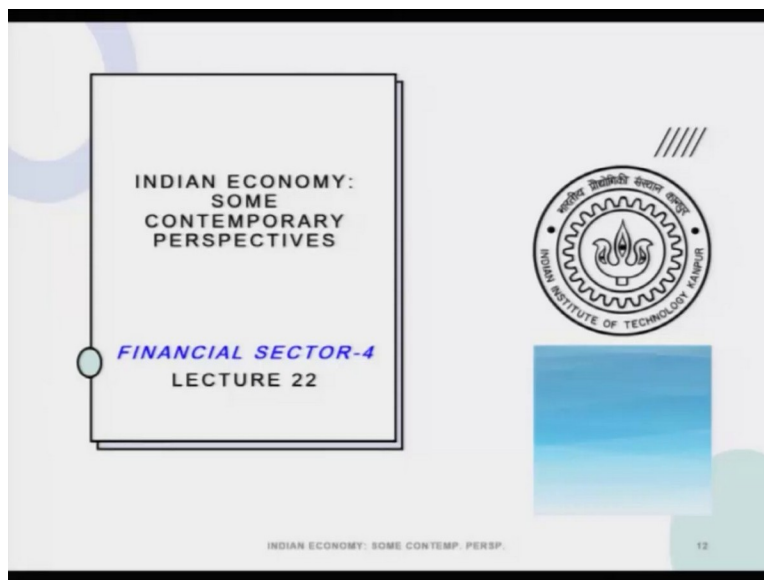


Indian Economy: Some Contemporary Perspectives
Professor Wasim Ahmad
Department of Economic Sciences
Indian Institute of Technology, Kanpur
Lecture 22
Indian Economy-Financial Sector 4

So, hi everyone, let us start. So, we are now going to have the Indian economy some contemporary perspective. So now we are into lecture 2 and this in continuation with the lecture that we just finished lecture 21. And this is going to be the fourth lecture on the financial sector.

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So now I have put four so now we have a first we discuss about the banking sector then further the banking sector developments. Then we discuss the NBFCs and some committees reports. And now we are into the finance sector 4. The lecture 4 and this is also talking about certain committees' recommendations and other things. So, the readings we may unseen like previous lectures.

So, if you want, you can refer the previous lecture leading and then you can just this particular lecture and then we can go ahead. So here we were discussing about the Raghuram Rajan committee and this committee had recommended the wide range of the addressable of issues in Indian financial sector. And it has touched almost all the topics. So that is why this committee is also called a GenNext committee reform.

You will find a writing on this, on the niti aayog website. You can also go to epw and you can also read one or two papers appearing on this Raghuram Rajan committee reports. But this committee report was widely popular at that time when it was just submitted keeping in mind that we had to undergo structural changes. And then when we had opened our economy for the foreign investors and in foreign investors we had a foreign portfolio investor.

Then we had the director root of investment and then keeping in mind certain geopolitical political dynamics we had a put a check on the foreign investor and we had to put some norms. So that we can easily identify which all investors are genuinely involved in productive activities. And it should not be used for any other purpose. So, since the economy is now expanding so we are now in the post 2000 where we had almost gone through the liberalization phases.

And we were seeing the changes happening in different segments of the economy. So foreign investment became one of the hotly debated topics because after 1997 east asian crises for the first time the world had realized that this foreign portfolio investment may be sensitive to certain geopolitical political development, geopolitical shocks and that may have adverse impact on the economy.

So, committee on investor awareness and protection by Dhirendra Swarup 2010 it was set up. And this committee had given recommendation. So, this committee had recommended that there should a financial wellbeing board of India. And this financial wellbeing board of India will have but two legs one will be self-regulatory organizations SRO and one will be the financial literacy cell.

And this financial literacy cell will have a lot of role in terms of facilitating the investor awareness and thinking about how they this investor of awareness can take up to different level in terms of providing a knowledge and awareness about certain products, certain developments, certain regulations. And self-regulatory organizations were made of aware of two identify certain regulatory norms and to implement those norms on the investment in the country not only inflow but outflow of investment also.

So, both inflow and outflow and it was also recommended that this FINWEB which was created financial wellbeing board of India. It will have the representations from ministry then regulators SEBI and may be some other regulators may also be part of and it will also have members from industry association. So, this particular committee report having importance in the sense that from the perspective of whether the investment coming from the foreign country.

So, it was found that in some cases the money had come from China and some other countries where it is not expected. And our economy is quite sensitive about the investment coming from these channels. But they rooted from different geographical location and comes to India. So, for the first time this committee had recommended that like banks which have known your customer kinds of norms to fill it before they invest or before you do banking transactions.

In the same way the foreign investors will also have to go through those norms and based on the OECD framework they will be complying with those norms and then only they will be allowed to access the capital market or investment market in the country. So, for the first time this committee had gone for such an elaborate discussion or recommendations on the investment or sensitive investment in Indian activities.

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Indian Financial Sector Development: Analysis and Perspectives

- Working Group on Foreign Investment in India by U. K. Sinha, 2010
 - The Committee focusses upon the capital flows management regulation by rationalizing the legal process.
 - To create a financial sector appellate tribunal, to hear appeals on all aspects of capital flows management regulations.
 - A single window for registration and administration of portfolio investment regulations, what we call Qualified Foreign Investors ("QFI").
 - Investment into listed or unlisted securities at a level below 10% of shares would be considered portfolio investment. This is the current limit for FII's which presumably would be extended to QFIs.
 - Investment above 10% would be considered FDI and would require compliance with existing FDI rules, regulations and procedures.

Source: Sinha, U. K. (2010). Working group on foreign investment. Committee report, Department of Economic Affairs, Ministry of Finance.

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So, this was as I mentioned that this was about the capital inflows management and nationalizing the legal process it was also suggested that there will be a financial sector appellate tribunal that

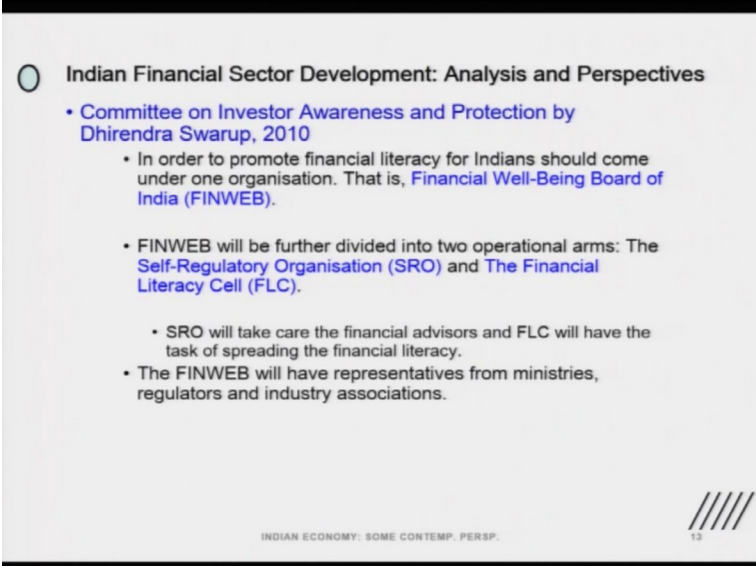
if there is any dispute happening then there will be this financial sector appellate tribunal to look after those kinds of capital flow management regulations. And if there are violations then this particular appellate tribunal will look into those issues.

A single window registration and administration of portfolio investment regulators and it is normally called as qualified foreign investors. So, for the first time this committee had recommended that there should be some kind of regulatory norms to identify the qualified foreign investors and they will be allowed to invest. The investment to listed or unlisted securities at a level below 10 percent of shares would be considered portfolio in investment.

So, it means that if you if the investment is below 10 percent this will automatically be qualified as the foreign portfolio investments so FPI and if it is above 10 percent then this will be considered FDI and would require the compliance for the existing FDI rules. So as such just to make sure that we were opening the economy and we wanted some regulatory framework to put in place. So, this particular recommendation was really useful.

So here it is also considered as one of the most important I would say recommendations. So, this particular committee became a popular in the heck where of foreign investment and it was.

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○ Indian Financial Sector Development: Analysis and Perspectives

- Committee on Investor Awareness and Protection by Dhirendra Swarup, 2010
 - In order to promote financial literacy for Indians should come under one organisation. That is, **Financial Well-Being Board of India (FINWEB)**.
 - FINWEB will be further divided into two operational arms: **The Self-Regulatory Organisation (SRO)** and **The Financial Literacy Cell (FLC)**.
 - SRO will take care the financial advisors and FLC will have the task of spreading the financial literacy.
 - The FINWEB will have representatives from ministries, regulators and industry associations.

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So, unlike the Dhirendra Swarup who is talked about the identifying or going for investor awareness and protection that if the investor has been given some kind of or has purchase some financial instrument then how they can go for safeguard if there are any disputes. And since in

India we were having a financial diversification happening not in terms of these services but also in terms of products.

So, at that time it is widely required that this particular committee should be there to take care. And some regulatory framework must be given so that the stakeholders should not feel exploited or feel cheated because in the financial market in the conventional set up it appears that it is quite risky business. So, if you have awareness then people would like to participate.

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○ Indian Financial Sector Development: Analysis and Perspectives

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Source: Sinha, U. K. (2010). Working group on foreign investment. Committee report, Department of Economic Affairs, Ministry of Finance.

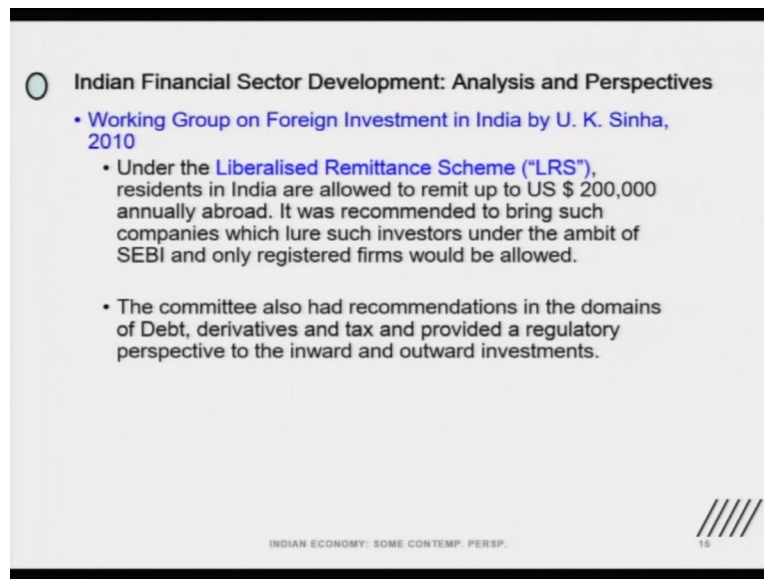
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In 2010 the foreign investment working group was set up. And it was under the chairmanship of U K Sinha. And this committee focus on the capital flows management regulation. And this committee had recommended in terms of going for the OECD norms. And it was also suggested that this particular committee had recommended in terms of inflow and outflow of the investment.

So, this committee had gone for devising certain know you customer norms. So that it would be easier to identify the qualified investors for an investor and if it is less than the investment exposure is less than 10 percent then this will be considered as an FPI and foreign portfolio investment. And it is above 10 percent then this particular investment has to go through certain regulatory processes of either direct route or there are some regulatory caps then this particular investment will be identified. So, this one was major recommendation.

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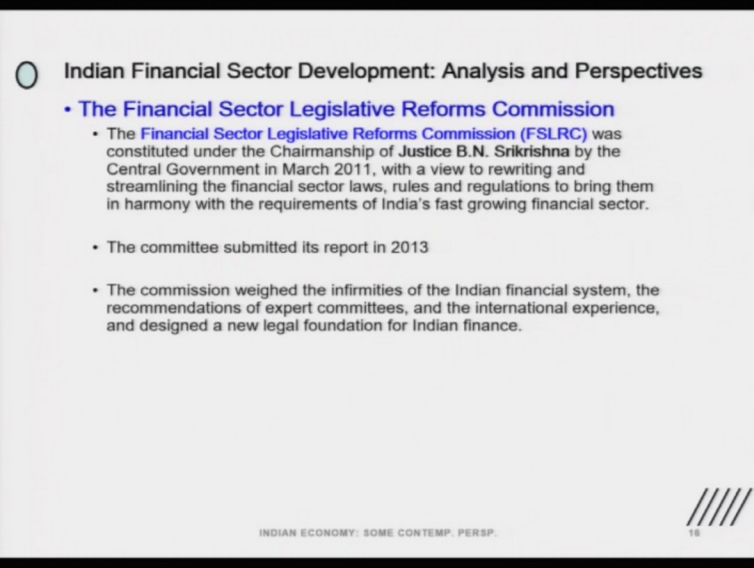


U K Sinha committee had also recommended that since under liberalized remittance scheme are allowed to limit up to 200000 annuals aboard. And it was also found that some private or some financial services companies they were luring this investor to invest in certain activities and it was also recommended it was found that there were violations of certain investment norms. So, this committee had recommended that until and unless this whatever service are being offered to the Indians then this particular activity should be regulated.

And until and unless it comes under the regulatory framework of SEBI then only you should be allowed otherwise you should not be promoted. The committee had also specific recommendation with regard to tax derivatives. Then they had also gone for date that up to what extent upper they form can borrow from abroad and how-to what extent the foreign investors can participate in India.

So those are the major recommendation of the foreign investment and foreign investment recommendation became one of the hotly debated topics because for the first time we were going to an extreme lining the investment norm in the activity that we are doing. And since we were also looking for expansion and allowing foreign item investment in certain activities. So, this committee was widely needed.

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Indian Financial Sector Development: Analysis and Perspectives

- The Financial Sector Legislative Reforms Commission
 - The Financial Sector Legislative Reforms Commission (FSLRC) was constituted under the Chairmanship of Justice B.N. Srikrishna by the Central Government in March 2011, with a view to rewriting and streamlining the financial sector laws, rules and regulations to bring them in harmony with the requirements of India's fast growing financial sector.
 - The committee submitted its report in 2013
 - The commission weighed the infirmities of the Indian financial system, the recommendations of expert committees, and the international experience, and designed a new legal foundation for Indian finance.

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Then we had in March 2011 committee was set up which was under Justice B N Srikrishna and it was financial sector the legislative reforms commission this is also call a FSLRC. And this committee had gone for it has submitted report into 2013 and this committee became one of the widely debated topics in at that point of time because for the first time this committee gone for rationalizing the or gone for having something called Indian financial code.

Which means that this particular committee for the first time like a Raghuram Rajan committee GenNext reform this committee had gone for gigantic recommendations on each and every segment, each and sector. So, you can say that this particular committee had merged all the recommendations that we had discuss so far. And it had gone for a complete giving an architecture to the financial system.

So that is why it is called financial sector legislative reforms commission and FSLRC. And since it was edit by Justice B N Srikrishna. So, it also become popularly it is called Srikrishna committee report on the financial reforms. So, this committee had lot to recommend in terms of not just thinking about giving specific recommendation to particular sector but this had covered a lot. So, we will be discussing each component in detail.

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O Indian Financial Sector Development: Analysis and Perspectives

- The Financial Sector Legislative Reforms Commission
 - The Indian Financial Code (IFC) is the commission's product.
 - The Code deals with the establishment of financial agencies, establishment and structure of the tribunal, allocation and regulation of financial services.
 - It is a single, internally consistent law of 450 sections that is expected to replace the bulk of existing Indian financial law.

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So Indian financial code for the first time this is the commissions product and this was recommended. So, code deals with the establishment of financial agencies establishment in a structure of tribunal allocation and regulation of financial services. It is a single internally consistent law of 450 sections that were expected to replace the bulk of the existing Indian financial law.

So, for the first time a particular committee this particular committee FSLRC had recommended that even your living in a remote location or semi urban areas. So, there must be some kind of redressal committee or redressal some kind of regulations meant for those first generation or second generation or the first timer, first timer or first generation investors to be protected because so far in India what has happened even after 2007-8 crises it was found that most of the companies or investment companies they were selling their product without informing or giving proper information to the investor and during normal period everything goes well.

But whenever there is a dispute then it becomes really difficult for the investor approach some authority or to have an information that where this particular issue will be resolved.

So, there was it was widely needed because after 2010 government had given some kind of mandatory norms or after 2005 itself it started and it was given some kind of mandatory norms for the banks to open branches in rural areas. And these bank branches were having all sort of services. So, the people living in different district, different small-town cities. They had no idea that to what extent some regulations are covered to their worries.

And it was on also badly needed because the financial sector was expanding and this particular expansion especially in terms of insurance, in case of credit card, especially in case of loaning is small amount or big amount for shorter maturity or longer maturities. Even the selling of house for the longer duration collateralized non-collateralized loans in case of collateralized loan if there is some dispute where to approach if it is not reserved by the financial institution.

So, such worries were there and this committee Indian financial code incorporates all those worries and it was quite gigantic work. And that is why it has 450 sections and it merge lot of existing Indian laws and gave a contemporary or some improvised recommendations on those existing laws.

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So, as I mentioned, the first deals with the consumer protection, second is the micro prudential regulation. So, there is a as I mentioned in the previous lecture about Patnaik and Shah. So, this particular section I am discussing it is from there and this particular section highlights a lot. So, may be if you are not aware you can just search on the net about the FLSRC reporting you will find lot of newspaper coverage plus you will also find tutorial appearing in leading dailies plus also you will find some certain websites where you have some viewpoints share.

So, this particular like committee recommendation became one of the important areas. So unlike macro prudential under macro prudential we look for managing the whole the shock system in the economy at the economy level where we talk about house rental bank should take measures. How government should try to minimized the shock. How the imbursement, how the gigantic financial stability regulatory body should take care the risk management system within the country.

But for the first time this committee had gone for macro prudential. So macro prudential in the sense that at very small or regional level what should be the regulatory process. If I am holding a card credit card or debit card if there is some kind of transaction mismatch happening if I am reporting to the bank and bank is not able to solve my issue then where I should approach if I am living in some remote location or remotely located district in some state.

So, I may not I should not be traveling only to the metros or the capital city in state to solve this issue. So, for the first time the financial regulatory body reached to that extent. So that is why it is called macro prudential regulation. Then there was resolution framework that in case of dispute how it will be resolved. Then the systemic risk regulation at the country level what should be the systemic risk regulation where should be participating.

Then capital controls which means that inflow and outflow capital how it should be managed where it should go and how it has to be examined. Then it was also about the monetary policy that what should be the framework of monetary policy. Whether as per the recommendations of the Raghuram Rajan committee which mentioned about the single indicator approach which is means their inflation will be this whole indicator and then the central bank has to target that the either in the medium term with certain range or try to be the lowest target whichever is better.

But for the first and this committee had considered those aspect and it had recommended and it had also gone for some kind of setting of a new member committee where in which it will not be just RBI but some government nominated members also. So, for the first time it was there. Then the public date management what will be the government norms for maintaining the date. What should be the ratio of date to the GDP and how it can be minimized and monitored.

Then development and redistribution which means that how we can go for whatever the benefit that we have we can redistribute among the masses. Then the contracts, trading which means that at the very macro label if the investors are investing money in the stock market or any activity then how they should be protected what should be the role of those are how new contracts can be devised and what should be the in case of any kind of dispute.

What should be modest oprandy for tackling those issues market abuse that how if particular is being traded or if a particular stakeholder is having exposure to a particular entity. And if that entity is not given due importance or some kind of due diligence before any takeover and all and how that has to be address. So, for the first time had nine components and these nine components are worth revisiting.

So maybe I may not able to finish all these sections today maybe I will continue in the next session but it is really important and the document is available on the Carnegie milan website. And there you can access this document. And read about so this financial sector legislative reforms commission many times as in economics student we are not aware of but this is for the general audience also those who are going to prepare for civil services are even for the banking services examinations.

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So, in the subcomponent of the consumer protection, it was also found that there should be some kind of regulatory norms for some schemes, for example Ponzi scheme. And there is also some kind of mismanagement happening from this side of financial form just to have a or there are some targets attached to the salesman of this Ponzi scheme. For example, if a salesman is working in a bank and if the and the bank gives a target to salesman that you have to sell 10 credit cards in a day or 5 credit cards in a day.

You might be experiencing when you go and travel to or just go for shopping in a shopping mall then you experience that you have some people who are offering you lucrative options on credit card, debit card, financial products. So, because of that in some cases it happens that they end up having the unfair advantage which means that whatever is being promised by the form that they will be having only this card will only this debit card or credit card will have only this advantage to meet the target they offer more than that.

And if consumer is going to purchase that surveys then of course he or she will expect that whatever has been said by him or her. And if it is not going to materialized then this leads to dispute. So, in that context the committee had gone for consumer protection. It has device that a set of right must be there production for consumers. So that in case such type of things is happening then this particular consumer must be protected.

A set of power through the financial agencies will uphold this rights and protection. So, there will be rules and regulations framed and some agencies will be empowered to implement this set of rights and protections. And principles that guide which power should be use and under which circumstances which means that there will be some kind of regulatory body to take care this service. So, this becomes really important.

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Indian Financial Sector Development: Analysis and Perspectives

- The Financial Sector Legislative Reforms Commission
 - Consumer protection
 - Some of the rights and protections that the IFC would guarantee consumers are protected against unfair contract terms and against misleading and deceptive conduct.
 - The draft legislation also outlines the right to receive reasonable quality of service and to data privacy and security.
 - Regulators are empowered under the IFC to impose a range of requirements upon financial service providers, from disclosures to suitability and advice requirements to regulation of incentive structures.
 - The legislation also embeds fairly intrusive powers for regulators, such as recommending modifications in the design of services and products.

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The rights and protection that the IFC would guarantee consumers are protected against the contract terms against the misleading and deceptive conduct which means that you have you are utilizing these services but suddenly you realized that the bank is not responding. And it may happen that institution from where you purchase those financial products they disappeared. So, in those situations where to approach.

So, this in Indian financial code are gives some kind of protection. The draft legislation also outlines the right to receive reasonable quality of service and data privacy and security, which means that if you are going to share your information with the bank or any entity from which you are going to avail some services. Then whatever information that you have share there must be some kind of privacy.

So, third party selling should not be allowed and Indian financial code Srikrishna committee report had for the first time incorporated this kind of rules and regulations under the consumer protections. Regulators are empowered under the IFC to impose a range of requirements upon financial services providers. Which means that if I going to have a so once IFC fits all it should not be the same.

It should be that if a particular form or particular bank is going to provide a financial service then they should specifically mention that what should the criteria of that. What is the minimum requirement and then only that financial service will be available otherwise it should not be sold to anyone to whatever amount. And in case of and there should not be any kind of incentive wrong incentive given it should have the proper incentive structure.

So, it was all about designing the financial product in a such manner that there should be a less dispute and there should be a less confusion to the consumer and consumers are equally protected. The legislation also embeds fairly instructive powers for regulators such recommending modifications in the design of service and product. Such type of contemporary recommendations was never there in India and unfortunately in some cases partially it has been implemented.

But it is not taken in the two spits of the committee had recommended that the empowered body must have the right to instruct certain changes if they find any flaw with regard to the buy and sell of the product. So that becomes really important to note here that how the consumer protection requirements were deeply discussed and devise and in a very detail manner it was incorporated in the FSLRC report.

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Indian Financial Sector Development: Analysis and Perspectives

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Would guarantee consumers are protected against unfair contract terms against misleading in the. So, this one was always there, so these points we have already covered.

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Indian Financial Sector Development: Analysis and Perspectives

- The Financial Sector Legislative Reforms Commission
 - Unified Financial Redress Agency:
 - The agency would have a presence in every district in India and would be a place where consumers of all financial products could submit complaints.
 - Consumers would only have to deal with one agency in this area rather than multiple regulators.
 - The local operations would be connected to a centralized and streamlined adjudication process, and a well-structured work flow would support the speedy and fair handling of cases.
 - The analysis of patterns in the complaints of consumers at the Financial Redress Agency would feed back into improved regulations.

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And then there was also a recommendation to have a unified financial redress agency. And this was for the first time this committee had recommended that the agency would presence in every district in India and would be a place where consumers of all financial could submit complaints. So, which means that for the first time the regulatory bodies for example most of the regulatory bodies are regulatory in Mumbai whether it is SEBI or whether it is the RBI or whether it is the SBI.

So, for the first time the regulatory bodies were complete decentralized and they were sent at the district level so that if the financial services are going to the expanded with financial more financial inclusion. Then those issues must be discussed address there itself. Consumers would only have to deal with one agency in this area rather than multiple agencies which means that this particular agency will have a whole lot of power to deliberate on the complaint receive from different product.

For example, if I am having issue with my semi account dispute and I also have credit card and then I also have the insurance then all these three must be address by one regulatory body and it should have the unification. The local operations would be connected to a centralized a streamline process and a well-structured work flow would support the speedy and fair handling of the cases which means that in a timely manner this case will be addressed.

And then the whatever if the settlement or any kind of compensations will be processed in a time bound manner. The analysis of pattern in the complaints in the consumer at the financial redress agency which means that would be feedback into prove reverse which mean that some experiences whatever has been done if there is a scope of automation that this particular service, that this particular complaint that we have received.

And there is a process that if we can do this part then this particular problem will be solved automatically. So, which means that a less amount of time will be spend on those activity. So, these particular recommendations unified financial redress agency was recommended by this committee. And for the first time we had the regulatory body set up at the district level, unified structure, some incentive in time bond manner and also there was a whole lot of analysis of certain activities and certain complaints addressing in a time bond manner.

So far, I am stopping here, so far what we have discussed is about the FSLRC commission report. And then we also discuss some committees on the investor's awareness for an investment. So, given this now we are into the contemporary framework. So, I hope this new change that we going to discuss it will add value to your knowledge and then we will continue this in the next session. Thank you, thank you so much.