



ORGANIZATIONS FACILITATING BUSINESS

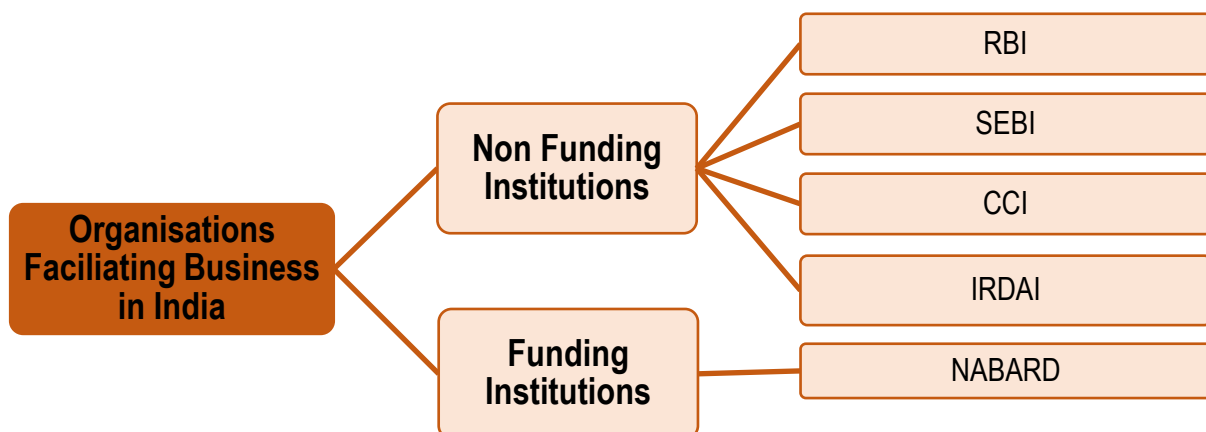


LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Describe the meaning of business facilitation.
- Explain the need for organizational / institutional arrangements for stimulating, supporting and sustaining business.
- Differentiate between funding and non-funding organisations.
- Describe briefly the purpose, functions and schemes of some of the facilitating organizations.

CHAPTER OVERVIEW





5.1 INTRODUCTION

In the first chapter of the study material, we had introduced **business facilitators as a system of arrangements that ease the doing of business**. Drawing an analogy, can you recall that in our primary classes we read about **our helpers**? The way they simplify our lives and make us comfortable, business facilitators do the same for the businesses. We rationalised their need in the context of complexities associated with pursuing business as an occupation / career vis-à-vis a well-defined employment and not so complex professional practice. One may argue that since auxiliaries or aids to trade such as banking, insurance, transport, warehousing etc. too ease the doing of business, these should also be referred to as organizations facilitating business. Yes, these are. All the auxiliaries to trade comprise an important layer of business facilitators. Let's us situate these at the intermediate layer. In the layer above one would like to place such policy making and executive agencies as the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), Competition Commission of India (CCI) and such regulatory cum developmental agencies such as Insurance Regulatory and Development Authority (IRDA). One may also envisage a layer of facilitators below that we may refer to as the Point of Contact Layer. Together, these may be regarded as comprising what may be defined as Business Facilitation System (Figure #1).

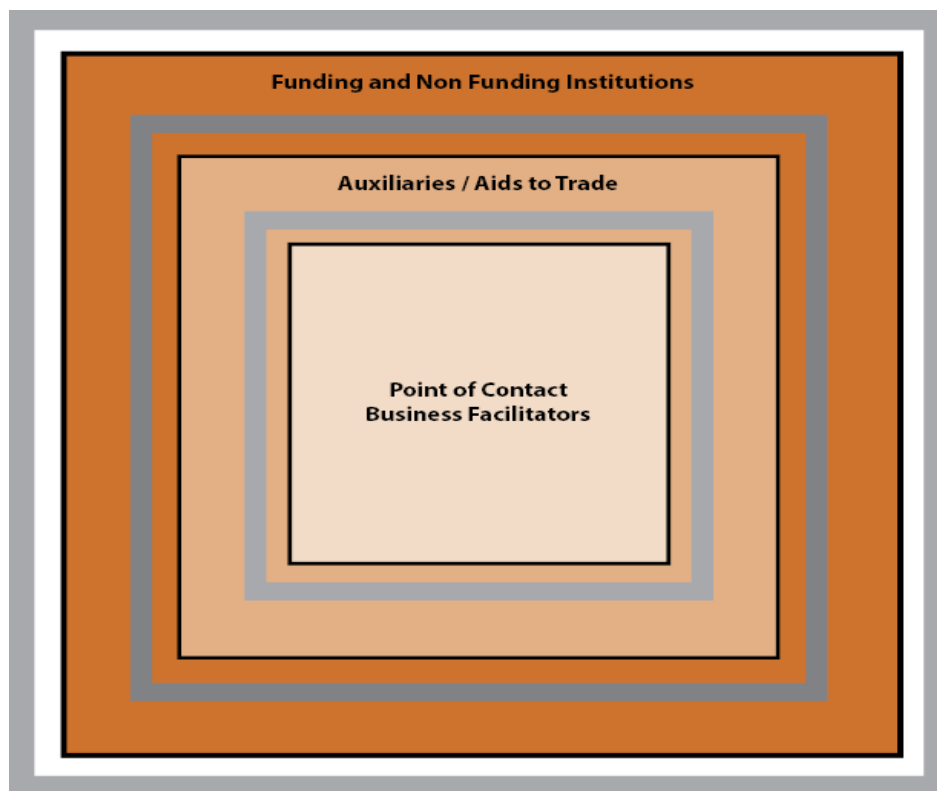


Figure-1: Business Facilitation System

Point of Contact (POC) Business facilitators help the business in several ways. Consider the following (illustrative list only):

- ◆ a **freight forwarder** i.e. a person or company who organizes shipments for the business firms to get goods from the manufacturer or producer to a market, customer or final point of distribution. Note

freight forwarders network with shipping Companies/ Airlines, Railways & Roadways and origination, transit and destination ports and warehouses [all auxiliaries / aids to trade] to provide logistics support to the business;

- ◆ a **business incubator** helps create and grow young businesses by providing them with necessary support and financial and technical services; and a **business accelerator** helps a budding business quickly launch a product and put it in the fast lane of commercial success;
- ◆ a **financial consultant** who advises the business on the various sources of finance- domestic as well as foreign; debt as well as equity; short-term as well as long-term and helps it mobilise its requirements too. It may be noted that merchant bankers/ financial consultants are not themselves the financing institutions- the auxiliaries or aids to trade;
- ◆ a **merchandise** who helps the business e.g. a fashion house obtains its supplies- fabrics, accessories, etc.

The term business facilitator is formally defined in the financial sector as intermediaries performing a host of functions linking the banks / financial institutions and their potential clients (Concept Elaboration #1).

Concept Elaboration #1: Business Facilitators in Financial Sector

Business Facilitators are intermediaries such as, NGOs/ Farmers' Clubs, cooperatives, community based organisations, IT enabled rural outlets of corporate entities, Village Knowledge Centres, Agri Clinics/ Agri



Business Centers, Krishi Vigyan Kendras and individuals like insurance agents, retired bank employees/teachers etc for providing facilitation services. Such services may include (i) identification of borrowers (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about products, provide advice on managing money and debt counselling; (iv) processing and submission of applications to NABARD Financial Services Limited (NABFINS) (v) promotion and nurturing Self Help Groups/ Joint Liability Groups/ Producers' groups ; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ Producers' groups etc.; and (viii) follow-up for recovery. However, they shall not engage in cash handling including disbursements, collections etc.

Business facilitators may be distinguished from business correspondents who may be defined as 'banks in person.' These individuals and entities actually provide banking and financial services. Obviously, for this reason business correspondents are more closely regulated than business facilitators who do not engage in the banking and finance business in the sense of handling deposits, repayments etc.

Source: <http://nabfins.org>

5.1.1 Government as a Business Facilitator

In the preceding chapter, we have seen how the government policy is a powerful and pervasive determinant of business activity. There is barely any sphere of business and commerce that is not affected by government policy.

India's freedom fighters did not merely fight for political independence of India. They had a long term vision of India's economic development. The Union Government came up with the Industrial Policy statement in 1948,

barely a few months after independence. In 1951, the Union Government enacted the Industries Development & Regulation Act. The IDRAI entrusted the government with the responsibility of ushering in economic development via industrialisation in India. The Industrial Policy Resolution of 1956 providing for the respective roles of the Public Sector, Large Industries and Small Scale Industries guided the growth of business in India for more than three decades. Initially, the public sector enterprises were to command the industrial development of India. Role of private sector was limited to the production of consumer goods. However, as the economy got stronger with time and the other wherewithal of facilitation of private businesses e.g. initially the development banks, the industrial estates and later a developed capital market etc. took shape, the private sector has grown from strength to strength. In this context, **the New Economic Policy of 1991 which is better known as the LPG or GPL policy i.e. the policy of liberalisation, privatisation and globalisation is regarded as the watershed development in business facilitation in India.**

The government facilitates business not only via formulating business friendly policies but also by creating an institutional apparatus for the implementation of those policies. In the preceding chapter you have learnt about the policies; in this chapter our focus is on institutions.



5.2. NON-FUNDING INSTITUTIONS FOR BUSINESS FACILITATION IN INDIA (INDIAN REGULATORY BODIES)

The institutions such as the Reserve Bank of India which is the central bank of the country, the Securities and Exchange Board of India which is the apex body of securities exchanges and the Competition Commission of India which is the rule setter for fair play in business provide the supra context of business facilitation. Then there are **industry specific business facilitators** too such as the Insurance Regulatory and Development Authority, Telecom Regulatory Authority of India and the like. These institutions do not invest in businesses and as such are called non funding institutions. In addition to a broad, general description of their roles and functions, our emphasis here would be on their respective roles as business facilitators. Here it would be pertinent to mention that there are several other non-funding institutions that facilitate businesses right from pre-formation to product and process testing, training of manpower and a host of business extension services. For example, the National Institute of Entrepreneurship and Small Business Development (NIESBUD) focuses on training the trainers in entrepreneurship development; Entrepreneurship Development Institute (EDI) is the national level apex organisation for entrepreneurship development. Then there are 30 Micro, Small and Medium Enterprises Development Institutes and 28 Branch MSME-DIs (formerly SISIs) set up in State capitals and other industrial cities all over the country for providing a host of services to the entrepreneurs / small businesses. These institutes render consultancy services, prepare state industrial profiles and conduct district level industrial potential surveys. Besides, these institutes prepare project profiles and facilitate quality control and upgradation in these enterprises.

There are several commodity boards and export promotion councils that assist businesses in their international forays. Institutes like India Trade Promotion Organisation and India Brand Equity Foundation aim to enhance India's image as a sourcing partner and investment destination. We should not forget the facilitative role of government's such schemes as Make in India and Startup India for furthering and facilitating Indian businesses.

5.2.1 Reserve Bank of India (RBI)

I. Introduction

The Reserve Bank of India (RBI) was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the RBI Act.

II. Role of RBI

The Reserve Bank of India is the Central Bank of our country. It occupies a pivotal position in the Indian economy. Its role is summarised in the following points:

- The RBI is the apex monetary institution of the highest authority in India. Consequently, it plays an important role in strengthening, developing and diversifying the country's economic and financial structure.
- It is responsible for the maintenance of economic stability and assisting the growth of the economy.
- It is India's eminent public financial institution given the responsibility for controlling the country's monetary policy.
- It acts as an advisor to the government in its economic and financial policies, and it also represents the country in the international economic forums.
- It also acts as a friend, philosopher and guide to commercial banks. In fact, it is responsible for the development of an adequate and sound banking system in the country and for the growth of organised money and capital markets.
- India being an emerging economy, the RBI has to keep inflationary trends under control and to see that main priority sectors like agriculture, exports and small scale industry get credit at cheap rates.
- It has also to protect the market for government securities and channelise credit in desired directions.

III. Functions of RBI

The Preamble of the Reserve Bank of India describes its basic functions as:

"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

The Reserve Bank of India, being the Central Bank of India performs all the central banking functions. These are:

- (i) **Issue of currency:** The RBI is the sole authority for the issue of currency in India other than one rupee coins and notes and subsidiary coins, the magnitude of which is relatively small.
- (ii) **Banker to the government:** As a banker to the government, the RBI performs the following functions:
- (a) It transacts all the general banking business of the Central and State Governments. It accepts money on account of these governments and makes payment on their behalf and carries out other banking operations such as their exchange and remittances.
 - (b) It manages public debt and is responsible for issue of new loans. For ensuring the successes of the loan operations, it actively operates in the gilt-edged market and advises the government on the quantum, timing and terms of new loans.
 - (c) It also sells Treasury Bills on behalf of the Central Government in order to wipe away excess liquidity in the economy.
 - (d) The RBI also makes advances to the Central and State Governments which are repayable within 90 days from the date of advance.
 - (e) The RBI also acts as an adviser to the government not only on policies concerning banking and financial matters but also on a wider range of economic issues including those in the field of planning and resource mobilisation. It has a special responsibility in respect of financial policies and measures concerning new loans, agricultural finance and legislation affecting banking and credit and international finance.
- (iii) **Banker's Bank:** The RBI has been vested with extensive power to control and supervise commercial banking system under the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949. All the scheduled banks are required to maintain a certain minimum cash reserve ratio with the RBI against their demand and time liabilities. This provision enables the RBI to control the credit position of the country.
- The RBI provides financial assistance to scheduled banks and state cooperative banks in the form of discounting of eligible bills and loans and advances against approved securities.
- The RBI also conducts inspection of the commercial banks and calls for returns and other necessary information from banks.
- (iv) **Custodian of Foreign Exchange Reserves:** The RBI is required to maintain the external value of the rupee. For this purpose it functions as the custodian of nation's foreign exchange reserves. It has to ensure that normal short-term fluctuations in trade do not affect the exchange rate. When foreign exchange reserves are inadequate for meeting balance of payments problem, it borrows from the IMF.
- The RBI has the authority to enter into exchange transactions on its own account and on account of government. It also administers exchange control of the country and enforces the provisions of Foreign Exchange Management Act.

- (v) **Controller of Credit:** Credit plays an important role in the settlement of business transactions and affects the purchasing power of people. The social and economic consequences of changes in the purchasing power are serious; therefore, it is necessary to control credit. Controlling credit operations of banks is generally considered to be the principal function of a central bank. The RBI, like any other Central Bank, possesses power to use almost all qualitative and quantitative methods of credit controls.
- (vi) **Promotional Functions:** Apart from the traditional functions of a Central Bank, the RBI also performs a variety of developmental and promotional functions. It is responsible for promoting banking habits among people and mobilising savings from every corner of the country. It has also taken up the responsibility of extending the banking system territorially and functionally. Initially, it had also taken up the responsibility for the provision of finance for agriculture, trade and small industries. But now these functions have been handed over to NABARD, EXIM Bank and SIDBI respectively. The Reserve Bank is responsible for overall credit and monetary policy of the economy.
- (vii) **Collection and publication of Data:** It has also been entrusted with the task of collection and compilation of statistical information relating to banking and other financial sectors of the economy.

IV. RBI's Role in Business Facilitation

- **Currency Policy:** The RBI is responsible for the monetisation of the economy (and in the recent context of demonetisation or remonetisation too). Adequate money supply is critical for the functioning of the economy. All the factor incomes in a modern economy are in fact money incomes. Business's revenue too is monetised. Moreover, the RBI also oversees the availability of foreign currency to facilitate overseas business transactions. It plays an important, albeit an indirect role in the determination of exchange rates i.e. the rates at which the domestic currency is exchanged with foreign currencies and vice versa.
- **Credit Policy:** The RBI does not fund the business or for that matter any activity. However, its policies have a major impact on channelisation of the banking resources for business, generally as well as specifically for certain sectors. A small reduction in the Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR) or Bank Rate can put huge funds at the disposal of the commercial banks for lending to the business and other sectors. Let us introduce ourselves to the measure of magnitude of financial parameters such as interest rates. **It is called basis points.** One per cent is equivalent to 100 basis points. To illustrate if current bank rate is 7.75% and RBI decreases it by 25 basis point, then new rate will be 7.50% as 25 basis point will be equal to 0.25%)

SLR and CRR are **quantitative measures of credit policy**; these **affect funds availability to all the sectors**. RBI has in its armour **qualitative measures of credit control** too through which it **influences the credit availability to a particular sector**. As an instance in sector specific impact of the RBI's credit policy, let us consider the provision of Priority Sector Lending (PSL). Every bank is required to comply with this requirement by lending a specified percentage of its resources to the industries/ activities included in PSL. **For example**, loans to Micro, Small and Medium Enterprises (MSME) qualify as PSL. This policy of the RBI has tremendously benefited the MSME Sector in India.

An inevitable part of the credit policy is the interest rate. Reserve Bank of India influences the interest rates through such policy instruments as **bank rate**. Since RBI provides loans to the banks either by direct lending or by rediscounting (buying back) the bills of commercial banks and treasury bills, it is also known as **discount rate**. Bank rate is the rate of interest at which the RBI lends to banks. It reflects the cost of funds to the banks who in turn adjust their lending rates accordingly. To illustrate, higher bank rate will translate to higher lending rates by the banks. The concept of bank rate is often compared with repo rate and reverse repo rate (See Concept Elaboration #2).

Concept Elaboration #2: Bank Rate Related Concepts



Repo Rate. The rate at which banks borrow money from the RBI against pledging or sale of government securities to RBI is known as “Repo Rate.” Repo rate is a short form of Repurchase Rate. Generally, these loans are for short durations up to 2 weeks.

Repo Rate differs from Bank Rate with respect to the time horizon. Repo Rate is a short-term measure and it refers to short-term loans. On the other hand, Bank Rate is a long-term measure and is governed by the long-term monetary policies of the RBI.

Reverse Repo Rate. It is the rate of interest offered by RBI, when banks deposit their surplus funds with the RBI for short periods.

- ◆ **Development of the Financial System:** Finance is said to be the life blood of business. And a well developed financial system is regarded as the *sine qua non* (an absolute imperative) for economic development. The financial system typically comprises financial institutions, financial instruments and financial markets. RBI may be regarded as the heart of the financial system. It oversees the functioning and outreach of the commercial banks as well as non-banking finance companies. The funds that RBI usurps via stipulating SLR and CRR are channelised to development finance institutions, called Development Banks in India. We shall be elaborating this in the section on development banks in this chapter.
- ◆ **Funds Transfer and Payments Mechanism:** Making and receiving payments is an integral part of any economic transaction. In a modern economy one may envisage paper based and digital payments and funds transfer mechanisms. Paper based mechanisms would include for example currency, cheques and bills of exchange. Digital payments would include Card Swiping, Internet Banking and so on. Reserve bank of India presides over the system and sets the rules of the game. Can we imagine a thriving business sector without an efficient payments and funds transfer system?

5.2.2 Securities and Exchange Board of India (SEBI)

I. Introduction

The Securities and Exchange Board of India (SEBI) was established by the Government of India on 12th April 1988 and given statutory powers in 1992 with SEBI Act, 1992 being passed in the Parliament. The SEBI Act, 1992 has come into force with effect from **30th January, 1992**.

SEBI is an authority to regulate and develop the Indian capital market and protect the interest of investors in the capital market. Controller of Capital Issues has been repealed by the SEBI, an authority under Capital Issue (Control) Act, 1947.

SEBI has its headquarters at the business district of Bandra Kurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad, respectively.

Controller of Capital Issues (CCI) was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947. In April 1988, the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

The SEBI is managed by a board, which consists of following:

- ◆ A Chairman, who shall be appointed by Central Government and he shall be a person of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.
- ◆ Two members from amongst the officials of the Ministry of the Central Government dealing with Finance and administration of the Companies Act, 2013, who shall be nominated by the Central Government.
- ◆ One member from amongst the official of RBI, who shall be nominated by RBI.
- ◆ Five other members out of which at least three members shall be whole-time members, who shall be appointed by Central Government and they shall be persons of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.

II. Functions and Responsibilities of SEBI

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as “...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected there with or incidental there to”.

SEBI has to be responsive to the needs of three groups, which constitute the market:

- ◆ the issuers of securities
- ◆ the investors
- ◆ the market intermediaries.

SEBI has three functions rolled into one body which are as follows:

- ◆ **Quasi-legislative:** SEBI drafts regulations in its legislative capacity.
- ◆ **Quasi-judicial:** SEBI passes rulings and orders in its judicial capacity.
- ◆ **Quasi-executive:** SEBI conducts investigation and enforcement action in its executive function.

Though this makes it very powerful, there is an appeal process to create accountability. There is a Securities Appellate Tribunal which is a three-member tribunal. A second appeal lies directly to the Supreme Court. SEBI has taken a very proactive role in streamlining disclosure requirements to international standards.

III. Powers of SEBI

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

1. To approve by-laws of stock exchanges.

2. To require the stock exchange to amend their by-laws.
3. To inspect the books of accounts and call for periodical returns from recognized stock exchanges.
4. To inspect the books of accounts of a financial intermediary.
5. To compel certain companies to list their shares in one or more stock exchanges.

IV. SEBI's Role in Business Facilitation

SEBI is responsible for the development of India's capital market i.e. market for the corporate issues of capital. For example, it facilitates public offering of capital by the company. Thus, these companies are able to access the capital market for their funding requirements. It also oversees the subsequent trading of their shares on the floor of the stock exchanges. It even facilitates overseas entities desirous of participating in Indian capital markets and the domestic capital market entities desirous of participation in overseas markets. It coordinates with the market developers and regulators abroad. It is responsible for investors' faith in the functioning of the capital markets and thus assures the corporates of steady flow of funds.

5.2.3. Competition Commission of India (CCI)

I. Introduction

Competition is a contest between organisms, animals, individuals, groups, etc. in the context of business, competition is the best means of ensuring that the 'Common Man' has access to the broadest range of goods and services at the most competitive prices. With increased competition, producers will have maximum incentive to innovate and specialize. This would result in reduced costs and wider choice to consumers. A fair competition in market is essential to achieve this objective. Competition Commission was set up to create and sustain fair competition in the economy that will provide a 'level playing field' to the producers and make the markets work for the welfare of the consumers.

Competition may be either Direct or Indirect as discussed below:

- i. **Direct competition:** Products that perform the same function compete against each other. **For Example:** Fast-food restaurants McDonald's and Burger King, Coca-Cola and Pepsi, Pizza Hut and Dominos etc have competition with each other.
- ii. **Indirect competition:** Products that are close substitutes for one another compete.
For Example: A fine dining restaurant has competition with other local restaurants, but it also competes with nearby supermarkets that offer ready-to-eat meals such as frozen parathas and eat and serve dishes.

There should be free and fair competition in the market to get the following benefits:

- a. Encourages Innovation.
- b. Increases Efficiency.
- c. Punishes the Laggards.
- d. Boosts choice improves quality, reduces costs.
- e. Ensures availability of goods in abundance of acceptable quality in affordable price.

II. The Competition Act, 2002

Basically, Competition law is a tool to implement and enforce competition policy and to prevent and punish anti-competitive business practices by firms and unnecessary Government interference in the market. The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, follows the philosophy of modern competition laws. The Act prohibits anti-competitive agreements, abuse of dominant position by enterprises and regulates combinations (acquisition, acquiring of control and M&A), which causes or likely to cause an appreciable adverse effect on competition within India.

III. Features of the Competition Act, 2002

- i. The competition Act, 2002 has been enacted to prevent practices having an appreciable adverse effect on competition.
- ii. To promote and sustain competition in the market and to protect the interests of consumers.
- iii. To ensure freedom of trade.
- iv. With the enforcement of the Competition Act, 2002 the MRTP Act, 1969 shall stand repealed and the MRTP Commission shall be dissolved.
- v. The Competition Act, 2002 provides for the establishment of Competition Commission of India (CCI) and prescribes its duties, functions, and powers.

IV. The Competition Commission of India (CCI)

The Competition Commission of India (CCI) was established by the Central Government on 14th October 2003. The Commission is a body corporate having perpetual succession and common seal. CCI consists of a Chairperson and Six Members appointed by the Central Government. It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

The Competition commission has been establishment for the accomplishment of the following objectives:

- ◆ To prevent practices having adverse effect on competition.
- ◆ To promote and sustain competition in markets.
- ◆ To protect the interests of consumers and,
- ◆ To Ensure freedom of trade carried on by other participants in markets, in India

V. Role of CCI

The preamble to the competition act states “An Act to provide, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto”.

To achieve its objectives, the Competition Commission of India endeavours to do the following:

- ◆ Make the markets work for the benefit and welfare of consumers.

- ◆ Ensure fair and healthy competition in economic activities in the country for faster and inclusive growth and development of economy.
- ◆ Implement competition policies with an aim to effectuate the most efficient utilisation of economic resources.
- ◆ Develop and nurture effective relations and interactions with sectoral regulators to ensure smooth alignment of sectoral regulatory laws in tandem with the competition law.
- ◆ Effectively carry out competition advocacy and spread the information on benefits of competition among all stakeholders to establish and nurture competition culture in Indian economy.

VI. Role of CCI as a Business Facilitator

Fair competition is key to a thriving business sector. CCI protects businesses from other businesses' unfair practices and penalises the erring entities too. It promotes competition by preventing abuse of dominance by a market player to the detriment of other competitors and the consumers. As such it ensures the co-existence of large and small enterprises.

5.2.4. Insurance Regulatory and Development Authority of India (IRDAI)

I. Introduction

Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted under Insurance Regulatory and Development Authority Act, 1999 and duly passed by the Parliament.

The IRDA Act, 1999 allows private players to enter the insurance sector in India besides a maximum foreign equity of 26 per cent in a private insurance company having operations in India. The Insurance Bill (Proposed by UPA government in July, 2013) but passed in July, 2014, raised the FDI limit in insurance sector to 49%. It serves as an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith.

IRDAI role is to protect rights of policy holders and they provide registration certification to life insurance companies and responsible for renewal, modification, cancellation and suspension of this registered certificate.

II. Mission Statement of the Authority

- ◆ To protect the interests of and secure fair treatment to policyholders;
- ◆ To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;
- ◆ To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;
- ◆ To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery;
- ◆ To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;

- ◆ To take action where such standards are inadequate or ineffectively enforced;
- ◆ To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation.

III. Duties, Powers and Functions of IRDAI

Section 14 of IRDAI Act, 1999 lays down the duties, powers and functions of IRDAI.

Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business. The powers and functions of the Authority shall include:

- ◆ issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
- ◆ protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
- ◆ specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents
- ◆ specifying the code of conduct for surveyors and loss assessors;
- ◆ promoting efficiency in the conduct of insurance business;
- ◆ promoting and regulating professional organisations connected with the insurance and re-insurance business;
- ◆ levying fees and other charges for carrying out the purposes of this Act;
- ◆ calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business;
- ◆ control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business.
- ◆ specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
- ◆ regulating investment of funds by insurance companies;
- ◆ regulating maintenance of margin of solvency;
- ◆ adjudication of disputes between insurers and intermediaries or insurance intermediaries;
- ◆ supervising the functioning of the Tariff Advisory Committee;
- ◆ specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause (f);
- ◆ specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
- ◆ exercising such other powers as may be prescribed.

IV. Role of IRDAI as Business Facilitator

IRDAI also acts as a business facilitator. Firstly, it takes steps to regulate and develop the insurance industry in the country. Secondly, it serves as an authority to protect the interest of the insurance policy holders in create confidence among them. Thirdly, IRDAI disseminates a lot of information for the benefit of policy holders and also for educating the general public about the advantages of getting insurance policies and keeping them alive.

The essential observations regarding the role of the non-funding institutions discussed in Section 5.2 are summarised in Table-1. This table may serve as a ready reckoner on non-funding institutions.

Table 1

Non-funding Institutions (Rule of the Game Setting Apex Organisations) in Business Facilitation

Salient Facts	RBI Reserve Bank of India	SEBI Securities and Exchange Board of India	CCI Competition Commission Of India	IRDAI Insurance Regulatory and Development Authority of India
Year of Setting-up	April 1, 1935	April 12, 1988. Given statutory powers in 1992.	October 14, 2003	2000
The Underlying Act of the Parliament of India	RBI Act, 1934	SEBI Act, 1992	Competition Act, 2002	IRDA Act, 1999
Important Precedent/s	Originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.	Replaces Controller of Capital Issues, an authority under the Capital Issue (Control) Act, 1947.	Replaces the Monopolies Commission under and repeals the Monopolies and Restrictive Trade Practices (MRTP) Act 1969.	Amends the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972.
Essential Mandate	Apex authority setting rules of the game for Money Market and performance of the functions of a Central Bank .	Apex authority for setting rules of the game for Capital Market and protection of Investor's Interests.	Apex authority for setting rules of the game primarily for Non-financial Markets (Markets for goods & services) for the protection of Consumers' Interests and the Producers' Freedom to Trade.	Apex authority for setting rules of the game for Market for Insurance Products in India and to protect the interests of the policyholders.

Main Functions	Monetisation; Ensuing adequate supply of money and credit in the economy; Integrity of Payments & Settlement mechanism e.g. preventing money laundering; Serving as Central Government's treasury; Custodian of foreign exchange (Forex) reserves and regulation of forex transactions.	Overseeing issues of capital by the companies; imposing Listing and Other Disclosure Requirements (LODR) on companies for transparency and accountability.	Overseeing anti-competitive agreements, abuse of dominant position by enterprises and business combinations e.g. Mergers & Acquisitions (M&As).	Issuing, renewing, modifying, withdrawing, suspending, or cancelling registration of the Insurance Companies; protection of the interests of the policy holders in such matters as regulation of insurance premium and settlement of insurance claim.
Role in Business Facilitation	Direct role in regulation of banking and non-banking financial intermediation business; indirectly influences the volume and cost of credit to the business firms	Enables firm to raise funds in the capital market and causes them to institute effective mechanisms of corporate governance.	Ensures co-existence of large and small enterprises; prevents misuse of dominant position in the market against other businesses.	Insurance is an important aid to business and IRDA ensures that this important service efficiently enables transfer of business risks.
Important Terms / Concepts pertaining to Business & Commercial Knowledge	Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), Bank Rate, Discount Rate, Repo Rate, Reverse Repo Rate.	Listing, Corporate Governance.	Business Combinations.	Life Insurance, Non-life (General Insurance).
Recent Landmark Developments	Remonetisation (popularly known as demonetisation) that banned the currency of the then prevalent ₹ 500/- notes and introduced notes of ₹ 2000/- denomination.	Issue of LODR 2015 and subsequent regulations for fostering good corporate governance.	CCI ordered investigation into the alleged anti competition practices of E-commerce majors such as deep discounting, preferential listing and promotion of certain labels and exclusive deals on certain products.	IRDAI came up with guidelines for Corona Kavach, Covid19- specific health insurance policy.

To sum up, it may be said that the role of non-funding institutions essentially lies in setting the rules of the game for the benefit of all the participants- businesses as well as their customers. They engender trust; reinforce integrity; and freewheel the functioning of the markets they serve as apex coordination and control mechanism for the designated area of expertise.



5.3 FUNDING INSTITUTIONS (INDIAN DEVELOPMENT BANKS)

Finance is said to be the life-blood of business. Business's financial needs may be broadly understood from the need for finance for the day-to-day operations (Working Capital) and the need for finance for undertaking capital expenditure (CAPEX). Working capital needs are met by trade credit and credit from commercial banks. Financing of CAPEX may be done by recourse to capital market for the special purpose financial institutions created in this regard.

In the first four decades since independence when the Indian capital market was rather underdeveloped the fuelling of industrial development was entrusted to a battery of special purpose financial institutions created toward this purpose. These special purpose financial institutions were called 'development banks.' In India, the genesis of development banking may be traced to the setting up of the Industrial Finance Corporation of India (IFCI) in 1948. The setting up of the Industrial Credit and Investment Corporation of India (ICICI) took place in 1955 and the Industries Development Bank of India (IDBI) in 1964. The latter two development banks have since converted into commercial banks. And the IFCI is now a Non-Banking Finance Company in Non Deposit Seeking Institution category (NBFC-NDSI). These institutions need to be restructured in view of the fact that the Indian capital market developed fairly well and assumed capabilities to finance the large industrial projects.

Financing agricultural and rural development however continued to pose developmental challenges. This explains the emergence of the National Bank for Agriculture and Rural Development (NABARD).

5.3.1 NABARD

National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India, headquartered at Mumbai with branches all over India. The Bank has been entrusted with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India". NABARD is active in developing financial inclusion policy and is a member of the Alliance for Financial inclusion.

NABARD has been instrumental in grounding rural, social innovations and social enterprises in the rural hinterlands. It has in the process partnered with about 4000 organisations in grounding many of the interventions. The organisation had developed a huge amount of trust capital in its 3 decades of work with rural communities.

1. NABARD is the most important institution in the country which looks after the development of the cottage industry, small industry and village industry, and other rural industries.
2. NABARD, besides agricultural also reaches out to allied activities such as poultry farming, animal husbandry etc. and supports and promotes integrated rural development.
3. NABARD discharge its duty by undertaking the following roles:
 - i. Serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas

- ii. Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
- iii. Co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, state governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation
- iv. Undertakes monitoring and evaluation of projects refinanced by it.
- v. NABARD refinances the financial institutions which finances the rural sector.
- vi. NABARD partakes in development of institutions which help the rural economy.
- vii. NABARD also keeps a check on its client institutes.
- viii. It regulates the institutions which provide financial help to the rural economy.
- ix. It provides training facilities to the institutions working in the field of rural upliftment.
- x. It regulates the cooperative banks and the RRB's and manages talent acquisition through IBPS CWE.

NABARD's refinance is available to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (SCBs), regional rural banks (RRBs), commercial banks (CBs) and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally given to individuals. NABARD has its head office at Mumbai, India.

NABARD is also known for its 'SHG Bank Linkage Programme' which encourages India's banks to lend to self-help groups (SHGs). Largely because SHGs are composed mainly of poor women, this has evolved into an important Indian tool for microfinance.

NABARD also has a portfolio of Natural Resource Management Programmes involving diverse fields like Watershed Development, Tribal Development and Farm Innovation through dedicated funds set up for the purpose.

The essential observations regarding the role of the funding institutions discussed in Section 5.3 are summarised in Table-2.

Table-2: Funding Institutions – A Ready Reckoner

Fact #1	For the first four decades or so the development banks took upon themselves the task of facilitating the industrial development of India.
Fact #2	Development banks were mere purveyors of credit. These did not accept deposit from public the way commercial banks do.
Fact #3	Set up in 1948, the IFCI was India's first development bank. It was followed by the ICICI in 1955 and the IDBI in 1964.
Fact #4	IFCI later on converted into Non-Banking Finance Company and the ICICI and the IDBI converted into Commercial Banks.
Fact #5	NABARD is the lone survivor from the era of development banking in India.

SUMMARY

The financial system in India is regulated by independent regulators in the field of banking, insurance, capital market, commodities market, and pension funds. Government of India plays a significant role in controlling the financial system in India by influencing these regulators. Indian regulatory bodies like SEBI, RBI, IRDA, CCI and the Indian development banks like NABARD etc. are the key organizations that facilitate businesses in India.

- ◆ SEBI is an authority to regulate and develop the Indian capital market and protect the interest of investors in the capital market. Controller of Capital Issues has been repealed by the SEBI, an authority under Capital Issue (Control) Act, 1947.
- ◆ The Reserve Bank of India (RBI) is the Central Bank of our country. It occupies a pivotal position in the Indian economy. The RBI, being the Central Bank of India performs all the central banking functions. Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted by a Parliament of India Act called Insurance Regulatory and Development Authority Act, 1999 and duly passed by the Government of India.
- ◆ Competition Commission of India is responsible for enforcing The Competition Act, 2002 throughout India and to prevent activities that have an appreciable adverse effect on competition in India.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. Who was the regulatory body for controlling financial affairs in India before SEBI?
 - (a) Controller of Capital Issues
 - (b) Reserve Bank of India
 - (c) Insurance Regulatory and Development Authority of India
 - (d) Government of India
2. When was SEBI constituted?
 - (a) 1988
 - (b) 1990
 - (c) 1986
 - (d) 1989
3. How many members of SEBI should be from RBI?
 - (a) 4
 - (b) 3

- (c) 1
 - (d) 2
4. Where can the first appeal against SEBI be made?
- (a) High Court
 - (b) Supreme Court
 - (c) Securities Appellate Tribunal
 - (d) RBI
5. Who regulates the currency in the country?
- (a) SEBI
 - (b) RBI
 - (c) Central Bank
 - (d) Finance Ministry
6. The RBI has been vested with extensive power to control and supervise commercial banking system under which Act?
- (a) The Reserve Bank of India Act, 1933
 - (b) The Reserve Bank of India Act, 1934
 - (c) The Reserve Bank of India Act, 1935
 - (d) The Reserve Bank of India Act, 1936
7. When was IRDAI constituted?
- (a) 1997
 - (b) 1998
 - (c) 1999
 - (d) 2000
8. Which Section of IRDAI Act, 1999 lays down the duties, powers and functions of IRDAI?
- (a) Section 10
 - (b) Section 12
 - (c) Section 14
 - (d) Section 5
9. Which of the following statements about RBI is incorrect?
- (a) It deals largely with Governments, Central and State Banks.
 - (b) Its role is to ensure monetary stability, including stability of domestic price levels.

- (c) One of its missions is to protect the interest of policyholders.
 - (d) The RBI is the sole authority for the issue of currency in India.
10. What is the constitution of Competition Commission of India?
- (a) A chairperson and 6 members appointed by the Central Government
 - (b) A chairperson and 5 members appointed by the Central Government
 - (c) A chairperson and 5 members appointed by the RBI
 - (d) A chairperson and 6 members appointed by the RBI
11. Where is the headquarter of NABARD?
- (a) Mumbai
 - (b) Delhi
 - (c) Gurugram
 - (d) Bengaluru
12. Large number of SHGs has been linked to credit, resulting in an important Indian tool for microfinance, by the endeavour of:
- (a) NABARD
 - (b) SIDBI
 - (c) IDBI
 - (d) SEBI
13. The regional office of SEBI is not located in:
- (a) Chennai
 - (b) Kolkata
 - (c) Chandigarh
 - (d) Ahmedabad
14. SEBI has its Western Regional Office in:
- (a) Pune
 - (b) Mumbai
 - (c) Ahmedabad
 - (d) Surat
15. Which one of the following statements is incorrect?
- (a) The SEBI members consist of a Chairman, who shall be appointed by Central Government.
 - (b) The SEBI members consist of two members from amongst the officials of the Ministry of the Central Government.

- (c) The SEBI members consist of one member from amongst the official of RBI, who shall be nominated by RBI.
 - (d) The SEBI members consist of five other members out of which at least four members shall be whole-time members, who shall be appointed by Central Government.
16. SEBI has to be responsive to the needs of groups, which constitute the market:
- (a) The issuers of securities
 - (b) The investors
 - (c) The market intermediaries
 - (d) All of the above
17. SEBI has several functions rolled into one body. Which one of the following is not the function of SEBI?
- (a) Quasi-legislative
 - (b) Quasi-judicial
 - (c) Quasi-professional
 - (d) Quasi-executive
18. For the discharge of its functions efficiently, SEBI has been vested with the following powers:
- (a) To approve by-laws of stock exchanges.
 - (b) To inspect the books of accounts and call for periodical returns from recognized stock exchanges.
 - (c) To compel certain companies to list their shares in one or more stock exchanges.
 - (d) All of the above
19. The RBI has been vested with extensive power to control and supervise commercial banking system under the-
- (a) Reserve Bank of India Act, 1934.
 - (b) The Banking Regulation Act, 1949.
 - (c) Both (a) and (b).
 - (d) None of the above.
20. Who is the custodian of the nation's foreign exchange reserves?
- (a) Central Government of India
 - (b) President of India
 - (c) Reserve Bank of India
 - (d) State Bank of India

21. The Reserve Bank of India being the Central Bank of India performs all the central banking functions. Which one of the following is not the functions of RBI?
- (a) Issue of currency
 - (b) Banker to the government
 - (c) Watchdog of the unethical competition in the market
 - (d) Custodian of the nation's foreign exchange reserves
22. Which one of the following is not the role of the Competition Commission of India?
- (a) To promote practices having adverse effect on competition.
 - (b) To promote and sustain competition in markets.
 - (c) To protect the interests of consumers and,
 - (d) To ensure freedom of trade carried on by other participants in markets in India.
23. NABARD refines the financial institutions which finances the _____
- (a) Urban sector
 - (b) Rural sector
 - (c) Secondary sector
 - (d) Service sector
24. NABARD serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in _____
- (a) Rural areas
 - (b) Urban areas
 - (c) Sub-urban areas
 - (d) All of the above
25. NABARD is the most important institution in the country which looks after the development of the
- (a) Cottage industry
 - (b) Small industry
 - (c) Village industry
 - (d) All of the above.
26. Which one is not a function of RBI?
- (a) Monopoly of Note issue
 - (b) Banker to the Government
 - (c) Advancing loan to large business houses
 - (d) Controller of Credit

27. Choose the correct statement:
- (a) SEBI came into force from Jan 30, 1992
 - (b) IRDA was set up by an Act of parliament in India
 - (c) NABARD bank of India was set up in 1982
 - (d) All the above
28. Which of the following statement is incorrect regarding development banks in India?
- (a) Development banks provide funds to new and upcoming business houses
 - (b) Development banks accept long term deposits from individual and firms
 - (c) IFCI was the first development bank in India
 - (d) The other two banks ICICI & IDBI have been converted into commercial banks
29. Which of the following is incorrect?
- (a) SLR and CRR are quantitative measures of credit control RBI
 - (b) Repo rate is the rate at which banks borrow money from RBI
 - (c) Bank rate and Repo rate are the same rate used for different purposes
 - (d) Qualitative measures of credit control are also called selective credit control
30. Find the odd one out:
- (a) NABARD
 - (b) SIDBI
 - (c) SEBI
 - (d) EXIM
31. Which of the following statements are correct?
- (a) Development banks filled the void of underdeveloped capital markets in the first four decades since independence.
 - (b) Development banks do not accept deposits; these are mere purveyors of credit.
 - (c) ICICI and IDBI even today enjoy the status of apex level special purpose financial institutions.
 - (d) (a) & (b)
32. Which of the following statements are not correct?
- (a) NABARD provides refinance facility in respect of credit to agricultural & rural sector.
 - (b) NABARD performs apex level coordination role
 - (c) NABARD is a commercial bank
 - (d) None of the above

33. From the following combinations of the financial institutions and their functions which is/ are not correct
- (a) SEBI sets rules of the game for money market
 - (b) RBI sets rules of the game for capital market
 - (c) CCI sets rules of the game for products and services in non-financial markets
 - (d) (a) & (b)
34. Which of the following institutions converted into a Non-Banking Finance Company?
- (a) IFCI
 - (b) IDBI
 - (c) ICICI
 - (d) CCI

Answer Keys to MCQs

1	(a)	2	(a)	3	(c)	4	(c)	5	(b)
6	(b)	7	(c)	8	(c)	9	(c)	10	(a)
11	(a)	12	(a)	13	(c)	14	(c)	15	(d)
16	(d)	17	(c)	18	(d)	19	(c)	20	(c)
21	(c)	22	(a)	23	(b)	24	(a)	25	(d)
26	(c)	27	(d)	28	(b)	29	(c)	30	(c)
31	(d)	32	(c)	33	(d)	34	(a)		