IFSS (202) Module- I

REFORMS IN INDIAN FINANCIAL SYSTEM

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Introduction-

- The basic purpose behind carrying out the reforms in the financial sector was the efficient utilization of the resources, increasing the output on the investments and promotion of growth in the contributing sectors of the economy. For this purpose, many schemes and reforms were initiated by GOI so that the economy could take a positive turn and move towards overall development.

- Following are some major facts that were found in the financial sector reforms:
- 1. the present financial repression system was removed
- 2. a profitable high yielding and efficient financial sector was created.
- 3. the price was being determined by market forces and the resources was distributed in an optimum manner
- 4. functional and operational autonomy was provided to the financial institution.

- 5. financial system was strengthened to face international competition.
- 6. the external sector was opened and promoted in a systematic manner.
- 7. focus was on the financial stability by providing cushion from external and domestic collapse.

- In the Global Environment there are 2 forces that drive the reforms in the financial sector:

- 1. being liberalized, which means decreasing the quantum of direct control on the financial markets and banks.

- 2. providing strict regulations for the financial sector.

Major Reforms in last 10 years:

- 1. **Indian banking sector** and financial reforms
- 2**. Forex Market** and financial reforms.
- 3. **Capital Market** and financial reforms
- 4**. Insurance sector** and financial reforms

1. **Indian banking sector** and financial reforms

- During August 1991, a high level committee called as 'The Narasimham Committee' was formulated by the GOI for the purpose of reviewing all the aspects of financial system and recommended the improvements that could be made in the system.

- The report was submitted to the GOI in November 1991.

- Reforms to capital market and banking sector recommended by the Narasimham committee were;
- Strengthening the banking sector
- Asset Quality
- Systems & methods in banks
- Structural Issues
- Introduction to Financial System

Financial Reforms in the Banking System :

- By re-capitalization, subordinated debt & public issues the capital base of bans was strengthened.
- Introduction of prudential norms and tightening of the income recognition Norms.
- There was a major reduction in the pre-emption of the banking resources.
- Relaxation was made in the branch licenses and new licenses were given to the private sector banks.

2. Forex market and Financial Reforms:

- During the year 1993, reforms in the forex market took place by the process of converting current accounts. In this, both the banks as well as the dealers of the foreign exchange were allotted the power to execute and perform number of activities and operations. Moreover to promote trade , foreign companies were allowed an easy entry in the Indian markets. NRI could easily adapt the capital accounts.

- During the course of reforms, few private entrants were given the banking licence for functioning in India.
- Both the development banks and commercial banks started to sanction both term loans and working capital requirements of industries.
- Now, industries can approach a single bank to fulfill and cater to all their financial requirements.

3. Capital market and financial reforms

- In 1992, the reforms in capital market began to take place in India.
- The government control was intended to be removed and it required a regulatory framework as per the guidelines and norms suggested by the regulator. Then SEBI was established in 1992 as the regulatory body for all capital market transactions.

- SEBI now comprises of certain regulations so as to control the activities of the market participants like brokers, stock exchange, mutual funds, merchant bankers and many others.

- Other activities like insider trading and takeovers were also put under the scanner for the purpose of protecting the interest of the investors.

- In 1993, the capital market was opened to the foreign institutional investors (FIIs) and the Indian companies were allowed to raise the capital from overseas byway of GDRs (Global Depository Receipts).
- NSE (National Stock Exchange) was established in 1994and was automatic electronic exchange.

- This automated process carried out at the NSE further forced BSE(Bombay Stock Exchange) to adopt electronic trading in 1995
- Concept of dematerialization was introduced.
- The investors now can open a Demat Account with the depository participants.
- The shares could now be transferred.
- For this purpose, NSDL (National Securities Depository Limited) commenced the operations of depository in 1996.

4. Insurance Sector and Financial Reforms:

- The Insurance sector in India is directed by the Insurance Act, 1938, Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts.
- Insurance Sector was also liberalized along with banking sector in 1991.

- Licenses were given to private players in insurance sector too.
- During 1994, Malhotra Committee suggested that insurance sector should be opened for the private companies also. They took 5 years to draft a policy and allowing foreign direct investment (FDI) of 26% and the report was forwarded in the parliament in 1999.

Thank You Class…