurance frauds and other malpractices
  - To build a reliable management information system

- To take action when standards are inadequate or ineffectively enforced
- To bring about optimum amount of self-regulation in day to day working of the industry
- Settles the disputes between insurers and investors

### **Pension Fund Regulatory Development Authority of India (PFRDAI)**

- The objective of PFRDA is development and regulation of pension sector in India
- Authorized by ministry of Finance (MoF) and helps in promoting income security of old age by regulating and also developing pension funds
- Regulating and administering NPS (**National Pension System**) along with APY (**Atal Pension Yojana**) which is a defined benefits pension scheme for unorganized sector
- **Functions of PFRDA:**
  - Regulate NPS and other pension scheme that fall under PFRDA
  - Establish, develop and regulate pension funds
  - Responsible for appointment of other different intermediate agencies
  - Protect the interest of pension fund subscribers
  - Protects interest rate of the subscribers, associated with the schemes of pension money along with other related matters
  - Register and regulate intermediaries
  - Lays down norms for management of the structure of pension funds
  - Establish grievance redressal mechanism for subscribers
  - Promote professional organisation connected with pension system
  - Settle disputes among intermediaries and also among intermediary and subscriber
  - Call for information, conduct inquiries, carry out investigation, and audit the intermediaries associated with pension funds
  - Train intermediaries and educate public (potential subscribers) with respect to pension, retirement savings and related issues

### **Association of Merchant Bankers of India (AMBI)**

- **What is a merchant banker?**
  - Purpose of merchant banks is to facilitate production and trade of commodities, manage portfolios, undertake project counselling etc.
  - Commercial banks as well as investment banks may engage in merchant banking activities and render these services for a fee
- **Who is a merchant banker?**
  - Merchant banker is a critical link between a company raising fund and the investors
  - Merchant banker is the one who guarantees corporate securities and advises on issues like corporate mergers
  - A merchant banker can be in the form of a bank, a firm or even a company
  - A merchant banker understands the requirements of the business and arranges finance with the help of financial institutions, banks, stock exchanges and money market
- **So what is AMBI?**
  - It is the association of merchant bankers of India that provides efficient services and standard practices in merchant banking and financial services
  - AMBI is promoted to exercise overall supervision over its members pertaining to merchant banking and other activities
  - **Code of conduct** laid by AMBI for merchant bankers:
    - Should make efforts to protect the interests of investors
    - Should maintain high standards of integrity, dignity and fairness in conduct of business
    - Should fulfil all obligations in a professional and ethical manner

- Should not discriminate among clients
- Should make sure that inquiries and grievances are dealt adequately in timely manner
- Should ensure that letter of offer is available to investors at the time of issue
- Should render best possible advice to clients
- Should not create false market
- Merchant banker should not associate with any business other than that of securities market

### Association of Mutual Funds of India (AMFI)

- Non-profit government organisation under the purview of SEBI
- Top priority is to protect the interests of investors
- Aims to develop mutual funds market in India, by improving ethical and professional standards
- A visible ethical impact created by AMFI can be seen in advertisements of mutual funds where the instructions concerning the risky nature of mutual fund investments are clearly mentioned
- **Objectives of AMFI:**
  - To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry.
  - To recommend and promote best business practices and code of conduct to be followed by members.
  - To interact with the Securities and Exchange Board of India (SEBI) and to represent to SEBI on all matters concerning the mutual fund industry.
  - To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the Mutual Fund Industry.
  - To undertake nation-wide investor awareness programme so as to promote proper understanding of the concept and working of mutual funds.
  - To disseminate information on Mutual Fund Industry.
  - To regulate conduct of mutual fund distributors
  - Investors can approach AMFI to share their grievances and register complaints against fund manager or a fund house
  - Other issues such as investment in unlisted securities, inspection of mutual funds, manner of charging expenses, and provisions of the SEBI (mutual funds) regulations are also discussed

### National Housing Bank (NHB)

- NHB is an apex financial institution for housing
- Established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels
- Registers and supervises housing finance company (HFC's) and keeps observation through on-site and off-site mechanisms; also coordinates with other regulators
- **Functions of NHB:**
  - To promote sound, healthy, cost effective housing finance system to cater to all segments of population
  - To augment resources for the sector and channelize them for housing
  - To make housing credit more affordable
  - To regulate the activities of housing finance companies
  - To encourage public agencies to emerge as suppliers of land, for housing
  - To formulate schemes for mobilisation of resources, and specially catering to the needs of the economically weaker sections of the society
  - To provide guidelines to housing financing institutions to ensure their healthy growth
- **NHB can raise funds through:**
  - Issue of bonds and debentures
  - Borrowing from central govt. or institutions approved by central govt.
  - Short term accommodation from RBI

- Acceptance of deposits of long term duration
- Borrowings in foreign currency from banks or financial institutions in India or abroad

### **Forward Market Commission of India (FMC)**

- Was the chief regulator of commodity futures markets in India
- It merged with SEBI to make the regulation of commodity futures market strong
- It allows trading in:
  - 4 energy products
  - 6 pulses
  - 15 spices
  - 20 metal futures
  - 23 fibres
  - 33 other futures
  - 44 edible oils