A Study on Major Reforms In Investment Sector - Indian Financial System

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Abstract:

Indian financial sector is very dynamic and it plays a vital role in investment area. Financial sector in India initially was very weak but later on undergoes many changes financial sector includes financial markets, investments and financial services. It offers many investment avenues to the people for savings, earning income, benefits in the future etc. As long as the time flows many reforms are done to the Indian financial sector with the introduction of LPG policies to add more opportunities services easy access and transferability to the people ,that creates very much significance to the lives of people .The present study is focus on what kind of reforms are done especially in the investment sector and the major benefits of the reforms to the people and the problems that influences to meet investor expectations. The data collected for the study is purely secondary data and descriptive in nature. The study majorly focus on the reasons for introduction of reforms to the Indian financial system.

Key words : Investment reforms, Reasons, Investor Expectations.

I. Introduction :

Financial system :

A financial system is exchanging of funds between the players of buyers and sellers, lenders and borrowers, users and savers etc .In financial system money can be used as a medium for relocation of resources to needy people i.e. financial markets, banks, financial institutions etc.

Major components of financial system :

A good financial system must include four important components : they are

1. Financial Markets
2. Financial Assets
3. Financial Institutions
4. Financial services

1.Financial markets :

A financial market is a place where exchanging of assets, property, bonds, shares etc taken place between buyers and sellers, users and lenders .

2.Financial assets :

The products which are eligible to traded in financial market is called financial assets.

3. Financial Institutions:

Institutions are mediators between investors and borrowers, savers and lenders. The institutions provide the services whatever they want and mobilize the savings either directly or indirectly required by the people. Not only to the investors but also to the other organizations are getting the services by the financial institutions whose role is to raise funds and take care of their financial assets.

4. Financial services :

Various services are offered by banks, financial institutions, insurance companies, asset management companies .

Investment opportunities in financial system :

Various investment opportunities that are available under financial system is

Bonds

Shares

Derivatives

Insurance

Postal deposits

Financial sector :

A financial sector is a combination of firms and institutions that provide financial services to all the customers. A good financial sector indicates a healthy economy and vice versa. Many banks, investment companies, insurance companies and various other companies are participating. A financial sector also generates its revenue by offering loans, mortgages at a low rate of interest to the ordinary people, business organizations. If the interest rates are low various financial investments are open up their doors and it contributes a positive economy growth in the country and vice versa.

II. Conceptual theory:

History of Indian financial system dates back even before the period when India got independence in the Year 1947. The Indian Financial system can be classified into 3 phases: –namely

1. Pre Independence Phase (Before 1947).
2. Post-Independence Phase (1947-1991).
3. The Liberalization era (1991 and beyond).

1. Pre- Independence Phase:

During this phase, around 600 number of banks were existed in India. The first bank is established in the year 1770 in Calcutta with the name of Bank of Hindustan and it helps in starting of Banking sector in Indian Financial System. Later due to the discontinue of services, other banks were came into existence such as General Bank of India (1786-91) and Oudh commercial bank (1881-1958). However, these banks were not able to continue for a long.

In 19th century few banks are existed and are working today also they are Punjab national bank in 1894 and another one is Allahabad bank in 1865. Another 3 major banks which are introduced as Bank of Bengal, Bank of Madras and Bank of Bombay. All these banks are finally merged and started as a Imperial Bank of India. Later these banks is renamed as State Bank of India.

During this phase,

The Bombay Stock Exchange(BSE) also established in the year of 1875 it is Asia's first stock exchange. The BSE has helped develop India's capital markets, including the retail debt market, and has helped grow the Indian corporate sector.

Hilton Young Commission in year 1935 recommended the establishment of Reserve bank of India. It creates a remarkable history in the world. Many small size banks didn't work properly and unable to gain the public confidence, trust. Many money lenders who lend money at high rate of interest and unregulated players are fully active in this phase went to deactive phase. Due to this many money lenders are restricted to give loans at different rate of interest.

2. Post-Independence Phase :

Majority of the banks which are serving only to the big corporates at the time of independence got a chance to nationalized. This phase is remarkable to the nationalization of banks. Many rural population, small scale industries, agriculture sector, weavers depend heavily on money lenders. To avoid that problems, situations government need to nationalize the banks under the act of Banking regulation act 1949.later RBI is established in 1935 and nationalized in the year of 1949. During the period of Indira Gandhi, in July 1949 14 commercial banks were nationalized .

Later many RRBs (Regional Rural Banks) are established in the year of 1975 with the recommendations of Narasimhan Committee . the committee suggested the development of rural banks at each corner of the country and need their services to many unserved persons in India .

To support the economy and development of the economy there were constituted many specialized banks. These are like NABARD existed in the year of 1982 for continuous support of the agriculture related activities, NHB -National Housing Bank in the year of 1988 for the entire housing sector and SIDBI in the year of 1990 for supporting small scale firms.

Nationalization of banks in the banking industry is a remarkable step in the industry which boost the country's economy growth. It was successful in gaining trust and people's confidence in banking services and also smaller group were easily able to access capital from financial institutions post nationalization.

3. The Liberalization Era

In the year of 1991 LPG policies were set up by the Narasimhan due to this policies many reforms are happen to the different industries of the India and economy is much affected after attracting of FDIs into many sectors.

To bring various reforms in the banking industry a committee was set up under the chairmanship of shri M.Narasimham its main intention is to regulate the banking activities and stabilize the profits . This has been seen considered as a most remarkable changes in the banking industry.

During this phase , it allows many private player's to enter into the banking industry and give a chance to boost the economy. RBI also granted the license to 10 other private sector banks for boosting of the economy. They are like HDFC bank, ICICI Bank, Axis Bank, IndusInd Bank and many others. National stock exchange also established in the year of 1992 and introduced fully automated electronic trading.

Narasimham committee again recommended in the year of 1998 for the entry of more private entities in banking industry. Therefore, license was provided to Kotak Mahindra in 2001 and Yes Bank in 2004 by RBI. Further in the year of 2013-2014, a license was granted to Bandhan and IDFC bank.

After considering several other measures Several other foreign banks also were allowing to set up in India ,and given equal chance to participate with public and private companies and these are also treated equally by RBI. Many other kind of foreign Banks are also started joint ventures, mergers with Indian Banks and setting small finance banks, payment banks.

Not only a banks in every sector FDI is allowed to boost up the economy and to develop the every industry and country. This FDI is earlier 49% later shift to 51% and further allowed 100% in many sectors.

III. Need for the study :

An efficient financial system needed a significant reforms to improve the confidence in the system, effective allocation and mobilization of resources and to promote savings, income for the people, promote financial inclusion, maintain a stable Balance of payments (BOP), offer appropriate returns for the investors, to regulate financial recession, to deregulate interest rates etc.

It also needed for government to fix prices for government securities, to fix CRR, SLR, Repo rate , Reverse Repo Rate, to create a strong debt market at low rate of interest.

Another important need for reforms is to offer significant financial solutions where the loans, mortgages, interest rates are underserved. It helps them to go for innovations, digitalization for clear settlements between the parties .

A good and positive reform always make any industry and sector to move and grow steadily and shows a positive economy growth. The reform always gain a public attention and it make ease and convenient to the public to do more investments.

IV. Objectives of the study :

- To study the reforms in different investment opportunities.
- To identify a gap between investor expectations and investment opportunities.
- To give some suggestions for modifying of reforms in India.

V. Research Methodology :

Data collection :

Generally the data is collected from two sources i.e. primary data and secondary data. The study is purely based on the secondary data and is collected through various websites.

The study is purely theoretical in nature and it is descriptive in nature. Because it explains what kind of reforms already existed in different investment areas like securities, insurance, derivatives, financial institutions. It explains that reforms and suggested any need of improvement.

VI .1. Reforms in different investment opportunities.

A. Capital Market reforms since 1991 :

In India major reforms that affect the economy is capital market reforms before 1990s capital market is very less important and the reforms are beginning from 1991 onwards after introduction of a regulatory system to the capital market that is SEBI -Securities Exchange Board of India.

The capital market mainly included 2 types of market – primary market and secondary market. Reforms can be observed in both type of markets.

Primary Market Reforms :

The first big reform in the capital market is abolition of capital issue control and introduction of free pricing. Another major reform in this market is introduction of book building route for improving efficiency in price discovery. Slowly the reforms are made for Disclosure agreements. The reforms in the primary market benefit to all investors to receive full prospectus.

Some changes are required for companies to disclosure their mergers, acquisitions, corporate actions, strategic decisions. These changes significantly effect on the share price of the companies and investor desire level of investment into these companies.

SEBI also introduced some initiatives in information technology for collection and disclosure of information and dissemination of information to corporate dealers.

Secondary market reforms :

Secondary market reforms are more witnessed reforms in the financial sector they are

1. Instead of physical settlement , electronic settlement came into existence since 1990s.
2. First online trading system was introduced by National Stock Exchange (NSE) in 1994.the order and quote process done through a electronic mode. This reform creates a greater transparency in the system, reduce the barriers in settlement procedure and it is a low cost mechanism.
3. Compulsory Dematerialisation system was first introduced in 1998 for institutional investors and later for retail investors in 1999. This reform is benefited for faster settlement, low cost mechanism and helps to avoid fake securities. Today all stock exchanges use dematerialisation for quick settlement of securities.
4. Rolling settlement procedure is introduced in 2001 with T+5 days. Later on it is reduced to T+3 days from 2002 onwards.
5. More defaults and failures was seen in settlements but later in 1990s these failures also diminished.
6. In the year 2000 derivatives market was established, earlier in derivatives only futures are traded later options, forwards, swaps also traded . The derivatives market is opted by many investors to get a benefit of hedging facilities .
7. The significant reform made by SEBI is mobile trading i.e. internet trading. These reforms eliminates geographical barriers , easy access to broker services, easy access to all company performances, monitoring of stock exchange trading performances, improving of investor services, and it reduces cost .

B. Banking Sector Reforms :

Earlier the banking system also faced many problems like errors in the balance sheet, improper payment of interest, default payment of the amount, bad loans. So, it need an introduction of reforms to avoid all those problems. So, the reforms made by RBI is introduction of CREDIT POLICIES to the banks, so that it eliminates irregular payments, bad loans, over dues from the public.

The capital base of the banks was strengthened by recapitalization process.

New private sector banks also allowed to offer services to public.

RBI introduced suitable norms for all type of banks for encouraging of loans, reducing of bad loans, improving of deposits, restructuring of assets, making of investments etc.

Government is slowly reducing the pre-emption of the banks.

C. Insurance Sector Reforms :

Earlier only LIC plays a major role in insurance industry and it acts as a monopoly in the industry. Later IRDA has been set up as a regulator of the sector and allowed many new private insurance companies in the market to give competition and to offer various services to the people.

In 1912 Indian Life insurance act is enacted to regulate the insurance business. In 1938 it is amended to protect the interest of the public who are insured. In 1956 LIC act came into existence and nationalized .

Various Reforms in Insurance sector is :

- Government also taken stake to enter into General Life Insurance (GIC).Earlier it is only for life insurance.
- Private and foreign insurance companies also allowed to collaborate with domestic companies .
- For better services computerized operations also started and better customer services are enabled in all activities .
- It also restructured their legislative operations to improve investors strength ,trust in the industry.
- Reduced the cost of the operations and increasing the supervision.

IRDA create a standard procedures to eliminate frauds in the industry and encourages modernization in this sector through a greater transparent mechanism various reforms initiated is introduced a certification programme to the agents, training to the actuaries to create a trust and confidence to the public.

IRDA also frame terms and conditions which are familiar to both insured and insurer and abide the terms very clearly. It takes an against the companies who are avoiding the terms and conditions. The reforms are majorly helps the people to think about their future and motivate them to accept different policies in their life .

D. Financial Institutions Reforms:

Earlier most of the financial institutions are offering loans at different rate of interest . people start lending at different rates without any security . This impact more on the credit system. earlier no regulatory system is monitoring the activities of financial institutions so , people often exposed to fraud, loss the confidence, trust on the system.

E. Derivatives market Reforms :

First introduces the registration of members with commodity stock exchange with suitable terms and conditions.

It tightens the risk management system in margin requirements, settlements, net worth that are similar to the equity requirements.

Introduces dematerialisation of securities, clearing and settlement through a computerized system. It allows annual audit system for brokers and members of the commodity derivatives exchange and Allowing trading at forwards and futures derivatives.

Introduces the first trading day limit trading option in non agriculture commodity derivatives.

Introduces trading in options contract in gold also. Derivatives are mostly used as a hedge against inflation it helps investor to change his options to futures swaps forwards so, helps to escape from uncertainty.

2. Identify a gap between investor expectations and investment opportunities.

- Every investor expect to maximize the return with minimum risk but these expectations are beyond their control sometimes and leads to worsen the situations . some of the expectations of investor is
- Eliminating tax carrying investments like equity shares derivatives.
- An investor does not look at fluctuations in inflation because it deviates their returns. So, he pre planned to invest in government banks insurance only rather than on securities, derivatives.
- An investor always want to be a risk avoider so it makes him to carefully plan to choose the type of investments and sometimes deviates from expectations.
- Investor never selected the market linked schemes because it may they think it may offer negative return on the investment.
- An investor always expect a quick return rather than wait for a long period.
- Even though many investment opportunities are existed they are ready to choose only few because of fear or risk and return.
- Many investors seeking opportunities with whatever the information they are having and expect more return with that information only.
- The investors always prefer to take own decisions rather than regular consult of stock brokers, intermediaries.
- Many investors are lesser interested to know the updated investment opportunities ,they prefer to choose only traditional investment opportunities.
- Investors are not interested to know the fundamental rules behind the investment opportunities, they want only the investments which increase the current return .
- Most of the investors expect a fixed return from traditional investments like banks, post office savings, rather focus on spot market, derivatives market.
- Nowadays emotions like fear, sad, happiness, angry also effect the choices of investment opportunities and deviate from their investments.
- Investors always frustrated and never choose same opportunities when the investments are moving up and downs of their expectations.

- Some investors selectively go for same investments because they feel lucky to get same return always. It deviates their expectations.

VII. Suggestions :

- A great focus is needed to introduce investor friendly products, investments into the market.
- Need to focus on small investors before introducing any changes in reforms and innovations .
- It is better to have an awareness session before introducing any changes in reforms and explain in what way it is useful .
- There is a need to teach the investors how to rectify the mistakes and how to recorrect the errors on their investments .
- It is suggested to maintain better transferency, efficiency, quality of supervision in all matters of investment.
- There is a need to coordinate with all banks for simplifying the procedures of demat account and services on convenient electronic transactions.
- It is better to gain investor confidence by strictly monitoring of the all activities of every corporate companies in the concerned industry.
- More reforms is needed for implementing ethical standards and disclosures of services of the companies .
- It is better to have less cost of operations for investment so, it makes easy to investors to increase their investment habit .

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