THE FUTURE OF FINANCIAL SECTOR REFORMS

Dr. K.P.KRISHNAN*
Joint Secretary to Government of India
Capital Markets Division
Department of Economic Affairs
Ministry of Finance

Paper for the Conference on South Asian Financial Systems at a crossroad: Promoting Stability and growth

November 11-12, 2009
India Habitat Center

* The views expressed here are the personal views of the author and do not necessarily represent the views of Government of India.
ABSTRACT

South Asian countries have a rich experience to offer on the path each of them have followed to achieve financial development of the order and magnitude that the other peer group countries may like to learn from. India is one such economy whose financial development is keenly watched and debated. It is an economy that has shown enormous resilience even during the economically difficult times like the present one. Though its growth rate also dipped a little, India weathered the recent global financial crisis well. Contrary to the view that India weathered the crisis well because it was closed or insulated, this paper argues that India did so because it reformed and strengthened its financial markets. The reforms which began in 1991 have been deliberate and slow but they are irreversible. These reforms have integrated the Indian economy with the rest of the world. Increasing integration has brought new opportunities and also new challenges. It has made the task of sustaining high growth even more complex. This paper traces the financial development of India through the 1990s to the present, assessing the development of each segment of financial markets. In doing so, it highlights the dualistic development of financial sector in the country. It finally, makes an attempt to set a roadmap for future development of financial markets in the country.
THE FUTURE OF FINANCIAL SECTOR REFORMS: THE INDIAN EXPERIENCE

Introduction

1. Well functioning financial markets are crucial for the long-run economic growth of a country given the empirically tested positive link between the two. India is one of the five countries classified as big emerging market economies by the World Bank. This list, other than India, includes the other Asian giant China, the east Asian region of Indonesia, and countries like Brazil and Russia. The World Bank predicts that by 2020 the share of these five biggest emerging markets' in world output will double to 16.1 percent from 7.8 percent in 1992\(^1\). The growing importance of India in the global economic scenario thus comes as no surprise as the world keenly watches the way its economy functions and its financial markets develop.

2. A well regulated free market economy is what India has always strived for and will continue to work for. The crisis has not deterred its Government from taking bold measures. In fact it is an appropriate time to continue with the reforms process and adapt to the changes the increasing integration with the world economy brings. Hence, it is important to look at the manner in which financial development has occurred in India and how it has been instrumental in shaping the contours of India's economic progress and in turn shaped by it. It will also be instructive to study what more India requires to do join in the league of countries known for their efficient financial markets.

3. The paper is organized as follows: Section I traces the financial development of India through the 1990s to the present. In doing so, it highlights the puzzle of financial sector development in the country. Section II attempts an explanation to this puzzle and sets the roadmap for future development of financial markets in the country.

Section I

Financial development: The Indian experience

4. India’s growth story since the 1990s is well known. An average GDP growth rate of 7.2 percent was achieved over 2000-01 to 2008-09 with an increasing share of services in GDP. This high GDP growth was driven by domestic demand – both consumption and investment.

\(^1\) Global Economic Prospects, 1997, World Bank
The average savings rate of 30.3 and investment rate of 30.4 as percentage of GDP, over 2000-01 to 2008-09 was also considered as high by international standards. With acceleration in economic growth and a significant increase in savings and investments in the country; a discussion on role of finance becomes important as this can have important policy implications. To be able to appreciate the linkage between growth and financial development, we first trace out the historical evolution of financial markets in the country.

**Historical evolution of financial markets**

5. The financial system and infrastructure of a country, at a given point in time, is the result of its own peculiar historical evolution. This evolution is shaped by the continuous interaction between all the players in the system and public policy interventions over time. These policy interventions are also a reflection of the thinking of regulators and governments of the time as to the acceptable and desirable balance between innovation and stability, private and public interest etc. The evolution of Indian financial markets and the regulatory system has also been along a similar path. Most financial service providers and their regulatory agencies are now in place. The role of regulators has evolved over time from that of an instrument for planned development in the initial stage to that of a referee of a relatively more modern and complex financial sector at present.

6. Over this period, a variety of financial sector reform measures have been undertaken in India with many important successes. An important feature of these reforms has been the attempt of the authorities to align the regulatory framework with international best practices keeping in view the needs of the country and domestic factors. In the following paragraphs we make an assessment of growth and development in each of the segments of financial viz. equity, debt, banking, insurance and foreign exchange.

**Securities Markets**

7. Though India has, in the Bombay Stock Exchange (BSE), one of the oldest stock exchanges in Asia and the world, the modern securities market history really starts only in the 1990s. In this period from the mid 1990s the Indian securities market has many ‘firsts’ to its credit. It established one of the first demutualised stock exchanges in the world. All stock exchanges in India, today, are corporatised and demutualised. The Indian securities market was the first to use satellite based communication technology for securities transactions. It was the first to introduce Straight Through Processing (STP) in securities transactions. The growing number of market participants, the growth in volumes in securities transactions, the
reduction in transaction costs, the significant improvements in efficiency, transparency and safety, and the level of compliance with international standards have earned for the Indian securities market a new respect among the securities markets in the world.

8. In addition to these, thanks to the massive liberalization ushered in 1992, the securities market in India have grown exponentially as measured in terms of amount raised from the market, number of market participants, the number of listed stocks, market capitalisation, trading volumes and turnover on stock exchanges, and investor population.

9. Government and corporate sector are seen to be increasingly relying on securities markets for their funding requirements. During 2008-09, the government\(^2\) and the corporate sector together raised a sum of Rs. 36,65,930 mn (USD 72 bn)\(^3\) from the market. The assets under management of mutual funds stood at Rs.41,73,000 mn (USD 81 bn) at the end of March 2009. The net cumulative investment by FIIs was US $56.7 billion as at end of March 2009. The exchanges reported a turnover of Rs.3,85,24,900 mn (USD 756 bn) in the cash segments in 2008-09. The two depositories have a total of 15.2 mn investor accounts at the end of March 2009. On the same date there were 9.82 million clients registered with the National Stock Exchange (NSE)\(^4\) for undertaking transactions on the exchange. An estimated 32 million investors transact in securities market.

**Equity derivatives markets**

10. India’s tryst with equity derivatives began only in this century. Trading first commenced in Index futures contracts, followed by index options in June 2001, individual stocks options in July 2001 and single stocks futures in November 2001. Since then, equity derivatives have come a long way. Expanding list of eligible investors, rising volumes and the best of risk management framework for exchange traded derivatives have been the hallmark of the journey of equity derivatives so far.

11. India’s experience with the launch of equity derivatives market has been extremely positive. The derivatives turnover on the NSE has surpassed the equity market turnover within 4 years of introduction of derivatives. The turnover of derivatives (on NSE and BSE)

\(^2\) Central and State Government securities

\(^3\) All conversions from Indian Rupee to USD for a particular FY are made at the exchange rate prevailing on 31 March of that FY.

\(^4\) NSE is a leading stock exchange of the country accounting for 70 percent of total turnover in the cash segment and 99 percent of turnover in the derivatives segment in 2008–09.
increased from Rs. 40,380 mn (USD 0.87 bn) in 2000-01 to Rs. 11,02,27,482 mn (USD 2163 bn) in 2008-09. In terms of the number of single stock futures contracts traded in 2008, NSE held the second position in the world. It was fourth in terms of number of stock index options contracts traded and third in terms of number of stock index futures contracts\(^5\). In terms of traded volumes in futures and options taken together, NSE has been improving its worldwide ranking from 15th in 2006 to 9th in 2007 and to 8\(^{th}\) in 2008 (according to Futures Industry Annual Volume Survey, March 2009). The traded volumes in the derivatives segment of the NSE saw an increase of 55.4 percent in 2008 over the figure in 2007.

12. Thus, India is one of the most successful developing countries in terms of a vibrant market for exchange-traded equity derivatives. However, on the general issue of risk mitigating products the few of which equity derivatives are one example, it is poignant to note that innovations have appeared in the country after years of toil and wait. Stock index futures took five years to be offered to the investors, from the time they were conceived; Exchange-Traded Fund for Gold again took four years to become a reality; interest-rate derivatives though launched in 2003 did not take off mainly due to constraints on the participation of banks in this market and had to be re-launched in 2009. These experiences highlight the adverse environment for financial innovation in the country. The market regulators should aim at establishing rapid and simplified product approval processes which is supportive of innovation.

13. Another issue which deserves attention for further development of these markets is the need to remove segmentation of markets within exchanges. As an example, the equity spot market is one `segment' and the equity derivatives market is another `segment'. The currency derivatives is yet another segment. Financial firms have to obtain separate memberships in each segment and suffer from a duplication of compliance costs. This separation reduces the ability of a clearing corporation to know the full position of a financial firm or its customer, and do correct portfolio risk calculations.

**Debt Markets**

**Money markets**

14. In comparison to early 1990s, money markets are currently better in terms of depth and following various policy initiatives, activity in all the segments has increased significantly,

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\(^5\) These rankings are based on the World Federation of Exchanges (WFE) Annual Report and Statistics 2008
especially during the last three years. With the development of market repo and Collateralized Borrowing and Lending Obligation (CBLO) segments, the call money market has been transformed into a pure inter-bank market from August 2005. The uncollateralised overnight transactions are now limited to banks and primary dealers in the interest of financial stability.

15. Volatility in call rates has declined over the years, especially after the introduction of the Liquidity Adjustment Facility (LAF). Also, there has been a reduction in bid-ask spread in the overnight rates which indicates that the Indian money market has become reasonably deep, vibrant and liquid. During April 2004–February 2007, the bid-ask spread has varied within a range of -0.37 to +1.32 basis points with an average of 16 basis points and standard deviation (SD) of 11 basis points.

16. However, though the money market is free from interest rate ceilings, structural barriers and institutional factors continue to create distortions in the market. Apart from the overnight inter-bank (call market) rate, the other interest rates in the money market are sticky and appear to be set in customer markets rather than auction markets. A well-defined yield curve does not therefore exist in the Indian money market.

**Government securities markets**

17. As a result of the developmental measures undertaken, the volume of transactions in government securities has increased manifold over the past decade. Also its investor base, which was largely determined by mandated investment requirements before reforms, has expanded with the voluntary holding of government securities. Accordingly, the share of commercial banks has declined.

18. However, a number of problems continue to confront the government securities markets. A benchmark yield curve for government securities has not, as yet, emerged. Liquidity of the markets is poor, which impedes the development of a yield curve that can be reliably used to price all cashflows off the curve. Only a handful of securities accounts for the bulk of trading. There are isolated pockets of liquidity for very short term and very long term securities. Further, there are limits on Foreign Institutional Investors’ (FII) investments in government securities (USD 5 bn presently), which limit voluntary demand for them from abroad.

19. A key issue confronting the development of government securities market is that the Central Bank is also the manager of public debt in the country which leads to a series of
conflicts. There is, to begin with, a conflict of interest between setting the short term interest rate and selling bonds for the government. Further since the Central Bank administers the operating systems for the government securities markets, it follows that the owner/administrator of these systems is also a participant in the market. A vibrant government securities market requires professional capability of an independent Debt Management Office (DMO) for engaging with the market, building a long-term relationship with investors, and obtaining money from the market at a good price. The objective of the independent DMO should be to minimize the medium-long term cost of the debt with due regard to the risks in the debt portfolio, besides promoting development of the domestic debt market.

**Corporate debt markets**

20. The private bond market capitalization as percentage of GDP was 0.4 percent for India, in 2001, increasing to 2.67 percent in 2007. The public bond market capitalization as percentage of GDP was 30 percent and 31 percent for these years respectively. These figures indicate underdeveloped bond markets when compared to other emerging markets with similar financial sector depth. A comparison of the size and composition of the domestic debt market in India with select emerging market countries puts India at the bottom in terms of private bond market capitalization as percentage of GDP and ahead of South Africa and China in terms of public bond market capitalization as percentage of GDP. In India financial institutions and state government guaranteed instruments dominate most of the issuance in the corporate bond market.

21. A well developed corporate bond market is essential for financial system efficiency, stability and overall economic growth. A well functioning bond market provides for financial diversification and facilitates necessary financing for corporates and infrastructure developers. However, this market remains practically non-existent in India. Most of the large issuers are quasi-government, including banks, public sector oil companies, or government sponsored financial institutions. Of the rest, a few known names dominate. There is very little high yield issuance, and spreads between sovereign debt, AAA debt and high yield debt are high in comparison to other markets. Very few papers trade on a regular basis. Trading in most papers dries up after the first few days of issuance, during which the larger players "retail" the bonds they have picked up to smaller pension funds and cooperative banks. Most trading is between financial institutions.

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6 According to World Bank Financial Structure database.
22. Lack of depth in the government bond market and the absence of a yield curve for
government bonds which could serve as a benchmark for corporate bonds; cumbersome
primary issuance mechanism (to some extent addressed by recent changes in the
regulations by the market regulator, SEBI); absence of sufficiently diversified long term
investors and chronic illiquidity caused inter-alia by absence of derivative instruments are
some of the factors leading to underdeveloped bond markets. Also, there are limits on FII
investments in corporate debt (USD 15 bn presently), which are reviewed periodically. There
is need to liberalise the bond markets opportunistically by expanding FII limits more when
other forms of capital inflows are at a low ebb.

Banking Sector and Insurance Sector

23. Financial sector reforms have had major impact on the overall efficiency and stability
of the banking system in India. A select few, which are critical, are as follows:

⇒ **Capital**: The average Capital to Risk (Weighted) Assets Ratio (CRAR) of all banks
increased from 9.2 per cent as on March 31, 1994 to 13.2 per cent as on March 31, 2009.
With the global range of CRAR being 10.2 per cent - 13.2 per cent, the capital adequacy of
Indian banks is comparable to those at international level.

⇒ **Asset Quality**: Since RBI introduced the objective criteria for identification of NPAs in
1992-93, while the gross NPAs, as a proportion of gross advances, has been declining
steadily and distinctly over the years, the level of gross NPAs in absolute terms has also
decreased over the recent past. The percentage of gross NPAs to gross advances for the
banking system, which was 14.4 per cent in March 1998 decreased to 2.33 per cent in
March 2009. During the same period, the percentage of Net NPAs to Net Advances declined
from 7.3 per cent to 1.05 per cent. The non performing loans to total loans was 2.3 percent
in 2008 for India, lower than most of the other EMEs.

⇒ **Profitability**: The reform measures have also resulted in an improvement in the
profitability of banks. The Return on Assets (RoA) of all banks rose from 0.4 percent in the
year 1991-92 to 1.0 percent in 2008. Comparing the ROA with other emerging markets, the
RoA has been in the range 0.1 to 2.1 per cent, Indian banks are well placed.

24. But these profitability figures mask an important fact that India is hugely under
banked and hence these perhaps represent monopoly rents. India’s poor, many of who work
as agricultural and unskilled/semi-skilled wage labourers, micro-entrepreneurs and low-
salaried worker, are largely excluded from the formal financial system. Over 40 percent of
India’s working population earn but have no savings. The population served per bank branch in rural India is approximately 18,000 while in urban India it is 5000.

25. Financial sector policies in India have long been driven by the objective of increasing financial inclusion, but the goal of universal inclusion is still quite some distance away. The past strategy for expanding the reach of the financial system relied primarily on expanding branching, setting up special purpose government sponsored institutions and setting targets for credit to broad categories of the excluded. Its success has been mixed, and has been showing diminishing returns.

26. A new approach to financial inclusion is needed that builds on the lessons of the past. It needs to be recognized that financial inclusion is not only about credit, but involves providing a wide range of financial services, including saving accounts, insurance, and remittance products. Efforts at financial inclusion need to move away from sectors to segments of people that are excluded. Past efforts have focused largely on agriculture. As the Indian economy diversifies and more people move away from farming, there is an urgent need to focus on other segments as well, for instance the poor in urban areas. Commercial viability of reaching to the poor needs to be increased. Product innovation, organizational flexibility, and superior cost efficiency are essential in reaching the excluded and offering them financial services that they will want to use. Competition, technology, as well as the use of low-cost, local organizations for outreach will have to play a much greater role in any such strategy.

27. Growth in insurance industry has been spurred by product innovation, vibrant distribution channels coupled with targeted publicity and promotional campaigns by the insurers. Innovations have come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups both within the realm of financial services and outside. All these efforts have brought life insurance closer to the customer as well as made it more relevant. The insurance companies are increasingly tapping the semi-urban and rural areas to take across the message of protection of life through insurance cover. The insurers have also introduced special products aimed at the rural markets.

33. In terms of insurance penetration, India fares better than most emerging markets. The participation of low-income groups in life insurance, the second most preferred savings instrument after bank savings deposits, is still very limited. One-third of all paid workers have some life insurance protection. However, only 14 percent of people in the lowest income quartile and 26 percent in the second quartile have life insurance as against 69 percent in
the highest income quartile. While the elaborate sales and distribution model has contributed to the popularity of life insurance, this has come at considerable cost by way of high commissions and a large percent of lapsed policies.\textsuperscript{7} Policy lapses are low only in the highest income quartile, while in all other segments at least 20 percent respondents have had a policy lapse. The penetration of non-life insurance products is negligible. For example, only one percent of the population appears to have medical insurance. Thus, there is clearly a need to focus on these areas to expand insurance cover for the Indian population.

34. The insurance industry also continues to face some basic problems. One of these is that a large part of sale of “insurance” products is merely tax arbitrage, where a fund management product is given preferential tax treatment under the garb of a minimal insurance character. Another issue is that much of the growth in insurance penetration is as a result of selling of products such as the Unit Linked Insurance Plans (ULIPs) which is essentially a mutual fund product. The relatively better performance of ULIPs could be attributed, inter alia, to higher commission in insurance ULIPs than for mutual fund products. Thus, there is a blurring of products wherein financial instruments are partaking of multiple characteristics of investment, pension and insurance etc. Some changes in regulatory architecture would be necessary to address this, on which we focus later in the paper.

\textbf{Section II}

\textbf{The Puzzle of Indian Financial Sector Reforms and the Roadmap for the future}

35. Having listed above the story of growth and development of each of the segments of financial markets in India, one cannot escape the fact that it throws up two contradictory developments, viz the dramatic transformation of the stock markets segment but relatively less development of other segments of the markets. This is also highlighted by the Financial Development Report, 2009, which notes that while India has done well in terms of non-banking services activities and creating efficient derivatives and foreign exchange markets; the developments in banking sector services, bond markets, retail access to finance and general business environment leaves much to be desired.

\textsuperscript{7} For traditional life insurance products, a policyholder typically loses the entire investment if the policy lapses within the first three years. After that, only the surrender value is paid in the case of a lapse, which is less than 35\% of the total premia paid. IRDA reported that almost 5 percent of life insurance policies lapsed between 2000 and 2005. This number was as high as 16\% among private providers, due to higher contribution of ULIPs and aggressive selling policies. Source: ISEC Securities, “Indian Life Insurance”, December 7, 2007, pp 43.
36. The recently submitted report of the Government Committee on Financial Sector Reforms (CFSR) summarizes the state of various segments of the Indian financial markets in terms of immediacy, depth and resilience\(^8\) as follows:

**Table: Liquidity of Indian financial markets**

<table>
<thead>
<tr>
<th>Market</th>
<th>Immediacy</th>
<th>Depth</th>
<th>Resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cap stocks/futures and index futures</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Other stocks</td>
<td></td>
<td></td>
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<tr>
<td>On the run government bonds</td>
<td>Y</td>
<td>Y</td>
<td></td>
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<tr>
<td>Other government bonds</td>
<td></td>
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<tr>
<td>Corporate bonds</td>
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<tr>
<td>Commercial paper and other money market instruments</td>
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<td></td>
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<tr>
<td>Near money options on index and liquid stocks</td>
<td>Y</td>
<td></td>
<td></td>
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<tr>
<td>Other stock options</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency</td>
<td>Y</td>
<td></td>
<td></td>
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<tr>
<td>Interest rate swaps</td>
<td>Y</td>
<td>Y</td>
<td></td>
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<tr>
<td>Metals, energies and select agricultural commodity futures</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other commodity futures</td>
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</tbody>
</table>

37. In the view of the Committee, resilience is found in the large stocks, their stock futures and the index futures. All other markets in India lack resilience. Depth is found, in addition, with on-the-run government bonds and interest rate swaps. Immediacy is found in a few more markets. A well functioning market is one which has all three elements. India has only one market where this has been achieved, for roughly the top 200 stocks, their derivatives and index derivatives.

38. The CFSR further notes that when a financial market does not exist, or is inadequately liquid to meet the requirements at hand, or suffers from deviations from fair price, this constitutes market incompleteness. Economic agents are unable to enter into transactions that they require for conducting their optimal plans. Market incompleteness has many destructive implications for resource allocation and ultimately GDP growth.

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\(^8\) Immediacy refers to the ability to execute trades of small size immediately without moving the price adversely (in the jargon, at low impact cost). Depth refers to the impact cost suffered when doing large trades. Resilience refers to the speed with which prices and liquidity of the market revert back to normal conditions after a large trade has taken place.
39. It is pertinent to try to look for answers to this puzzle of the Indian financial sector reforms by understanding what we did right in reforms in the stock markets and what went wrong in other areas of finance. This will then help us chart out a road map for next generation financial sector reforms in the country. This is attempted in the following section.

40. Some of the other reasons for different pace of development of different sectors of the financial markets can be listed as:

*Banning of products and markets:* The policy environment that comes in the way of development of liquid and efficient markets is the banning of products and markets. As an example, products such as exchange traded currency futures (banned till permitted from August 2008) and commodity options are banned. A market that is banned can obviously not attain liquidity or efficiency. Equally problematic, a missing market can hamper the efficiency of other markets also. For example, an efficient and deep corporate bond market is still missing in India.

*Restricted participation:* In many cases, while an outright ban is not in place, there are restrictions on participation. These include outright bans (e.g. domestic individuals cannot participate in currency markets) or regulatory restrictions on some kinds of activities (for example, banks are prohibited from adopting long positions on interest rate futures) or quantitative restrictions (for example, all FIIs put together are required to keep their aggregate ownership of corporate bonds below $15 billion). The equity market – the only element of Indian finance which has achieved immediacy, depth and resilience – has few restrictions on participation in both spot and derivatives markets (it does restrict foreign individual investors, and some institutional investors such as hedge funds). As a consequence, the equity market, especially for large stocks, has developed a distribution capability which reaches millions of market participants around the world. All kinds of economic agents come together into a unified market to make the price. Competitive conditions are upheld; for the most part, no one player is large enough to distort the price. The diverse views and needs of the diverse array of participants impart resilience, depth and market efficiency. Competition between NSE and BSE has helped improve technology and reduce costs. The most important feature of the equity market has been free entry and exit for financial firms that become members of NSE and BSE, and the free entry and exit for the economic agents who trade on these markets through exchange members. Such an open environment is of critical importance for achieving liquidity and efficiency in all the other elements of Indian financial markets.
41. In a growing and increasingly complex market-oriented economy such as India’s, with increasing integration with global trade and finance, our financial system would be an important element in the country’s future growth trajectory. Further steps are required to make the financial markets deeper, more efficient and well-regulated. In this direction, two important Government Committees, the High Powered Expert Committee on Making Mumbai an International Financial Centre (HPEC on MIFC) and High Level Committee on Financial Sector Reforms (CFSR) have charted out the road ahead for India’s financial system to prepare it for the challenges of the future. Despite differences in their scope and terms of reference, the two reports have a common underlying term of reference, viz. to recommend next generation of financial sector reforms for India. The two reports emphasize that recognizing the deep linkages among different reforms, including broader reforms to monetary and fiscal policies, are essential to achieve real progress. The reports outline the key elements of a financial system that India will need in its quest for higher growth over the next few years.

42. Some steps in this direction have already been taken. India has introduced new products on its exchanges. These include exchange traded currency and interest rate futures. There is a lot of talk about introducing credit derivatives. There are views that in the present scenario there is a fear of complex financial products. But the complexity of the products should not deter us from making a beginning. Everybody has a responsibility to explain the complexity of the products to the customers, so that the customers can chose the products that he or she desires. There is a need to draw the right lessons from developments around the world. There is also a need to innovate, while at the same time it must be ensured that the complexities are understood, the risks are mitigated and there is reward for those who are willing to take the risk. It must be realized that all financial innovation is not necessarily destructive or inimical to financial stability.

43. Financial stability is a multi agency function. Though not explicitly located by law in any agency, the task of maintaining financial stability in India, at the moment, lies with the inter-regulatory body – the HLCCFM (High Level Coordination Committee on Financial Markets). It is chaired by the Governor of Central Bank and has members of other regulatory agencies. The roadmap for next generation financial sector reforms envisages giving more teeth to the HLCCFM as well as strengthening it.

44. Regulatory structures can be streamlined to avoid regulatory inconsistencies, gaps, overlap, and arbitrage. Steps in this direction should include a reduction in the number of
regulators, defining their jurisdiction wherever possible in terms of functions rather than the forms of the players, and ensuring a level playing field by making all players performing a function report to the same regulator regardless of their size or ownership. There is need for strengthening and consolidation of regulatory structures to deal with large complex, systemically important, financial conglomerates on the one hand, and with the consumer on the other. It is important for us to examine practices that are evolving in other jurisdictions and formalise a structure for handling issues of financial stability.

IN CONCLUSION

45. India’s road ahead is full of challenges. The chief amongst them is to take the economy back to the 9% p.a growth path. Along with challenges there are opportunities for development and opportunities to further the reform process. The achievement of financial inclusion while sustaining economic growth and maintaining financial stability is challenging but not impossible as these three objectives are not in contradiction. What India needs is the right set of reforms to achieve them.