Alternative Model for Financial Sector Regulation

— *N C Maheshwari*

Financial sectors caters to the need for Resources by trade, industry and commerce

It is a place which, mediates between the entities having surplus fund (resources lender) to the entities looking for funds (resources borrower). This Channelization of surplus funds (savings) to industry, has traditionally been in shape of equity or debt. Financial market has been a place where trading takes place round the clock; between industry which looks for cheaper cost of funds and, the lender who wants maximum returns on his investment.

Resources are always scarce, therefore, are required to be deployed as per the policy of Govt. preferring one sector to another or one model to another. Moreover, savings are generated through a large number of disorganized individuals or entities, scattered all over country having negligible inside information of the industry, whereas, funds are required by organized corporate sector, comparatively less in number, who can always acts in cartel and can influence the policy decisions to their advantage. To balance this inherent weakness of investors, various rules, regulations are made world over, so that investors can be protected. Owing to obvious dominance of corporate sector, innovative, ambitious and imaginative products keep on evolving, requiring a greater protection to investors and regulation of financial market. It has resulted into creation of body of regulators, distinct from Government and, drawn from personnel having domain knowledge of those products. Thus, world over regulation of financial market is being entrusted to a separate body which takes care of the total financial sector or different small regulators which take care of a segment of the market.

In India, the jurisdiction of financial markets is as under:-

	Segment	Regulators
i)	Monetary, credit Policy and Debt market	Reserve Bank of India
ii)	Capital Market	Securities & Exchange Board of India (SEBI)
iii)	Insurance	Insurance Regulatory & Development Authority (IRDA)
iv)	Pensions	Pension Regulatory & Development Authority
v)	Commodities Trading	Forward Market Commission
vi)	Agriculture Product	Mandies Constituted under APMC Act
vii)	Currency Trading	Technical Committee comprising of SEBI & RBI representatives

But with a large number of the hybrid products available and, being evolved on continuous basis, the separate legs of the same products, may encompass upon different regulators and, sometimes even interpretation can totally be opposite to each other. Not only this, over a period of time, the distribution model and channel for financial products have totally been changed. Now banking sector is providing share broking services, mutual fund distribution, even AMCs are selling insurance for commissions or IPO through ASBA (Application Supported by Blocked Amount). Therefore, it is essentials to have convergence of regulators and an inbuilt system to find out a solution for regulatory arbitrage, overlapping jurisdictions.

Presently, these issues are taken care of by High Level Co-ordination Committee on financial market (HLCC) headed by RBI Governor. It was proposed to have Financial Stability & Development Council which would concentrate on financial stability.

Lately Govt. has also resorted to ordinance to settle the jurisdiction issue of ULIPs between IRDA and SEBI.

These all developments have necessitated the need to revisit the concept and structuring of regulators. The purpose of this articles is to give thought to the alternative models described below:

Regulatory Authority for Market Intermediation	Regulatory Authority for Trading & Investment	Regulatory Authority for Insurance & Pension	Regulatory Authority for Debt Management
- Registration - Inspection - Compliance & Systems - Selling Procedures - Investor Grievances	- Registration - Inspection - Products Developments & products approvals - Complaints against such registered entities - Regulation of Clearing Corporation - Reinvestment of funds raised by Insurance companies, pension funds & mutual funds	1. Registration, Inspection and Monitoring of: - Insurance companies - Pension fund - companies who will be allowed to offer pension scheme to general public 2. Insurance products development and approvals	1. Public Debt 2. Whole Sale Debt segment 3. Corporate Bonds and debentures exceeding a specified tenure 4. Treasury Bills

All the financial regulators would be the members of Resource Development & Regulatory Authority of India. In addition, it would have members from Govt., RBI and Trade.

Proposed system would have following additional merits

i) *Synchronization of products :* As aforesaid the basic purpose of financial market is to bridge the gap between resources available and needed at the optimum cost. The proposed system will synchronize all savings products.

ii) *One approval for Registration and further changes :* Registration of intermediaries will be required at one place, as against present system in which, all intermediaries (Brokers) are registered exchange wise with SEBI resulting into operational issues. Even if, a shareholder / director is to be changed or capital is to be increased, approval is required by all the exchanges separately. In the proposed system, only one approval would be required.

iii) *SRO- Key to efficient growth of Market:* Registration, compliances and adherence to best trade practices by intermediaries is a field where SRO, can work wonder. The proposed system would be conducive and more efficient to the growth of market through SRO's.

iv) *Unified Clearing Corporations:* Major efficiency to be achieved under proposed system, would be fungibility of funds, deposits as margin or otherwise across exchanges. Single regulator across all exchanges, clearing and settlements would ensure unification or online connectivity across clearing corporations. This would result shifting of capital from one segment to another within no time.

v) *Prevention from Mis-Selling:* World over, mis-selling of financial products is a major concern. Derivatives or hybrid products are sold to investors without explaining the risk associated with such products. The same types of cases were reported in Mutual Funds Distributions as well as under writing insurances. Since all the selling force would be regulated under a single umbrella, code of conduct would be standardized resulting into less investors complaints.

vi) *Clear distinction of Responsibilities:* There would be a clear distinction between Micro management and Macro policy initiatives while broad policy initiative would be responsibility of main body, ground work for putting those ideas to work would be the responsibility of functional regulators.

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