BANKING AND FINANCIAL MARKET IN INDIA

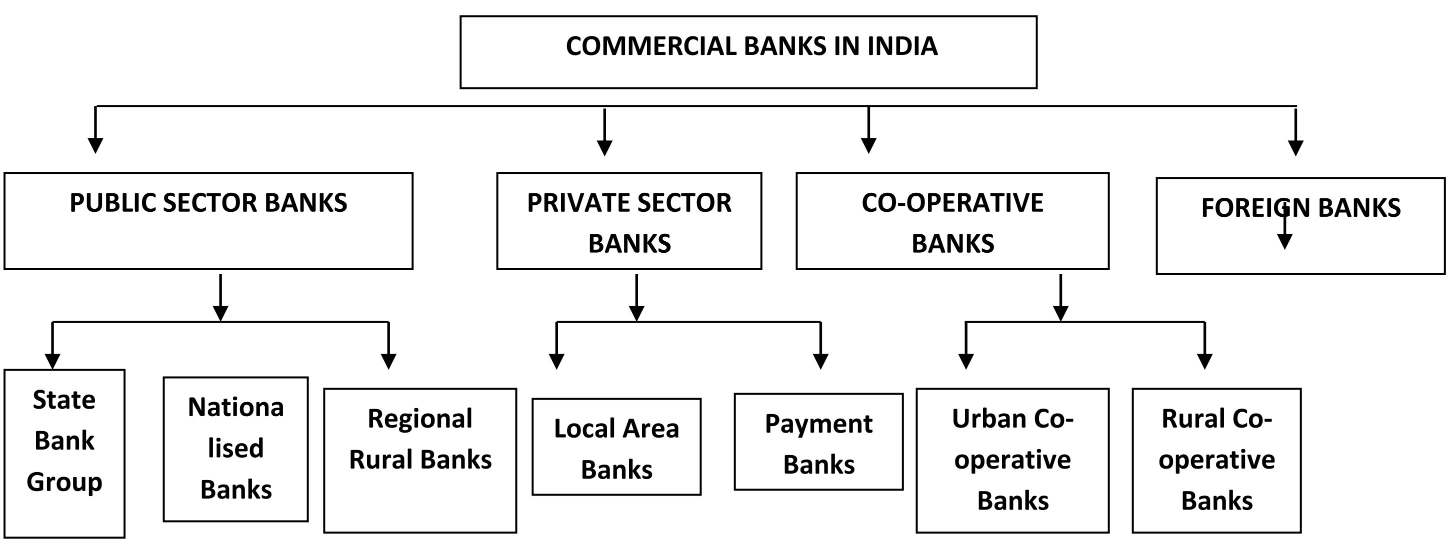
Banking

Q1. Explain the structure (or) Classification of Banking Sector in India.

Ans. A commercial bank is a profit making financial institute which accepts deposits of money from the public and lends them with a view to make profits. Commercial banks play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy.

The banking sector plays a very important role in the development of one country's economy. Today, India has a fairly well developed banking system with different types of banks – public sector banks, foreign banks, private sector banks, regional rural banks and cooperative banks with the Reserve Bank of India as the head of the system.

Banking developments in India after Independence has been, by and large, a state-induced activity. The public ownership of banks was achieved in stages. **The RBI was nationalized in 1949** followed by the **nationalization of Imperial Bank of India** (now the State Bank of India) in 1955. **In July, 1969, 14 major commercial banks were nationalized and in April 1980, 6 more commercial banks were nationalized.** New Bank of India of India was merged with Punjab National Bank. At present there are 19 nationalised banks. Thus, prior to introduction of economic reforms in early 1990s, banking business in India was a near monopoly of the Government of India. The banking sector reforms led to the setting up of more private sector banks as well as entry of more foreign banks in the country. With the onset of economic reforms, the commercial banking sector has undergone a number of changes in terms of size, efficiency of operation and financial soundness.



Commercial banks are classified into- scheduled and non-scheduled banks. Scheduled banks are those which are included in the second schedule of Banking Regulation Act, 1949; others are non-scheduled banks. To be included in the second schedule, a bank.

(a) must have paid up capital and reserves of not les than Rs. 5 lakh

(b) It must also satisfy the RBI that its affairs are not conducted in a manner detrimental to the interests of its depositors.

Scheduled banks are required to maintain a certain amount of reserves with the RBI; they, in return, enjoy the facility of financial accommodation and remittance facilities at concessional rates from RBI. The number of non-scheduled banks is very small. There are only four non-scheduled banks at present.

The scheduled commercial banks consist of public sector banks, private sector banks and foreign banks. The Public sector banks consist of SBI and its associated banks which are merged with State Bank of India on 1st April, 2017, Nationalised Banks including IDBI and Regional Rural Banks (RRBs). Private Sector Banks include payment banks and local area banks.

Q2. Examine The progress of commercial Banks in India since 1991. (Or) Analyze the development of Banking sector during the post reforms period in India.

Ans. The significant role of banking industry is essential to speed up the social economic development. To improve major areas of banking sector, Government of India, RBI and Ministry of Finance have made several notable efforts. Many of leading banks operating in market have made use of the changed rules and regulations such as CRR, interest rate and special offers to the customers such as to open account in zero balance. In addition to this, nowadays, banks have entered in non-banking products such as insurance in which area there are tremendous opportunities.

1. **No, of Banks :** At the end of June 2017, we had 148 banks including State Bank of India (SBI) and its associate banks. Of the 148, 144 were scheduled commercial banks including 56 Regional Rural Bank. There were 4 non-scheduled banks. The SBI, associate banks were merged with SBI on 1st April, 2017.

2. **Branch Expansion :** From a total of 8262 branches in 1969 there has been a steady increase in number of branches. As on June 2017, there were 1,39,240 branches of commercial banks in India. Of the total branches 35 percent were in rural areas.

3. **Deposit Mobilization :** As a result of extension of banking facilities, there was a large increase in deposits. There has also been an improvement in average deposits mobilized by a rural branch, which indicates the development of saving habit among the people and the spread of banking in the country.

4. **Bank Lending:** Bank credit increased substantially since 1991. Since nationalization, bank lending has undergone great change such as, establishing merchant banking divisions, countrywide lending facilities, setting up of special cells to serve industrial, agricultural and other small borrowers' requirement, provision of consumer credit, retail banking etc.
The lending schemes have been extended to small-scale industries and for the purpose of self employment. The contribution of bank lending to export sector has also increased.

5. **Advances to Priority Sector :** The main objective of nationalization was to divert an increasing share of bank credit to the priority and neglected sectors such as agriculture, small scale industries, road and water transport, self employed persons, retail trade and small business. The share of priority sector advances in total bank advances of public sector increased from 14% in 1969 to 37.7% in 1991. It increased to 39.3%

6. **Regional Rural Banks (RRBs) :** RRBs were created with the objective of combining the goods features of co-operatives and commercial banks to provide credit to the poorer sections of the rural population. They came into existence in the 1970s with the specific objective of providing credit and deposit facilities particularly to the small and marginal farmers agricultural laburers and artisans and small entrepreneurs.
With the introduction of financial sector reforms, a number of changes were brought about in the policy framework of RRBs. The number of RRBs declined from 196 in 2002-03 to 56 in 2017. In line with their role in furthering financial inclusion about 8.0 percent of their total advances was given to priority sector.

7. **Local Area Banks (LABs) :** Local Area Banks (LABs) are a small but a vital component of the banking system in India. The LABs scheme was introduced in 1996 with the objective to provide credit in rural and semi-urban areas.

8. Payment Banks : To widen the financial inclusion, the RBI has granted license for11 payment banks. They provide (i) small savings accounts and (ii) payments / remittance services to migrant labour workforce, low income households, small businesses, and other unorganized sector entities.

9. Overseas Operations of Indian Banks : Indian banks continued to expand their presence overseas. In 2016, 15 Indian banks operated through a network of 183 overseas offices. SBI has the largest overseas branch network and it is followed by Bank of Baroda. Among the private sector banks, ICICI has the largest overseas presence with 12 offices in 2016.

10. Financial Inclusion : Financial inclusion is directed to support the main objective **'Growth with Equity'** of the planning process. For the purpose, the financial inclusion aims at providing financial services at affordable cost to those who belong to weaker sections of the society.

Under the financial inclusion the following schemes are in operations.

(a) **Micro-Finance :** Self Help Group – Bank Linkage Programme.
(b) **Swabhiman Scheme :** The scheme is now extended to the north-eastern hilly states with population more than 1000 and population more than 1600 in plain areas.
(c) **Ultra Small Branches :** To ensure the availability of banking services to all villages ultra small branches have been established.
(d) **Direct Benefit Transfer :** The government has decided to introduce this scheme for transferring benefits of 26 scheme directly to the accounts of beneficiaries.
(e) **Kisan Credit Card Scheme :** For the benefits of farmers, this scheme was introduced in 1998-99 by the NABARD. Under this scheme, farmers can access credit from co-operative banks, commercial banks and regional rural banks.
(f) **Interest Subvention Scheme :** Interest subvention of 2 percent is provided on short-term crop loans upto Rs.3 lakh for a period of one year which is available to farmers at the interest rate of 7 percent.
(g) **The Pradhan Mantri Jan Dhan Yojana :** The Pradhan mantra Jan Dhan Yojana (PMJDY) was launched on 28 August, 2014 to improve financial inclusion. The yojana aims at universal access to banking facilities with at least one basic banking account for every household. The beneficiaries will receive a Debit Card having in-built accidental insurance cover of Rs.1 lakh. For those who opened their account for the first time a life insurance cover of Rs.30,000 was provided.

Q.3. Bring out the measures of operational technology introduced in Banking System is the recent years.

OR

What is the Progress of operational Technology Banking ?

Ans. The information Technology (IT) has changed the structure of Indian Banking. Computerisation in banking is taking place all over the world. This has enabled the banks to offer better quality services to customers. Technology will be key to reduce transaction cost, to offer customized products and to manage risks.

The banks in India have began using electronic and telecommunication networks for providing a wide range of value added products and services. The important new technologies that are being used by the banks are :

1. **Virtual Banking :** It denotes the rendering of banking and related services through extensive use of IT without direct physical recourse to the bank by the customer. The most important types of virtual banking services are Automated Teller Machines (ATMs), electronic fund transfer, phone banking, credit card, debit card, smart card, internet banking etc.

2. **ATMs :** ATMs are self service vendor machine that help the banks to provide round the clock banking services to their customers at convenient places without visiting to the bank premises. The ATM provide a number of services such as withdrawal of cash upto

a particular limit, deposit of cash, cheques and drafts, updated balanced of customer, transfer of money from one account to another accounts, mini account statement etc.

The ATMs are emerging as the most useful tool to ensure any time banking and anywhere banking or anytime money. By June 2017, there were 2,22,926 ATMs in operation. 70% of them belong to PSBs.

3. **Debit Card :** It is a prepaid card with some stored value. It allows 'any where anytime accesses' to the customers' saving or current account. It can be used at all outlets that accepts such cards for payments. In this case, the transaction amount is directly debited to the bank account of the customer. Debit card does not permit a customer to spend over and above his cash balance in the bank.

4. **Credit Card :** It is a convenient medium of exchange. It enables a customer to purchase goods and services within the prescribed limits from authorized outlets without making immediate cash payments. The main difference between a credit card and debit card is that while credit card is a 'post paid' one the latter is 'pre-paid'.

5. **Point of Sale (PoS) :** The PoS terminal is a machine that facilitates transactions through swipe of a card in an online environment. Merchant business establishments operate point of sale in their premises in order to accept plastic cards. |The PoS terminals facilitate electronic funds transfer. PoS system identifies the cardholder and check whether the customers' account has sufficient funds to cover the purchase.

6. **Door Step Banking :** This means banking services and products are made available to a customer at his place of residence or work. Under this system, there is no need for the customer to visit the branch for getting services or products from the bank.

7. **Internet Banking :** It is also called on-line banking where the traditional banking services are provided through the internet. Internet banking is a product of e-commerce in the field of banking and financial services. Internet banking enables customers to open accounts, pay bills, know account balances, forward loan application, view and print copies of cheques, transfer funds, stop payments, etc.

8. **Mobile banking :** It is an extension of internet banking. It allows account holders through their mobile pone to access banking services. It provides many services such as account balance, mobile alerts about credit card or debit card transactions, mini account statement etc. through SMS technology.

9. **Telebanking :** It is another form of electronic banking through which banking services or products are rendered through telephone to its customers. It is a 24 hour banking facility to the customer. It is based on the voice processing facility available on bank computers.

10. **Phone banking :** Under this service a customer can talk to a phone banking officer for transacting a banking business. The customer can do entire non-cash related banking services on telephone, anywhere at any time.

11. **Electronic Fund Transfer (EFT) :** It is an easy and speedy mechanism to facilitate the transfer of funds from one place to another. It enables the customers to transfer money instantly from one bank account to another one of the same or another customer, from one branch the other of the same bank or different bank not only within the country but also anywhere else in the world through electronic message.

(A) The RBI has introduced National Electronic Funds Transfer System (NEFT) in November 2005. It brings greater efficiency in the movement of funds and reduction in risks relating to the transfer of funds.

(B) **Real Time Gross Settlement (RTGS) :** RBI introduced RTGS system in order to enhance the efficiency of the cheque clearing system. It is an electronic based settlement of interbank and customer based transactions. The settlement is done in near real time (maximum of 2 to 4 hours) It was started in March 2004.

12. **Electronic Clearing Services (ECS) :** It is a non-paper based movement of funds. It consists of
    (i) Electronic Clearing Services (ECS) :
    (ii) Electronic Debit Clearing

    Electronic Credit Clearing service is a reliable device used for bulk and repetitive credit-push payments such as salary, pension, dividend, commission, IPO refunds, interest, etc.
    Electronic Debit Clearing Service is a reliable device used for bulk and repetitive credit-push payments such as salary, pension, dividend, commission, IPO refunds, interest, etc.
    Electronic Debit Clearing Service was introduced to facilitate the payment of credit-pull transactions such as payment of utility bills, insurance premium and repayment of loan instalments.

Q.4. Explain various issues and challenges faced by banking sector is India.

Ans. Banking sector in India is facing several issues / problems which have hampered their effective functioning. We discuss below some major issues and challenges faced by the banking sector.

(1) **Non-Performing Asset (NPA) :** A non-performing asset is one which ceases to generate income. According to RBI, a NPA is a credit facility in respect of which the interest and instalment of principal has remained unpaid or 'past due' for a specified period of time.

(2) **Capital Adequacy :** To protect the banks, specially depositors, it is necessary to set aside money as a provision against bad loans. For this purpose, banks are required to maintain a minimum Capital to Risk Assets Ratio (CRAR). Indian banks specially public sector banks do not have sufficient capital hence the government is required to inject capital from the tax payers money. Indian Banks are expected to maintain 10.5% CRAR.

(3) **Bank Fraud :** In Indian Banking sector there is an increasing number of fraudulent transactions. Banks are reluctant to report these cases. According to RBI almost all corporate loans related to fraud cases set seasoned for two to three years as NPAs before they are reported as fraud.

(4) **Declining profit :** Banks, the public sector banks in particular, are facing a problem of declining profit due to Non-performing Assets, Bank frauds, political pressure, high operating cost etc.

(5) **Political Pressure :** Business people / industrialist obtain loans through political influence, spend the money for reasons other than for which the loan is obtained, report their firms as sick units and take advantage of the concessions provided for such bad loans.

(6) **Cyber Threats :** As the digital transactions through internet and other technological means, cyber crime is becoming a greater threat. As RBI put it not only simple attacks using phishing, vishing and social engineering, but also increasingly audacious attacks by organized gangs have come to light.

(7) Corruption : Securing loan from the banks, specially from the public sector was never a clean and open process. Bribing staff from bottom to top is a normal affair as revealed in recent scams. So far no government has succeeded in eliminating corruption.

(8) Poor Service : Public sector banks services are poor, resulting in harassment of clients. The fact the employees are having permanent and secure jobs, make them confident about their job security and negligent in the attitude and approach.

(9) Priority Sector Lending : Banks have not yet met the target of priority sector lending. Within the priority sector, agriculture still remains neglected specially small and marginal farmers. Similar is the lot of tiny and cottage industry sector.

CHALLENGES

Banking sector in an economy is the most important as it is the important source of money and finance for all economic activities. Indian banking sector has made a good progress, particularly after the nationalization of 14 banks in 1969. Yet it faces many challenges in performing their role as a financial catalyst of the economy.

1. **To clean up banks from corruption and fraud :** Banks specially public sectors are the victims of corruption and fraud. Measures are required to be implemented to prevent such maladies in the banking sector.

2. **Eliminate political pressure :** All public sector undertaking – banks and non-banks are not free from this problem. Political pressure leads to appointment to excess labour force, often inefficient ones, unwarranted expenditure resulting in loss.

3. **Financial Inclusion :** Measures introduced in recent years, linking bank accounts for receiving economic benefits for the poor has widened the financial inclusion. Still a large number of socially and economically poor are yet to be included under these schemes. Schemes like micro-finance and other schemes must be extended to the people who are left out of financial inclusion schemes.

4. **To promote Digital Banking :** It is required to educate the public who are not familiar with the new banking technology and in using these methods, so that banks function with less cash and carry out their transactions with the help of new technology.

5. **Improve Efficiency :** Public sector banks are known for poor customers service and functioning below optimum capacity. Measures are to be worked out to overcome the above problem. Measures may include greater autonomy, competition between the banks, linking salary to performance, negative incentives for under performance and so on.

6. **Positive Approach :** Banks are not keen to help the poor and less educated to go through formalities and obtain loans. Poor people find the banks beyond their reach. Banks should train their staff to develop customer friendly approach.

7. **Recovery of Loans :** With the increasing NPAs, banks are facing its big challenge of loan recovery. The recovery rate is less than 10 percent as against more then 90 percent in Japan and some other advanced countries.

Banking sector, particularly, the PSBs are in a problem, with its increasing NPAs, corruptions and financial scams. There are many banks reporting losses since last year. Measures are to be devised to get rid off these problems and make these banks function efficiently, strictly as per banking norms.

Insurance Industry

Q.1. Explain the recent trends / Growth of Insurance Industry in India.

Ans. Insurance may be considered as a social device to reduce or eliminate risk of loss of life and property. In India, Insurance is generally considered as a tax-saving device instead of its other implied long term financial benefits. With the entry of private sector players backed by foreign expertise, Indian insurance market has become more vibrant.

It encourages the savings habit, provides a safety net to rural and urban enterprises and productive individuals and generates long-term funds for infrastructure development. The insurance industry plays an important role in India's economy.

Till end of 1999 insurance , both life and general insurance, was the monopoly of the Government. Two state run insurance companies, namely, Life Insurance Corporation (LIC) and General Insurance Corporation (GIC) were the providers of insurance in India. Under GIC there were four subsidiaries.

1. **Opening up of Insurance Sector :** Insurance sector has been opened up for competition from Indian private insurance companies with the enactment of Insurance Regulatory and Development Authority Act 1999 (IRDA Act). As per the previsions of IRDS Act, 1999, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000. It's role is to protect th interests of holders of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry.
2. **Restructuring of GIC :** In December 2000, the GIC subsidiaries were restructured as independent insurance companies. At the same time, GIC was converted into a national re-insurer. In July 2002, Parliament passed a bill, delinking the four subsidiaries from GIC.
3. **FDI in Insurance :** The foreign companies are allowed to enter the insurance industry with some limit on direct foreign ownership. Foreign investment is allowed only upto 26% holdings in the Indian insurance companies. The FDI in insurance sector was raised to 49% in 2015.
4. **New Entrants in the Insurance Sector :** Since the opening up of the insurance sector, the number of participants in the sector has gone up from 7 insurers in the year 2000 to 57 insurers in 2017 operating in the life, none-life and reinsurance segments . Four of the general insurance companies, namely Star Health and Alliance Insurance Company, Apollo Munich Health Insurance company. Max Bupa Health Insurance Company Ltd. and Religare Health Insurance company function as standalone health insurance companies.
5. **Growth of Life Insurance :** The post liberalization period has witnessed tremendous growth in the insurance industry, more particularly in the life segment. The first year premium, which is a measure of new business secured, underwritten by the life insurers has made substantial progress.
6. **Growth of Non-**Life Insurance : The non-life insurance segment is also growing since the introduction of liberalization. The total amount of premium underwritten within India by non-life insurers (excluding specialized institutions like ECGC and ACC) has risen rapidly. Two of the fastest growing segments are motor vehicles and health.
7. **Insurance Penetration and Density :** Insurance penetration and insurance density are not important indicators of the potential and performance of the insurance sector. Insurance penetration is defined as the ratio of premium underwritten in a given year to the GDP. Insurance density is defined as the ratio of premium underwritten in a given year to the total population.
8. **Consumer Grievance Redressal Cell :** The Consumer Grievance Redressal Cell of the IRDA looks into complaints from policy holders. Complaints against life and non-life

9. insurers are handled separately. This cell plays a facilitative role by taking up complaints with the respective insurers.
10. **New Initiatives taken in the Insurance Sector :** The insurance authority has taken the following important initiatives :
    - **(a) Micro Insurance :** IRDA has issued micro insurance regulations to propagate micro insurance. Micro insurance is insurance with low premium and low coverage limits designed to service low income people. Fourteen Life Insurance companies have so far launched 28 micro insurance products both in the individual and group segments.
    - **(b) Corporate Governance Guidelines for Insurance Companies :** The objective of the guidelines is to ensure that the structure, responsibilities and functions of the Board of Directors and senior management of the company fully recognize the expectations of all stakeholders as well as those of the regulator.
    - **(c) Guidelines on Credit Insurance :** New guidelines on trade credit insurance have been issued by the IRDA in December 2010. It aims to standardize the features of these products.

Q.2. Explain the objectives and functions of Insurance Regulatory and Development Authority (IRDA)

Ans. IRDA was set up in 1996. It was initially known as the Insurance Regulatory Authority. It was subsequently renamed as IRDS. The IRDS was formally constituted as an autonomous body in April 2000 to regulate and develop the business of insurance and reinsurance in India.

<u>Objectives / Role of IRDA</u>

The important role of IRDA is to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry. Thus, the IRDS has twofold objectives:

(i) Policy holders protection and

(ii) Healthy growth of the insurance industry

The detailed objectives of IRDA are the following :

1. To protect the interest of policy holders.
2. To bring about speedy and orderly growth of the insurance industry for the benefit of the common man and to provide long-term funds for accelerating economic growth.
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.
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.
7. To being about optimum amount of self-regulation in day-to-day working of the industry, consistent with the requirements of prudential regulation.

Duties and Functions of IRDA

The important duties and functions of IRDS have been explained as follows.

1. Issuing to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration.

2. Protection of the interests of the policy holders concerning assigning of policy, nomination, 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 insurance intermediaries and agents.
4. Specify 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 re0insurance business.
7. Calling for information from, undertaking inspection of, conducting inquiries and investigations, including audit of the insurers, intermediaries and other organizations connected with insurance business.
8. Regulating investment of funds by insurance companies.
9. Adjudicating of disputes between insurers and insurance intermediaries.
10. Supervising the functioning of the Tariff Advisory committee.
11. Specifying the form and manner in which books of account shall be maintained and statement of account shall be rendered by insurers and other insurance intermediaries.

Protection of the Policy Holders' Interest.

IRDA has the responsibility of protecting the interests of insurance policy holders. To achieve the above objective IRDS has taken the following steps :

1. IRDS has notified Protection of Policy holders Interest Regulations 2001 to provide for :
   (i) Policy proposal document in easily understandable language,
   (ii) Claims procedure for both life and non-life,
   (iii) Setting up of grievance of claims and
   (iv) Speedy settlement of claims and
   (v) Policy holders' servicing.
2. The Regulation also provides for payment of interest by insurers for the delay in settlement of claim.
3. The insurers are required to maintain solvency margins so that they are in a position to meet their obligations towards policy holders regarding payment of claims.
4. It is obligatory on the part of the insurance companies to disclose clearly the benefits, terms and conditions under the policy. The advertisements issued by the insurers should not mislead the insuring public.
5. All insurers are required to set up proper grievance redress machinery in their head office and at their other offices.
6. The IRDA takes up with the insurers any complain received from the policy holders in connection with services provided by them under the insurance contract.
7. An Ombudsman is entrusted with two functions, namely, conciliation and award making. The awards passed by an Ombudsman are binding on insurers and they are required to honour the awards within three months.

Q.3. Discuss the issues and challenges of Insurance sector in India.

Ans. Insurance industry, in recent years, has made good progress but at the same time it has many issues to attend to and challenges to face.

We discuss below some of the issues and challenges faced by the insurance sector.

1. **Customer's Satisfaction :** Customers (policy holders) are unhappy with insurance companies for creating many hurdles in settling their claims. Demanding additional and unnecessary documents, delay in settling claims, not sanctioning the eligible compensation and so on. Several judgements by the consumer courts in favour of policy holders are the indicators to this effect.
2. **Poor Coverage :** The insurance penetration and insurance density are improving but not yet sufficient. Most of the poor are left out.
3. **Health Insurance :** Health insurance is not popular enough, mainly because the poor cannot pay the premium amount. New affordable products are to be found out for his section of the population.
4. **Use of Technology :** For operational efficiency the insurance companies must use the new technology for administration. Problem of unemployment or retrenchment, however, is faced mainly by public sector companies because of modern technology.
5. **Managing Risk :** Risk of heavy liability specially of non-life insurance companies is a serious issue. Companies are required to guard themselves against such risk through re-insurance. They also require to develop new ways and means of covering risk.
6. **Administrative Efficiency :** Being a labour intensive sector, will recently, labour unions were strong and had several demands. Operational cost is always on the increase. In public sector companies it is necessary to make the employees to work effectively and efficiently in order to render prompt services to the customers.

Challenges

Insurance sector is no more a monopoly of government. As pointed out earlier many more domestic and foreign direct investment (FDI) supported companies are operating in India. As a result insurance sector faces some important challenges as stated below.

1. **Competition :** As the private sector is allowed to enter in this sector there is competition among the companies. The competitive market may benefit policy holder but may not be for the advantage of the insurance companies.
2. **Fund Management :** Companies invest the premium amount collected in various segments of investment markets such as government securities and bonds, corporate bonds, equities, etc. They require an expert team for the efficient management of the investable fund in order to earn sufficient income.
3. **Cost escalation :** Besides the regular staff, insurance companies require agents for selling their products. Commission and additional incentives increase their operational cost .
4. **Premium Rate :** more insurance companies in the market lead to competition resulting in lowering premium to attract customers. Insurance companies therefore require to price their product at a competitive rate.
5. **Covering Agricultural Sector :** Crop and other related insurance in agriculture has not attracted many insurance companies, specially the private sector. However this is a challenge. Insurance sector should accept and increase its participation.
6. **Use of Technology :** Besides the administration, the use of new technology, mainly electronic technology must be made familiar with customers too. Digital operation must be applied to the entire system. It requires educating the policy holders in the use of new technology.
7. **Safeguarding Customers Interests**: There is no problem of safety with the public sector companies. The private sector, however, requires to assure the customers about their premium paid and the benefit to be accrued.

Conclusion

After the introduction of reforms, competition has increased in the insurance sector. The entry of private sector players has brought about changes in the insurance market in India.

Indian insurance is becoming a flourishing industry with several national and international players competing and growing at rapid rates.

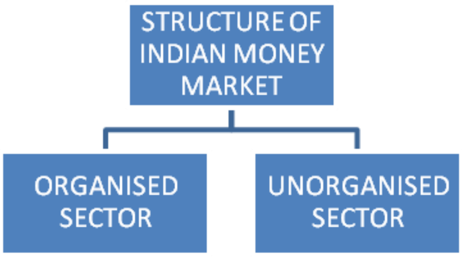
INDIAN MONEY MARKET

Q.1 Discuss the structure (OR) components of Indian money market.

Meaning

The Money Market is a market for lending and borrowing of short-term funds. It deals in funds and financial instruments having a maturity period of one day to one year. It covers money and financial assets that are close substitutes for money. The instruments in the money market are of short term nature and highly liquid.

The Indian money market consists of two segments, namely organized sector and unorganized sector. The RBI is the most important constituents of Indian money market. The organized sector is within the direct purview of RBI regulation. The unorganized sector comprises of indigenous bankers, money lenders and unregulated non-banking financial institutions.
The structure or components of Indian money market is depicted in the chart 5.1.



- Call and Notice Money Market
- Treasury Bills Market
- Commercial Bills Market
- Market for Certificates of Deposits (CDs)
- Market for Commercial Papers (CPs)
- Repos Market
- Money Market Mutual Funds (MMMFs)
- Discount & Finance House of India (DFHI)

- Indigenous Bankers
- Money Lenders
- Unregulated Non-Bank Financia
- Intermediaries (Chit Funds, Nidhis and Loan Companies)
- Finance Brokers

(A) Organized Money Market Instruments and Features

1. **Call and Notice Money Market:** Under call money market, funds are transacted on overnight basis. Under notice money market funds are transacted for the period between 2 days and 14 days. The funds lent in the notice money market do not have a specified repayment date when the deal is made. The lender issues a notice to the borrower 2-3 days before the funds are to be paid. On receipt of this notice, the borrower will have to repay the funds within the given time. Generally, banks rely on the call money market where they raise funds for a single day.
The main participants in the call money market are commercial banks (excluding RRBs), co-operative banks and primary dealers. Discount and Finance House of India (DFHI), Non-banking financial institutions such as LIC, GIC, UTI, NABARD etc. are allowed to participate in the call money market as lenders.

2. **Treasury Bills (T-Bills):** Treasury bills are short-term securities issued by RBI on behalf of Government of India. They are the main instruments of short term borrowing by the Government. They are useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely – 91 days, 182-day and 364-day treasury bills. There are no treasury bills issued by state governments. With the introduction of the auction system, interest rates on all types of TBs are being determined by the market forces.

3. **Commercial Bills:** Commercial bill is a short-term, negotiable, and self-liquidating instrument with low risk. They are negotiable instruments drawn by a seller on the buyer for the value of goods delivered by him. Such bills are called trade bills. When trade bills are accepted by commercial banks, they are called commercial bills. If the seller gives some time for payment, the bill is payable at future date (i.e. usance bill). Generally the maturity period is upto 90 days. During the usance period, if the seller is in need of funds, he may approach his bank for discounting the bill. Commercial banks can provide credit to customers by discounting commercial bills. The banks can rediscount the commercial bills any number of times during the usance period of bill and get money.

4. **Certificates of Deposits (CDs):** CDs are unsecured, negotiable promissory notes issued at a discount to the face value. They are issued by commercial banks and development financial institutions. CDs are marketable receipts of funds deposited in a bank for a fixed period at a specified rate of interest.
   CDs were introduced in India in June 1989. The main purpose of the scheme was to enable commercial banks to raise funds from the market through CDs. According to the original scheme, CDs were issued in multiples of Rs.25 lakh subject to minimum size of an issue being Rs.1 crore. They had the maturity period of 3 months to one year. They are freely transferable but only after the lock in period of 45 days after the date of issue.

5. **Commercial Papers (CPs):** Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note with fixed maturity. They indicate the short-term obligation of an issuer. They are quite safe and highly liquid. They are generally issued by the leading, nationally reputed, highly rates and credit worthy large manufacturing and finance companies is the public as well as private sector. CPs were introduced in India January 1990. CPs were launched in India with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and also to provide an additional instrument to investors. RBI has modified its original scheme in order to widen the market for CPs.
   Corporates and primary dealers (PDs) and the all India financial institutions can issue CPs. A corporate can issue CPs provided they fulfill the following conditions:

(a) The tangible net worth of the company is not less than Rs.4 crore.
(b) The company has been sanctioned working capital limit by banks or all India financial institutions, and
(c) The borrowed account of the company is classified as a standard asset by the financing institution or bank.

6. **Repos:** A **repo** or **reverse repo** is a transaction in which two parties agree to sell and repurchase the same security. Under repo, the seller gets immediate funds by selling specified securities with an agreement to repurchase the same at a mutually decided future date and price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller at an agreed date and price. The repos in government securities were first introduced in India since December 1992. Since November 1996, RBI has introduced "Reverse Repos", i.e. to sell government securities through auction.

7. **Discount and Finance House of India (DFHI):** It was set up by RBI in April 1988 with the objective of deepening and activating money market. It is jointly owned by RBI, public sector banks and all India financial institutions which have contributed to its paid up capital.
   The DFHI deals in treasury bills, commercial bills, CDs, CPs, short-term deposits, call money market and government securities. The presence of DFHI as an intermediary in the money market has helped the corporate entities, banks, and financial institutions to invest their short-term surpluses in money market instruments.

8. **Money Market Mutual Funds (MMMFs):** RBI introduced MMMFs in April 1992 to enable small investors to participate in the money market. MMMFs mobilizes savings from small investors and invest them in short-term debt instruments or money market instruments such as call money, repos, treasury bills, CDs and CPs. These instruments are forms of debt that mature in less than a year.

(B) UNORGANIZED SECTOR OF INDIAN MONEY MARKET

The unorganized Indian money market is largely made up of indigenous bankers, money lenders and unregulated non-bank financial intermediaries. They do operate in urban centers but their activities are largely confined to the rural sector. This market is unorganized because it's activities are not systematically coordinated by the RBI.

The main components of unorganized money market are:

1. **Indigenous Bankers:** They are financial intermediaries which operate as banks, receive deposits and give loans and deals in hundies. The hundi is a short term credit instrument. It is the indigenous bill of exchange. The rate of interest differs from one market to another and from one bank to another. They do not depend on deposits entirely, they may use their own funds.
2. **Money Lenders:** They are those whose primary business is money lending. Money lenders predominate in villages. However, they are also found in urban areas. Interest rates are generally

high. Large amount of loans are given for unproductive purposes. The borrowers are generally agricultural labourers, marginal and small farmers, artisans, factory workers, small traders, etc.

3. **Unregulated non-bank Financial Intermediaries:** Theconsist of Chit Funds, Nithis, Loan companies and others.

(a) **Chit Funds:** They are saving institutions. The members make regular contribution to the fund. The collected funds is given to some member based on previously agreed criterion (by bids or by draws). Chit Fund is more famous in Kerala and Tamilnadu.

(b) **Nidhis:** They deal with members and act as mutual benefit funds. The deposits from the members are the major source of funds and they make loans to members at reasonable rate of interest for the purposes like house construction or repairs. They are highly localized and peculiar to South India. Both chit funds and Nidhis are unregulated.

4. **Finance Brokers:** They are found in all major urban markets specially in cloth markets, grain markets and commodity markets. They are middlemen between lenders and borrowers.

Q.2 What are the features of Indian Money Market? OR
Examine the defects of Money Market in India.

Several steps were taken in the 1980s and 1990s to reform and develop the Indian money market. Despite these efforts, Indian money market continues to remain lopsided, thin and extremely volatile. Indian money market is relatively underdeveloped when compared to advanced markets like London and New York money markets. Its main defects are explained below:

1. **Existence of Unorganized Money Market:**This is one of the major defects of Indian money market. It does not distinguish between short term and long term finance, and also between the purposes of finance. Since it is outside the control and supervision of RBI, it limits the RBI's control of over money market.

2. **Lack of Integration:**The Indian money market is broadly divided into two sectors, the organized money market and the unorganized market. The organized market constitutes several institutions such as RBI, State Bank of India, commercial banks, cooperative banks and financial institutions. RBI as an apex body regulates their working. The unregulated sector is not homogenous in itself. It constitutes indigenous bankers, loan companies, money lenders, etc. There is no uniformity in their practices and there is multiplicity of functionaries.

3. **Multiplicity in Interest Rates:** There exists too many rates of interest in the Indian money market such as the borrowing rate of government, deposits and lending rates of cooperative and commercial banks, lending rates of financial institutions, etc. This is due to lack of mobility of funds from one section of the money market to another. The rates differ for funds of same durations lent by different institutions.

4. **Inadequate Funds:** Generally there is shortage of funds in Indian money market on account of various factors like inadequate banking facilities, low savings, lack of banking habits, existence of parallel economy, etc. However, the banking development particularly branch expansion, has improved the mobilization of funds to some extent in the recent years.

5. **Seasonal Stringency of Money:** The seasonal stringency of money and high rate of interest during the busy season (November to June) is a striking feature of Indian money market. There are wide fluctuations in the interest rates from one season to another. RBI has been taking various measures to avoid such fluctuations in the money market by adding money into the money market during the busy season and withdrawing the funds during the slack season.

6. **Absence of Bill Market:** A well organized bill market is necessary for linking up various credit agencies effectively to RBI. The bill market is not yet developed on account of many factors such as the practice of banks keeping a large amount of cash for liquidity purposes, preference for borrowing rather than discounting bills, dependence of indigenous bankers on one another, widespread practice of using cash credit, high stamp duty on usance bill, etc.

7. **Inadequate Credit Instruments:**The Indian money market did not have adequate short term paper instruments till 1985-86. There were only call money and bill markets. Moreover there were no specialist dealers and brokers dealing in the money market. After 1985-86, RBI has introduced new

credit instruments such as 182-day treasury bills, 364-day treasury bills, CDs and CPs. These instruments are still in underdeveloped state in India.

The above defects of Indian money market clearly indicate that it is relatively less developed and has yet to acquire sufficient depth and width. Thus, it cannot be compared with developed money markets such as London and New York money markets.

Q.3 Explain briefly about the reforms undertaken in Indian money market.

The Committee to Review the Working of Monetary System chaired by S. Chakravarty made several recommendations in 1985 to develop Indian money market. As a follow-up, the RBI set up a Working Group on money market under the chairmanship of N. Vaghul, in 1987. Based on the recommendations of Vaghul Committee, RBI initiated a number of measures to widen and deepen the money market. The main measures are as follows.

1. **Deregulation of Interest Rates:** From May 1989, the ceiling on interest rates on the call money, inter-bank short-term deposits, bills rediscounting and inter-bank participation was removed and the rates were permitted to be determined by the market forces. Thus, the system of administered interest rates is being gradually dismantled.

2. **Introduction of New Money Market Instruments:**In order to widen and diversify the Indian money market RBI has introduced many new money market instruments such as 182-days treasury bills, 364-day treasury bills, CDs & CPs. Through these instruments the government, commercial banks, financial institutions and corporate can raise funds through the money market. They also provide investors additional instruments for investments. In order to expand the investor base for CDs and CPs the minimum amount of investment and the minimum maturity periods are reduced by RBI.

3. **Repurchase Agreements (Repos):** RBI introduced repos in government securities in December 1992 and reverse repos in November 1996. Repos and reverse repos help to even out short-term fluctuations in liquidity in the money market. They also provide a short-term avenue to banks to park their surplus funds. Through changes in repo and reverse repo rates RBI transmits policy objectives to entire money market.
4. **Liquidity Adjustment Facility (LAF):** RBI has introduced LAF from June 2000 as an important tool for adjusting liquidity through repos and reverse repos. Thus, in the recent years RBI is using repos and reverse repos as a policy to adjust liquidity in the money market and therefore, to stabilize the short-term interest rates or call rates. LAF has, therefore, emerged as a major instrument of monetary policy.

5. **Money Market Mutual Funds (MMMF):**RBI introduced MMMFs in April 1992 to enable the individual investors to participate in money market. To make the scheme flexible and attractive, RBI has brought about many modifications. The important features of this scheme as of now are:

(i) It can be set up by commercial banks, financial institutions and private sector.
(ii) Individual investors, corporates and others can invest in MMMFs.
(iii) Resources mobilized through this scheme can be invested in money market instruments as well as rated corporate bonds and debentures with a maturity period upto one year.
(iv) The minimum lock in period is now 15 days.

6. **Discount and Finance House of India (DFHI):** In order to impart liquidity to money market instruments and help the development of secondary market in such instruments, DFHI was set up in 1988 jointly by RBI, public sector banks and financial institutions.

7. **Development of Inter-bank Call and Notice Money Market:** The call and notice money market is an inter-bank market the world over and therefore the Narsimham Committee has recommended that we adopt the same in India. However RBI in the past had given permission to non-bank institutions to participate in the call money market as lenders. As per the recommendations of Narsimham Committee RBI in 2001-02 has underlined the need for transforming the call money market into a pure inter-bank money market.

8. **Regulation of NBFCs:** The RBI Act was amended in 1997 to provide for a comprehensive regulation of NBFC sector. According to the amendment, no NFBC can carry on any business of a financial institution, including acceptance of public deposit, without obtaining a Certificate of Registration (CoR) from RBI.

9. **The Clearing Corporation of India Limited (CCIL):** The CCIL was registered on April 30, 2001 under the Companies Act, 1956, with the State Bank of India as the chief promoter. The CCIL clears

all transactions in government securities and repos reported on the Negotiated Dealing System (NDS) of RBI.

CAPITAL MARKET IN INDIA

Capital market is the market for medium and long term funds. It refers to all the facilities and the institutional arrangements for borrowing and lending term funds (medium-term and long-term funds). The demand for long-term funds comes mainly from industry, trade, agriculture and government. The central and state governments invest not only on economic overheads such as transport, irrigation, and power supply but also an basic and consumer goods industries and hence require large sums from capital market. The supply of funds comes largely from individual savers, corporate savings, banks, insurance companies, specialized financial institutions and government.

Q.1 Explain the role (OR) Significance of Capital Market in economic development.

Capital market has a crucial significance to capital formation. Adequate capital formation is indispensable for a speedy economic development. The main function of capital market is the collection of savings and their distribution for industrial development. This stimulates capital formation and hence, accelerates the process of economic development.

A sound and efficient capital market facilitates the process of capital formation and thus contributes to economic development. The significance of capital market in economic development is explained below.

1. **Mobilisation of Savings:** Capital market is an organized institutional network of financial organizations, which not only mobilizes savings through various instruments but also channelizes them into productive avenues. By making available various types of financial assets, the capital market encourages savings. By providing liquidity to these financial assets through the secondary markets capital market is able to mobilize large amount of savings from various sections of the people such as individuals, families, and associations. Thus, capital market mobilizes these savings and make the same available for meeting the large capital needs of industry, trade and business.

2. **Channelization of Funds into Investments:** Capital market plays a crucial role in the economic development by channelizing funds in accordance with development priorities. The financial intermediaries in the capital market are better placed than individuals to channel the funds into investments which are more favourable for economic development.

3. **Industrial Development:** Capital market contributes to industrial development in the following ways:

(a) It provides adequate, cheap and diversified finance to the industrial sector for various purposes.
(b) It provides funds for diversified purposes such as for expansion, modernization, upgradation of technology, establishment of new units etc.
(c) It provides a variety of services to entrepreneurs such as provision of underwriting facilities, participating in equity capital, credit rating, consultancy services, etc. This helps to stimulate industrial entrepreneurship.

4. **Modernization and Rehabilitation of Industries:** Capital market can contribute towards modernization, rationalization and rehabilitation of industries. For example, the setting up of development financial institutions in India such as IFCI, ICICI, IDBI and so on has helped the existing industries in the country to adopt modernization and replacement of obsolete machinery by providing adequate finance.

5. **Technical Assistance:** An important bottleneck faced by entrepreneurs in developing countries is technical assistance. By offering advisory services relating to the preparation of feasibility reports, identifying growth potential and training entrepreneurs in project management, the financial intermediaries in the capital market play an important role in stimulating industrial entrepreneurship. This helps to stimulate industrial investment and thus promotes economic development.

6. **Encourage Investors to invest in Industrial Securities:** Secondary market in securities encourage investors to invest in industrial securities by making them liquid. It provides facilities for continuous, regular and ready buying and selling of securities. Thus, industries are able to raise substantial amount of funds from various segments of the economy.

7. **Reliable Guide to Performance:** The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency. It values companies accurately and toes up manager compensation to stock values. This gives incentives to managers to maximize the value of companies. This stimulates efficient resource allocation and growth.

Q.2 What is capital market? Explain the structure (OR) composition of capital market in India.

In the financial market all those institutions and organizations which provide medium term and long-term funds to business enterprises and public authorities, constitute the capital market. In simple words, the market which lends long-term funds is called the capital market.

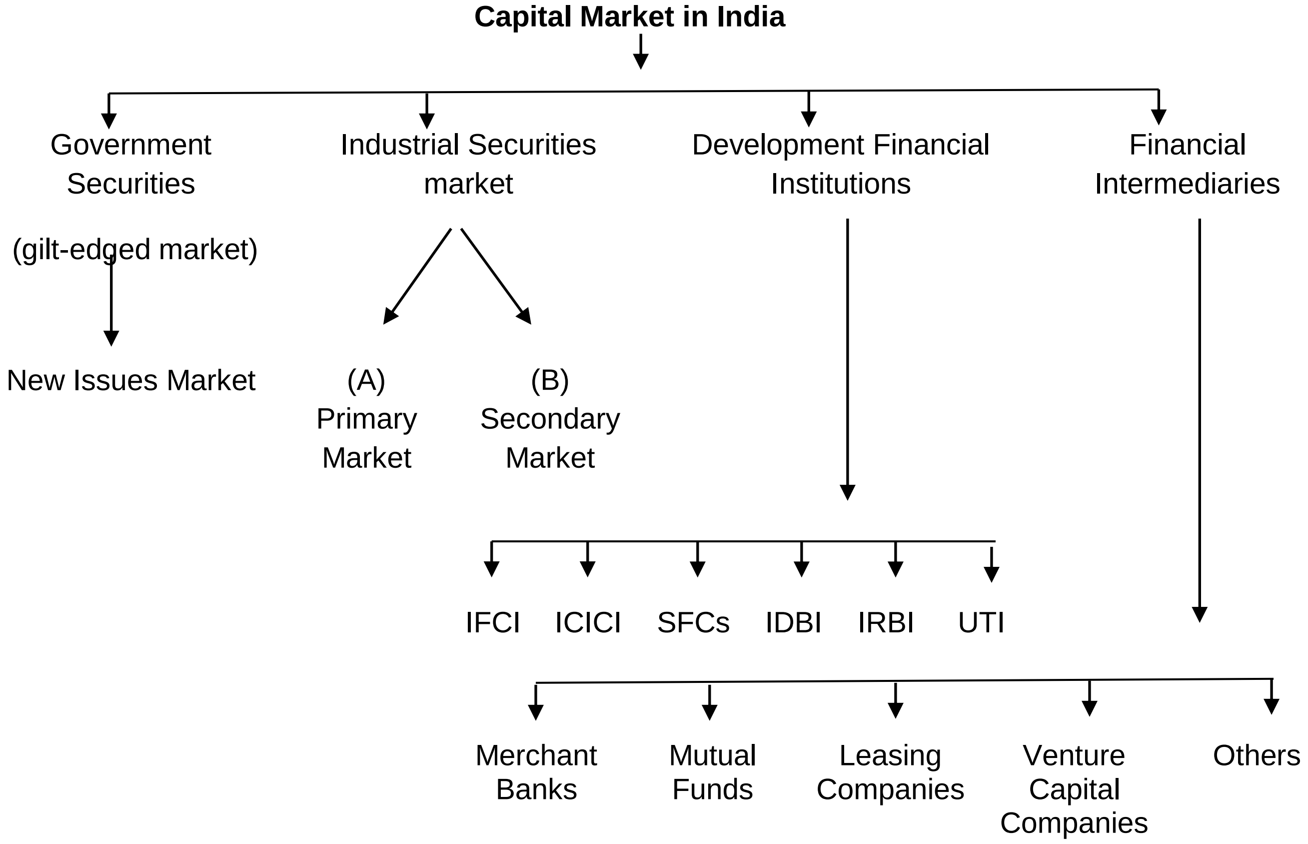
The capital market is composed of those who demand funds and those who supply funds. Thus, the borrowers and lenders in the financial market for medium-term and long-term funds constitute the capital market.

The Indian Capital Market is broadly divided into two categories:

1) The securities market consisting of
(a) The gilt-edged market and (b) The industrial securities market; and
2) The financial institutions (Development Financial Institutions) (DFIs). Thus, the Indian capital market is composed of
(a) The gilt-edged market or the market for government securities and industrial securities or corporate securities market.

(b) Capital market includes Development Financial Institutions (DFIs) such as IFCI, SFC, LIC, IDBI, UTI, ICICI, etc. They provide medium-term and long-term funds for business enterprises and public authorities.
(c) Apart from the above, there are financial intermediaries in the capital market such as merchant bankers, mutual funds, leasing companies, venture capital companies etc. They help in mobilizing savings and supplying funds to investors.

Capital Market in India



(1) Gilt- Edged Market:

Gilt-edged market is also known as the government securities market. As the securities are risk free, they are known as gilt-edged i.e. the best quality securities.

The investors in the gilt-edged market are predominantly institutions. They are required by law to invest a certain portion of their funds in these securities. These institutions include commercial banks, LIC, GIC, and the provident funds.

The transactions in the government securities market are very large. Each transaction may run into several crores or even hundred crores of rupees. Since June 1992, government securities have been mostly issued sealed bid auctions.
RBI plays a dominant role in the gilt-edged market through its open market operations.
Thus, government securities are the most liquid debt instruments.

(2) The Industrial Securities Market:
It is a market in which companies go for issue of equity shares, debentures and bonds which can be bought and sold freely. The Industrial securities market is divided into two categories as explained below.

(A) Primary Market:
The new issue market is concerned with the raising of new capital in the form of shares, bonds and debentures. Many public limited companies often raise capital through the primary market for expanding their business. In this market all financial transactions take place between the issuing authority ie; companies and investors. It may be noted that the new issue market is important because of its impact on economic growth of the country.

(B) Secondary Market:
The stock exchange market or the secondary market is a market of the purchase and sale of quoted or listed securities. It is a highly organized market for regulating and controlling business in buying, selling and dealing in securities.

(3) Financial Institutions:
We have mentioned that there are special financial institutions which provided long-term capital to the private sector in the capital market. These institutions are called Development Financial Institutions.

(4) Financial Intermediaries:
The Indian capital market has shown steady improvement after 1951. During the Five-Year Plans, Capital market has witnessed rapid growth. Both the volume of saving and investment have shown phenomenal improvement. In fact, in the last two decades, the volume of capital market transactions has increased substantially. Besides, its functioning has been diversified indicating the growth of the Indian economy.

Q.3 Examine the capital market reforms introduced in India.

During 1991 there was a very big financial crisis in Indian economy. In view of this the government initiated various economic reforms. As a part of these number of measures have been taken in Indian capital market especially since 1991 to develop primary market and secondary market in India. The reforms in the capital market are explained below with respect to primary and capital markets in India.

1. **Abolition of Controller of Capital Issues:** The Capital Issues (Control) Act, 1947 governed capital issues in India. The capital issues control was administered by the Controller of Capital Issues (CCI). The Narasimham Committee (1991) had recommended the abolition of CCI and wanted SEBI to protect investors and take over the regulatory function of CCI. Thus, government replaced the Capital Issues (Control) Act and abolished the post of CCI. Companies are allowed to approach the capital market without prior government permission subject to getting their offer documents cleared by SEBI.

2. **Securities and Exchange Board of India (SEBI):** SEBI was set up as a non-statutory body in 1988 and was made a statutory body in January 1992. SEBI has introduced various guidelines for capital issues in the primary market. They are explained below.

3. **Disclosure Standards:**Companies are required to disclose all material facts and specific risk factors associated with their projects. SEBI has also introduced a code of advertisement for public issues for ensuring fair and truthful disclosures.

4. **Freedom of Determine the Par Value of Shares:**The requirement to issue shares at a par value of Rs.10 and Rs.100 was withdrawn. SEBI has allowed the companies to determine the par value of shares issued by them. SEBI has allowed issues of IPOs through "book building" process.

5. **Underwriting Optional:** To reduce the cost of issue, underwriting by the issuer is made optional. It is subject to the condition that if an issue was not underwritten and was not able to collect 90% of the amount offered to the public, the entire amount collected would be refunded to the investors.

6. **FIIs Permitted to Operate in the Indian Market:** Foreign institutional investors such as mutual funds and pension funds are allowed to invest in equity shares as well as in debt market, including dated government securities and treasury bills.

7. **Accessing Global Funds Market:**Indian companies are allowed to aces global finance market and benefit from the lower cost of funds. They have been permitted to raise resources through issue of American Depository Receipts (ADRs), Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs) and External Commercial Borrowings (ECBs). Indian companies can list their securities on foreign stock exchanges through ADR./GDR issues.

8. **Intermediaries under the Purview of SEBI:**Merchant bankers, and other intermediaries such as mutual funds including UTI, portfolio managers, registrars to an issue, share transfer agents, underwriters, debenture trustees, bankers to an issue, custodian of securities, and venture capital funds have been brought under the purview of SEBI.

9. **Credit Rating Agencies:** Various credit rating agencies such as Credit Rating Information Services of India Ltd. (CRISIL – 1988), Investment Information and Credit Rating Agency of India Ltd. (ICRA – 1991). Cost Analysis and Research Ltd. (CARE – 1993) and so on were set up to meet the emerging needs of capital market.

SECONDARY MARKET REFORMS

A number of measures have been taken by the government and SEBI for the growth of secondary capital market in India. The important reforms or measures are explained below.

1. **Setting up of National Stock Exchange (NSE):** NSE was set up in November 1992 and started its operations in 1994. It is sponsored by the IDBI and co-sponsored by other development finance institutions, LIC, GIC, Commercial banks and other financial institutions.

2. **Over the Counter Exchange of India (OTCEI):** It was set in 1992. It was promoted by a consortium of leading financial institutions of India including UTI, ICICI, IDBI, IFCI, LIC and others. It is an electronic national stock exchange listing an entirely new set of companies which will not be listed on other stock exchanges.

3. **Disclosure and Investor Protection (DIP) Guidelines for New Issues:** In order to remove inadequacies and systematic deficiencies, to protect the interests of investors and for the orderly growth and development of the securities market, the SEBI has put in place DIP guidelines to govern the new issue activities. Companies issuing capital in the primary market are now required to disclose all material facts and specify risk factors with their projects.

4. **Screen Based Trading:** The Indian stock exchanges were modernized in the 90s, with Computerised Screen Based Trading System (SBTS). It electronically matches orders on a strict price / time priority. It cuts down time, cost, risk of error and fraud, and therefore leads to improved operational efficiency.

5. **Depository System:**A major reform in the Indian Stock Market has been the introduction of depository system and scripless trading mechanism since 1996. Before this, the trading system was based on physical transfer of securities. A depository is an organization which holds the securities of shareholders in electronic form, transfers securities between account holders, facilitates transfer of ownership without handling securities and facilitates their safekeeping.

6. **Rolling Settlement:** Rolling settlement is an important measure to enhance the efficiency and integrity of the securities market. Under rolling settlement all trades executed on a trading day are settled after certain days.

7. **The National Securities Clearing Corporation Ltd. (NSCL):** The NSCL was set up in 1996. It has started guaranteeing all trades in NSE since July 1996. The NSCL is responsible for post-trade activities of the NSE. Clearing and settlement of trades and risk management are its central functions.

8. **Trading in Central Government Securities:** In order to encourage wider participation of all classes of investors, including retail investors, across the country, trading in government securities has been introduced from January 2003. Trading in government securities can be carried out through a nationwide, anonymous, order-driver, screen-based trading system of stock exchanges in the same way in which trading takes place in equities.

9. **Mutual Funds:** Emergency of diversified mutual funds is one of the most important development of Indian capital market. Their main function is to mobilize the savings of general public and invest them in stock market securities. Mutual funds are an important avenue through which households participate in the securities market.

Q.4 Examine the Role / Significance of SEBI.

Securities Exchange Board of India (SEBI) was established as a non-statutory board in 1988 and in January 1992, it was accorded statutory status. The regulatory powers of SEBI were increased in January 1995. It has now become a very important constituent of the financial regulatory framework in India. The SEBI is under the overall control of the Finance Ministry.

1. **Promotion and Development of Capital Market:** One of the important role of SEBI is the promotion and development of the capital market. It protects the rights and interests of investors, especially the individual investors. It prevents trading malpractices. Its regulatory measures are meant for the healthy development of capital markets.

2. **Regulatory Role:** Another important role of SEBI is the regulation of the security markets in India. The SEBI can frame or issue rules, regulations, directives, guidelines, norms with respect to primary and secondary markets.

3. **Protection of Interest of Investors:** An important role of SEBI is the protection interest of investors in securities. SEBI has introduced various measures to protect the interests of investors. To ensure no malpractice takes place in the allotment of share, a representative of SEBI supervises the allotment process.

4. **Investor's Education:** SEBI has a role of educating the investors about the securities market. It issues advertisements from time to time to enlighten the investors on various issues related to the securities market and of their rights and remedies.

5. **Investor's Grievances Redressal:** SEBI plays another role of redressing the investor's grievances. SEBI has introduced an automated complaints handling system to deal with investor complaints. The Investor Grievances Redressal and Guidance Division of SEBI assists investors who want to make complaints to SEBI against listed companies.

6. **Primary Market Policy:** SEBI looks after all the policy matters and regulatory issues with respect to primary market. It is responsible for vetting of all the prospectuses and letters of offer for public and right issues, for co-ordinating with the primary market policy, for registration, regulation and monitoring of issue related intermediaries.

7. **Secondary Market Policy:** SEBI is responsible for all policy and regulatory issues for secondary market and new investment products. It is also responsible for registration and monitoring of members of stock exchanges, administration of some of the stock exchanges and monitoring of price movements and insider trading.

8. **Institutional Investment Policy:** SEBI look after institutional investment policy with respect to domestic mutual funds and Foreign Institutional Investors (FIIs). It also looks after registration, regulation and monitoring of FIIs and domestic mutual funds.

9. **Facilitates Mobilisation of Resources:** The SEBI plays an important role in facilitating an efficient mobilization and allocation of resources through the securities market, stimulating competition and encouraging innovations.