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REFORMS IN INDIAN FINANCIAL SECTOR: AN OVERVIEW

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ABSTRACT

Financial sector reforms in India introduced as an element of the structural adjustment and economic reforms programme in the early 1990s have had a profound impact on the functioning of the financial institutions, especially banks. The principal objective of monetary sector reforms was to enhance the allocative efficiency of resources, ensure financial stability and maintain confidence in the national economy by enhancing its soundness and efficiency. After reviewing the literature if was found that not even one study has been seen to hide sufficient large span of time so overall picture of monetary sector reform's impact could emerge. Also no other study was found which compared the impact of economic sector in pre and post reform period. Hence in the present study both the lacuna are filled taking long span of time to check the phenomenon and also comparing the impact in pre and post reforms period. The current study describes the requirement of the financial sector reforms in perspective of national macro-economic development policy and analyzes the impact of those reforms on the GDP and other macro-economic variables like inflation, gross capital formation. No doubt, the Indian economy has improved to an oversized extent under reform period but still some areas are lagging behind in their performance. Hence, in the present study impact of economic sector reforms on GDP, Inflation and Gross Capital Formation was studied. The symptoms chosen under financial reforms factor were banking sector reforms, capital sector and foreign sector.

Keywords: *Economy, Banking, Insurance, Financial Reforms, Capital Market, World Economy.*

Introduction

The present study has focused on all segments of Indian financial sector i.e. banking sector, government Securities market, Foreign exchange market, capital market and other segments like. It includes a review of Indian financial sector since liberalization i.e. 1991. The study is essentially associated with financial reforms and its impact on the economy. The study is undertaken to search out the explanations behind the continual volatility in the economy. The study covers the reforms initiated in various sectors of economic system and also the progress achieved by these segments since liberalization. The scope of study becomes apparently clear from the format of reporting. The study opens with a conceptual overview of Indian national economy. This research work throws light on the economic reforms generally and financial sector reforms specifically. In the study, the problems in regulatory architecture of economic sector are discussed. Moreover it gives an outline of the financial sector and Indian Economy. On the current status of the financial sector, admittedly, there's scope for considerable improvement. Yet, its strength and resilience in ensuring growth and stability are recognized universally. In the major emerging economies, we compare favorably within the services sector and are seeking to compete in the manufacturing sector while we try and catch au fait the fiscal and infrastructural fronts. However, it's in the financial and banking sectors that we are unarguably ahead. Our banking sector reform has been unique in the world in this it combines a comprehensive reorientation of competition, regulation and ownership in an exceedingly non-disruptive and cost-effective manner.

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The Financial Sector

The financial sector could be a set of complex and closely connected or interlined institutions, agents, practices, markets, transactions, assertions, and liabilities in the economy that job together to supply funds for various economic activities. Financial sector includes multiple institutional arrangements for mobilizing financial surplus from the people and transfer these to the deficit spenders. The institutional arrangements include all conditions and mechanism determining production, distribution, exchange and holding of economic assets of varied types and also the organizations moreover as manner of operations of monetary markets and institutions. A financial sector helps to market savings and properly allocate the available funds. It concerned about money, credit and finance, closely correlated yet different from one another. Money refers to the means of payment or medium of exchange for love or money and it also is a store of import. Money consists of coins, notes and deposits with banks withdrawal on demand. It's the liability of the industry. Credit/loan means a sum of cash lend by one party to a different to be returned with interest. It's asset for the lender of the financial institution and liability for the holding person. Finance is that the monetary means for funding the varied activities. It includes debt and owner funds of an economic entity.

Financial Reforms Undertaken in India

Reforms in various parts of financial sectors have been discussed as below:

- **Reforms in banking Sector**: it's useful to judge how the national economy has performed in an objective quantitative manner. This can be important because India's path of reforms has been different from most other emerging market economies: it's been a measured, gradual, cautious, and steady process, empty of many flourishes that would be observed in other countries. There are two phases in the total financial sector reforms, especially banking sector reforms. In the first Phase was of 1991 to 1997, the primary phase it provided necessary platform to the banking sector to control on the idea of operational flexibility and functional autonomy. It resulted to boost efficiency, productivity and profitability. In this Phase the government of India appointed second Narasimhan Committee under the chairmanship of Mr. M. Narasimhan to review the primary phase of banking reforms and chart a programme for further reforms necessary to strengthen India's national economy so on make it internationally competitive.
- **Reforms in Capital Market:** The capital market can broadly be divided into Primary Market and Secondary Market. The primary market is where the firms actually obtain resources to finance investment projects Secondary Market trading generates liquidity and costs, which enable and guide the sale of securities on the primary market. The SEBI Act, 1992 encompasses entire gamut of industry. It absolutely was given statutory status on April 30, 1992, by promulgation of SEBI ordinance. SEBI has been given substantial powers under the SEBI Act to control the activities of varied players in the capital market. SEBI came out with number of guidelines and reforms to boost the state of the capital market and expedite its development. The second important wing of the capital market is Secondary Market or Stock Exchange. India includes a well established securities market with a long history of organized Trading and Securities. By the begining of 1980s, India initiated the time of liberalization in the financial sector and Indian capital Markets first came in to the main focus of presidency attention in 1987. These reforms led to strong speculative activities and therefore the exchange experienced an unprecedented boom so under-developed secondary market was unable to arrest this trend. The year 1988, particularly, has been a land-mark in the history of Indian stock exchange because it witnessed the putting in place of Stock Holding Corporation of India Limited (SHCIL), The Discount and Finance House of India (DFHI), Credit Rating Information Services of India Limited (CRISIL) and Securities and Exchange Board of India (SEBI)**.**
- **Reforms in Insurance Sector:** In the insurance, the LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. General Insurance in India has its roots in the establishment of the Indian Mercantile Insurance Ltd founded. This was the primary company to transact all classes of general insurance business. 1957 was the formation of the overall Insurance Council, a wing of the Insurance Association of India. Just in case of General Insurance Sector the final Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices. Insurers were amalgamated and grouped into four companies, namely National insurance Company Ltd., the New India Assurance Company Ltd., the Oriental insurance company Ltd and United India insurance company Ltd. the Life Insurance Corporation of India was incorporated as an organization in 1971 and it commence business on

January 1st 1973. This millennium has seen insurance come a full circle during a journey extending to just about 200 years. The method of re-opening of the arena had begun in the early 1990s and the last decade and more has seen it been unfolded substantially. In 1993, the government founded a committee under the chairmanship of R N Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The target was to enhance the reforms initiated in the financial sector. The committee submitted its report in 1994. For the control of Insurance Business Insurance Regulatory and Development Authority (IRDA was constituted on April 19, 1999 with Government of India notification no. 277. The Act vested the IRDA with the 98 responsibility of regulating and developing the business of insurance and reinsurance in India.

- **Reforms in the Government Securities Market:** Major reforms are administered in the government securities (G-Sec) debt market. In fact, it's probably correct to mention that a functioning G-Sec debt market was really initiated in the 1990s. The system had to essentially move from a technique of pre-emption of resources from banks at administered interest rates and through monetization to a more market oriented system. The high SLR requirement created a captive market place for government securities, which were issued at low administered interest rates. Over the past few years numerous steps are taken to broaden and deepen the government stock exchange and to boost the amount of transparency.
- **Reforms in Foreign Exchange market:** The Indian forex exchange market had been heavily controlled since the 1950s, together with increasing trade controls designed to foster import substitution. Consequently, both this and capital accounts were closed and exchange was made available by the Reserve bank of India through a licensing system. The task facing India within the early 1990s was therefore to gradually move from total control to a functioning Foreign exchange market. The move towards a market-based rate regime in 1993 and also the subsequent adoption of current account convertibility were the key measures in reforming the Indian exchange market. Reforms in the interchange market focused on market development with prudential safeguards without destabilizing the market. Authorized Dealers of interchange are allowed to hold on an oversized range of activities. Banks are given large autonomy to undertake interchange operations. So as to deepen the interchange market, an outsized number of products are introduced and entry of newer players has been allowed within the market.
- **Reforms in other segments of Financial Sector:** These Measures aimed toward establishing prudential regulation and supervision and also competition and efficiency enhancing measures have also been introduced for nonbank financial intermediaries furthermore. Towards this end, non-banking financial companies (NBFCs), especially those involved public deposit taking activities, are brought under the regulation of RBI. Development Finance Institutions (DFIs), specialised term lending institutions, NBFCs, Urban Cooperative Banks and first Dealers have all been brought under the supervision of the Board for Financial Supervision (BFS). Pension Reforms On 23 August 2003, Government decided to introduce a brand new restructured defied contribution pension system for brand new entrants to Central Government service, except to defense force, in the first stage, replacing the present defined benefit system.

Some Recent Initiatives of Govt. of India

The Insurance (Laws) Amendment Act (2015) may be a game changer for the insurance industry. It's a significant step towards the deepening of economic reform process in insurance sector. With the FDI limit hike from 26% to 49% it'll possibly speed up the continuing reform process in Indian economy and might take the Indian economy into new heights. One among the notable features of this amended Act of 2015 was that the subscribers of Employee's Provident Fund (EPF) will now have option to go for New Pension Scheme (NPS) of the government of India and also the workers covered under the Employee's State Insurance will have the choice to decide on insurance products organized by the IRDA. If the life insurance schemes of the government of India including the state government and the insurance schemes issued by the IRDAI move through a correct mechanism; would help to make reforms better. Therefore, it also can be said that in a way these reforms are going to make the industry more transparent and consumer-friendly, which clearly implies that they're going to benefit not only the insurers but are going to be beneficial for the insured too. The Finance minister also had announced many schemes in his Union Budget speech 2015-16, which might cause increase the insurance penetration in the country and particularly in the insurance segments. A number of them are: In line with Pradhan Mantri Jan Dhan Yojana (PMJDY), Another scheme named Pradhan Mantri Suraksha Bima Yojana (PMSBY) was also announced that may cover accidental death risk of Rs.2 lakh for a premium of only Rs.12 each

year, i.e. 1 per month. Pradhan Mantri Jeevan Bima Yojana (PMJBY), a Social Security scheme was also announced that will cover both natural and accidental death risk of Rs. 2 lakh. The premium would be Rs.330 p.a. or say around a rupee per day, for the age bracket of 18-50 years. Government has proposed to extend the insurance deduction limits under Section 80D to Rs.25000 from Rs.15000.

Conclusion

In conclusion it will be said that the analysis done thus far reveals all the financial reform factors i.e. banking, capital and foreign sector variable and their sub-factor or components pay significant role in impacting Indian economy indicators. It had been seen that in both pre reforms period the impact of banking sector was significant in pre further as post reforms period on GDP, inflation and Gross capital formation. The impact of capital sector was significant on GDP which too in pre-reform period. In post reform period this has also become non-significant. But the foremost important point which is to be noted is the impact of foreign sector on GDP, inflation and GCF. The impact of foreign sector was non significant on all the three economic indicators in pre-reform period become highly significant in post-reform period. Therefore we will say that after opening from economy participation of foreign player has increased very significantly which has resulted in significantly affecting Indian Economy. In practice, within the given legal framework, priorities must be formulated to confirm implementation in tune with the evolving domestic and external developments.

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