

Unit 4

IRDA:-

It was constituted to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto.....”

Functions and Duties of IRDAI

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

Registering and regulating insurance companies

Protecting policyholders' interests

Licensing and establishing norms for insurance intermediaries

Promoting professional organisations in insurance

Regulating and overseeing premium rates and terms of non-life insurance covers

Specifying financial reporting norms of insurance companies

Regulating investment of policyholders' funds by insurance companies

Ensuring the maintenance of solvency margin by insurance companies

Ensuring insurance coverage in rural areas and of vulnerable sections of society.

SEBI:-

The Securities and Exchange Board of India (SEBI) was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992. Securities and Exchange Board of India was constituted under the Resolution of the Government of India on 12th day of April, 1988. The head Office of SEBI is situated at Mumbai.

The various functions of SEBI are:

To protect the interests of investors in securities market

To promote the development of securities market

To regulate the business in stock exchanges and any other securities markets

To register and regulate the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, etc.

To register and regulate the working of venture capital funds and collective investment schemes including mutual funds

To promote and regulate self-regulatory organizations

To prohibit fraudulent and unfair trade practices relating to securities markets

To promote investors' education and training of intermediaries of securities markets

To prohibit insider trading in securities

To regulate substantial acquisition of shares and take over of companies

To conduct research for efficient working and development of the securities market.

RBI:-

The Reserve Bank of India (RBI) is India's central bank, also known as the banker's bank. The RBI controls monetary and other banking policies of the Indian government. The Reserve Bank

of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934.

The primary objectives of RBI are to supervise and undertake initiatives for the financial sector consisting of commercial banks, financial institutions and non-banking financial companies (NBFCs).

Securities contracts Regulation Act:-

The Securities Contracts (Regulation) Act, 1956 "Act" was enacted in order to prevent undesirable transactions in securities and to regulate the working of stock exchanges in the country.

Supervisory and regulatory Role of RBI

RBI performs certain non-monetary functions for the supervision of banks and promotion of sound banking system in India. Supervisory functions ensure improvement in the methods of operation of Banking in India. It controls and administers the entire financial and banking system of India through these functions.

Giving licence to banks: RBI has the authority to grant licence to the banks for carrying out business. It provides licence for the opening of new branches, opening extension counters, and also for closing down existing branches. Reserve Bank of India through this power avoids unnecessary competition among different banks at any particular location. It helps RBI to remove undesirable people from entering into the banking business.

Bank inspection and enquiry: RBI has the power to inspect and enquire banks in various matters under the Banking Regulation Act, and the Reserve Bank of India act. It can inspect loans and advances, deposits, investment functions etc. which helps to ensure that financial Institutions and banks carry out their operations in a proper manner. It carries out periodical inspection once or twice a year and banks have to take remedial measures pointed out during an inspection. It also asks for periodical information regarding certain Assets and liabilities of banks.

Implementation of deposit Insurance Scheme: RBI has the responsibility to implement the deposit Insurance Scheme to ensure the protection of deposits of small depositors. Under this scheme, deposits below Rs 1 lakh are insured with the Deposit Insurance Guarantee Corporation set up by Reserve Bank of India. It implements the deposit Insurance Scheme in case of failure of any Bank. Deposits made in the accounts of commercial banks, cooperative banks and RRBs are covered under this scheme. The fixed deposits with Institutions such as ICICI, IDBI etc are not covered under this scheme.

Control over Non-Banking Financial Institutions: The monetary policy of RBI does not influence the Non-Banking Financial Institutions. However, it gives directions to the Non-Banking Financial Institutions and also conducts enquiry and inspection to exercise control over these institutions. For example, it requires permission from the Reserve Bank of India for deposit-taking operations by Non-Banking Financial Institutions.

Periodic review of the working of commercial banks: the supervisory functions of RBI also includes periodic review of the working of commercial banks. It takes necessary steps to increase the efficiency of the commercial banks, and for the implementation of policy changes and schemes for the improvement of the banking system.

Reserve Bank of India (RBI) is the central bank of India entrusted with a multidimensional role which includes implementation of monetary policy and maintaining monetary stability in the country. RBI was established on 1st April 1935 under the Reserve Bank of India Act, 1934. RBI was set up after the recommendations of Hilton Young Commission which had submitted its report in the year 1926. Later on, in 1931 the Indian Central banking enquiry committee had also recommended for the establishment of the central bank in India.

Initially, Reserve Bank of India was established as a private shareholders bank, but it was nationalised after independence in the year 1949 through the Reserve Bank (Transfer of public ownership) act, 1948.

As per the Preamble of Reserve Bank of India, the role and functions of RBI are described 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; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth.

Organisational and Management structure of Reserve Bank of India

The supervision and general affairs of RBI are governed by the central board of directors. The Government of India appoints the central board of directors for a tenure of 4 years.

The Central Board of directors consists of full-time officials which include the Governor and not more than four Deputy Governors.

The government nominates ten directors from different fields and two government officials. Other four directors one each from the local boards are also appointed.

The current Reserve Bank of India governor is Dr. Urjit R. Patel. The current 4 Deputy Governors are Shri M. K. Jain, Shri B.P Kanungo, Dr. Viral V. Acharya, and Shri N.S. Vishwanathan.

The Deputy Governor and director attend the meetings of the Central Board, however, they are not entitled to vote.

Role and functions of RBI

Traditional functions.

Traditional role and functions of RBI refer to those functions which every Central Bank of a country has to perform all over the world. Traditional functions are mainly the basic and fundamental functions of RBI.

Issue currency notes: RBI has the sole authority to issue currency notes in India. Earlier all currency notes except one rupee note and coins of smaller denomination were issued by RBI. However, Reserve Bank of India in New Mahatma Gandhi series has issued notes in the denominations of Rs 10 and above. Reserve Bank of India has been given these exclusive powers under the provisions of section 22 of Reserve Bank of India Act, 1934. This system of

issuing currency notes is known as minimum reserve system. The currency notes issued by RBI is a legal tender throughout the territory of India without any limitations. It issues these currency notes against the security of gold bullion, gold coins, promissory notes, exchange bills and government of India bonds etc.

Banker to other banks: Reserve Bank of India is the apex monetary body in the country and it controls the volume of bank reserves. It helps and regulates other banks to create credit in the right proportion. It has obligatory powers to regulate, guide, help and direct other banks of the country, and hence it acts as the guardian of commercial banks in India. Every commercial bank has to maintain a certain part of the Reserves with RBI. Reserve Bank of India acts as the lender of last resort and banks can approach RBI when they need funds. Under the Banking Regulation Act, 1949 RBI has extensive powers to supervise and control the banking system of the country.

Banker, agent and financial advisor of the government: under section 20 of Reserve Bank of India act, it acts as the banker and agent to the government. Section 21 and 21A gives powers to RBI to conduct transactions of Central and state governments. It has the duty to make payments, taxes, and deposits on behalf of the government. It represents Government of India at International levels. It gives financial advice to the government and maintains government accounts. It has a responsibility to manage public debt and maintain the foreign exchange reserves. It provides overdraft facilities to Central and state governments.

Exchange rate management and the custodian of Foreign Exchange Reserves: Reserve Bank of India has the responsibility to stabilize the external value of Indian currency. It keeps gold bullions and foreign currency reserves etc. against currency note issue and has the responsibility to meet the adverse balance of payment with other nations. RBI has the responsibility to maintain exchange rate stability and for this, it has to bring demand and supply of foreign currency (usually US Dollar) to similar levels. It maintains this stability through buying and selling of foreign currency etc.

RBI as the bank of Central clearance, settlement, and transfer: RBI provides the facility of clearing house for settling banking transactions. This allows other banks to settle their interbank claims smoothly and economically. At places where RBI does not have its own office, this function is carried out in the premises of State Bank of India. This facility is provided by Reserve Bank of India through a cell called as the National Clearing Cell.

Credit control function: RBI tries to maintain price stability in the country which is essential for economic development. It regulates money supply in the economy according to the changing circumstances of the economy. It uses various measures such as qualitative and quantitative techniques to regulate credit in the economy. It uses quantitative controls such as bank rate policy, cash reserve ratio, open market operations etc. Qualitative controls include selective credit control, rationing of credit etc.

Promotional and developmental Role and Functions of RBI

Every Central Bank has to perform numerous promotional and development functions which vary from country to country. This is true in a developing country like India where RBI has been performing the functions of the promoter of the financial system along with several special functions and non-monetary functions.

Promotion of Banking habits and expansion of banking system: It performs several functions to promote banking habits among different sections of the society and promotes the territorial and functional expansion of banking system. For this purpose, RBI has set several Institutions such as Deposit and Insurance Corporation 1962, the agricultural refinance Corporation in 1963, the IDBI in 1964, the UTI in 1964, the Investment Corporation of India in 1972, the NABARD in 1982, and national housing Bank in 1988 etc.

Export promotion through refinance facility: RBI promotes export through the Export Credit and Guarantee Corporation (ECGC) and EXIM Bank. It provides refinance facility for export credit given by the scheduled commercial banks. The interest rate charged for this purpose is comparatively lower. ECGC provides insurance on export receivables whereas EXIM banks provide long-term finance to project exporters etc.

Development of financial system: RBI promotes and encourages the development of Financial Institutions, financial markets and the financial instruments which is necessary for the faster economic development of the country. It encourages all the banking and non-banking financial institutions to maintain a sound and healthy financial system.

Support for Industrial finance: RBI supports industrial development and has taken several initiatives for its promotion. It has played an important role in the establishment of industrial finance institutions such as ICICI Limited, IDBI, SIDBI etc. It supports small scale industries by ensuring increased credit supply. Reserve Bank of India directed the commercial banks to provide adequate financial and technical assistance through specialised Small Scale Industries (SSI) branches.

Support to the Cooperative sector: RBI supports the Cooperative sector by extending indirect finance to the state cooperative banks. It routes this finance mostly via the NABARD.

Support for the agricultural sector: RBI provides financial facilities to the agricultural sector through NABARD and regional rural banks. NABARD provides short term and long term credit facilities to the agricultural sector. RBI provides indirect financial assistance to NABARD by providing large amount of money through General Line of Credit at lower rates.

Training provision to banking staff: RBI provides training to the staff of banking industry by setting up banker s training college at many places. Institutes like National Institute of Bank management (NIBM), Bank Staff College (BSC) etc. provide training to the Banking staff.

Data collection and publication of reports: RBI collects data about interest rates, inflation, deflation, savings, investment etc. which is very helpful for researchers and policymakers. It publishes data on different sectors of the economy through its Publication division. It publishes weekly reports, annual reports, reports on trend and progress of commercial bank etc.