

Role of Regulatory Authorities in Financial Markets: *An Analysis*

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Abstract: The paper reviews the objectives, roles and functions of the three regulatory authorities Reserve Bank of India, Stock Exchange Board of India and Insurance Regulation & Development Authority in maintaining corporate governance in financial markets. The paper tries to review how the RBI regulates the money market, SEBI regulates the stock market and the IRDA regulates the insurance sector. The paper is divided into seven sections. The first section introduces the objectives of the paper. The second and third sections describe the meaning of financial markets and types of financial services. The fourth and fifth sections explain the need and aims of regulators. The sixth section describes in detail the need and steps taken by the three regulators RBI, SEBI and IRDA. The last section concludes the paper.

Key Words: Corporate Governance, Banking, Insurance, Stock Exchange, RBI, IRDA, SEBI, Financial Institutes

1. INTRODUCTION:

The concept and importance of Corporate Governance has become very important in last few decades. In the turbulent times of scandals and frauds, the importance of good corporate governance for overall economic stability and national credibility has been felt like never before. In order to protect the interest of the people, the preservation of sound governance at every level of our society, be it banking, insurance or the stock market has become very vital. There is, therefore, a need for a supervising body. These regulators play the role of important task-masters and norm-setters in Corporate Governance. The present research paper tries to review the role of regulatory authorities like RBI, IRDA and SEBI in guaranteeing corporate governance in Banking, Insurance and Stock Exchange respectively. The paper discusses at the fundamental level the meaning of financial market, main types of financial services, need for regulators and how those regulatory bodies safeguard the interest and investment of common people.

2. FINANCIAL MARKETS: MEANING

The Market in which the Financial Services are sold and bought is known as Financial Markets. A **financial market** is a place where firms and individuals enter into contracts to sell or buy a specific product such as a stock, bond, or futures contract. Buyers seek to buy at the lowest available price and sellers seek to sell at the highest available price. A **financial market** brings buyers and sellers together to trade in **financial** assets such as stocks, bonds, commodities, derivatives and currencies. The **purpose** of a **financial market** is to set prices for global trade, raise capital, and transfer liquidity and risk.

3. MAIN TYPES OF FINANCIAL SERVICES:

Financial Services is a term used to refer to the **services** provided by the **finance** market. **Financial Services** is also the term used to describe organizations that deal with the management of money. Examples are the Banks, investment banks, insurance companies, credit card companies and stock brokerages. Some basic types of financial services are as following.

- Banking
- Insurance
- Securities brokerage or financial advisory services
- Investment banking
- Securities trading
- Investment management or money management
- Securities analysis
- Financial planning

The present research paper deals with the following three types of financial services.

Stocks: Which are sold by Stock Exchanges

Insurance: This is sold by Insurance Companies

Money: This is lent by the commercial banks and other financial institutions

4. NEED FOR REGULATORS:

The institutions selling financial services may indulge in fraudulent practices adversely affecting the general public. **Financial regulation** is a form of regulation or supervision, which subjects financial institutions to certain requirements, restrictions and guidelines, aiming to maintain the integrity of the financial system. This may be handled by either a government or non-government organization. Financial regulation has also influenced the structure of banking sectors by increasing the variety of financial products available.

5. AIMS OF REGULATION

The objectives of financial regulators are usually,

- market confidence – to maintain confidence in the financial system
- financial stability – contributing to the protection and enhancement of stability of the financial system
- Consumer protection – securing the appropriate degree of protection for consumers.

6. THREE MAIN REGULATORS:

RBI is the main regulator in case of Money Market. The central bank of the country is the Reserve Bank of India (RBI). It was established in April 1935 with a share capital of Rs. 5 crores on the basis of the recommendations of the Hilton Young Commission. The share capital was divided into shares of Rs. 100 each fully paid which was entirely owned by private shareholders in the beginning. The Bank was constituted for the need of following:

- To regulate the issue of banknotes.
- To maintain reserves with a view to securing monetary stability and,
- To operate the credit and currency system of the country to its advantage

IRDA (Insurance Regulatory Development Authority) is the main regulator in case of Insurance sector where as SEBI is the main regulator in case of stock exchanges.

6.1. RESERVE BANK OF INDIA:

6.1.1. Need For RBI As A Regulator

The Reserve Bank regulates and supervises the nation's financial system. Different departments of the Reserve Bank oversee the various entities that comprise India's financial infrastructure. They direct Commercial banks and all-India development financial institutions, Urban cooperative banks, Regional Rural banks (RRB), Non-Banking Financial Companies (NBFC) etc.

Financial Institutions accept deposits from the general public and lend it to the corporates. The Banks may lend money to wrong people and this may result into loss of public money. So there was a need for some regulator which can monitor and control the decisions of the banks. RBI is such a regulator. The '**Board for Financial Supervision**' oversees the RBIs role as a regulator.

6.1.2. Steps Taken By RBI As A Regulator:

The preamble of the Reserve Bank of India describes its main 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.

Accordingly, RBI takes several steps as a regulator of money market. The steps are as following.

1. On Site Inspection
2. Off Site Surveillance by making reporting compulsory
3. Periodic meetings with management of the financial institutes Licensing
4. Prescribing Minimum capital and cash requirements
5. Monitoring the Governance of the Banks
6. Prescribing lending requirements to the priority sector
7. Prescribing conditions for lending

6.2. STOCK EXCHANGE BOARD OF INDIA:

6.2.1. Functions and Objectives

Under the SEBI Act, 1992, the SEBI has been authorized to conduct inspection of stock exchanges. The SEBI has been scrutinizing the stock exchanges once every year since 1995-96. During these inspections, a review of the market operations, organizational structure and managerial control of the exchange is made to ascertain whether:

1. the exchange provides a fair, equitable and growing market to investors
2. the exchange's organization, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956 and rules framed there under
3. the exchange has implemented the directions, guidelines and instructions issued by the SEBI from time to time

4. the exchange has complied with the conditions, if any, imposed on it at the time of renewal/ grant of its recognition under section 4 of the SC(R) Act, 1956.

The main objectives of SEBI are:

- (1) Regulation of Stock Exchanges: The first objective of SEBI is to regulate stock exchanges so that efficient services may be provided to all the parties operating there.
- (2) Protection to the Investors
- (3) Checking the Insider Trading
- (4) Control over Brokers

6.2.2. Steps taken by SEBI as Regulator of Stock Market

Since the establishment of SEB in 1992, the Indian securities market has developed enormously in terms of volumes, new products and financial services. SEBI takes the following steps for controlling the stock-exchanges of the country.

1. Educate the Investors
2. SEBI is authorized to call for information, Investigation, Audit Registration of intermediaries like brokers, underwriters, merchant bankers etc.
3. Canceling their licenses if they violate the rules
4. Regulating acquisition of substantial shares by a company
5. Issuing guidelines for issuing shares

6.3. INSURANCE REGULATION DEVELOPMENT ACT:

6.3.1. Need for IRDA

The **Insurance Regulatory and Development Authority of India (IRDAI)** is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India. It was constituted by the Insurance Regulatory and Development Authority Act, 1999, an Act of Parliament passed by the Government of India. The agency's headquarters are in Hyderabad, Telangana, where it moved from Delhi in 2001. It was constituted by Parliament of India Act called IRDA after the formal declaration of Insurance Laws (Amendment) Ordinance 2014, by the President of India Pranab Mukherjee on December 26, 2014.

Its main objectives are as under

1. To promote the interest and rights of policy holders.
2. To promote and ensure the growth of Insurance Industry.
3. To ensure speedy settlement of genuine claims and to prevent frauds and malpractices
4. To bring transparency and orderly conduct of in financial markets dealing with insurance.

6.3.2. Functions of IRDAI

The functions of the IRDAI are defined in Section 14 of the IRDAI Act, 1999, and include:

- Issuing, renewing, modifying, withdrawing, suspending or cancelling registrations
- Protecting policyholder interests
- Specifying qualifications, the code of conduct and training for intermediaries and agents
- Specifying the code of conduct for surveyors and loss assessors
- Promoting efficiency
- Promoting and regulating professional organizations connected with the insurance and re-insurance industry
- Levying fees and other charges
- Inspecting and investigating insurers, intermediaries and other relevant organizations
- Regulating rates, advantages, terms and conditions which may be offered by insurers not covered by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938
- Specifying how books should be kept
- Regulating company investment of funds
- Regulating a margin of solvency
- Adjudicating disputes between insurers and intermediaries or insurance intermediaries
- Supervising the Tariff Advisory Committee
- Specifying the percentage of premium income to finance schemes for promoting and regulating professional organisations
- Specifying the percentage of life- and general-insurance business undertaken in the rural or social sector
- Specifying the form and the manner in which books of accounts shall be maintained, and statement of accounts shall be rendered by insurers and other insurer intermediaries

6.3.3. Steps taken by IRDA

IRDA has put forth many measures to protect the policyholders' interests. Insurers have been told to strengthen their grievance redress procedures, consumer complaint resolving procedures where they are found weak. It takes following steps for regulating the insurance sector.

1. Registration of Insurance Companies (Giving them Licenses)
2. Cancelling the licenses in case they act against the IRDA Act
3. Imposing penalty on those insurance companies which violate the provisions of the Act.
4. Prescribing Minimum Qualification & Training etc for becoming an intermediary
5. Registration of Insurance Agents etc. and Cancelling their license
6. Inspection and Audit of Insurance companies
7. Prescribe the manner in which the insurance company should maintain the books (Financial Reporting)
8. The way in which the funds should be invested
9. Targets for covering insurance in rural areas
10. Allowing Private and Foreign Insurance companies in India (to boost competition)

11. Regulation and supervision of premium rates and terms
12. Maintenance of Solvency Margin

7. CONCLUSION:

The financial system in India is regulated by independent regulators in the field of banking, insurance, capital market, commodities market, and pension funds. However, Government of India plays a significant role in controlling the financial system in India and influences the roles of such regulators at least to some extent. However there is a dire need of stringent laws and harsh punishments in cases of scams to curb the frauds and violations. "The most urgent and most debated area of regulation has to do with that which affects the operation of the economic machine itself. Adverse conduct here can be deeply damaging, but even when it is visibly destructive, action to correct it can be strongly resisted," wrote John Kenneth Galbraith.

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