Chapter: 5:

Expectations from government and other companies:

5.1: Need Of Protection.

5.2: Present position.

5.3: Future.
Fraud, corruption, scandals and cheating have become a way of life in our Indian society. If somebody says that such and such a fraud has taken place, it does not surprise anyone with the reaction 'what's new in that'? It happens daily and we have experienced or heard about corruption and fraud from our childhood. The present generation especially, wants to become 'crorepati over night. !'. They do not mind enjoying life at someone else's cost.

The present day media is also responsible for encouraging the younger generation to make fast bucks so as to live lavishly. Thus, advertisements, cigarette smoking, liquor-green label and soft drinks make the viewer feel that it is the way of today's life. When the means, are limited and wants are many, it encourages people to indulge in unfair means to fulfill their desire, which is the main cause of creating a fraud.

It is believe that unless fraud is prevented and or controlled, any amount of development will not be helpful to the Indian economy. Whatever benefit has been acquired by development, is nullified by fraud. As development takes place, the magnitude of fraud also increases.

Banks issue credit cards and debit cards so that people need not take the risk of carrying cash. In India some people have found a way to misuse these cards. The banks provide loans i.e. personal loans liberally for the purchase of car, household items etc., but here

5.1: Need Of Protection:

Fraud, corruption, scandals and cheating have become a way of life in our Indian society. If somebody says that such and such a fraud has taken place, it does not surprise anyone with the reaction 'what's new in that'? It happens daily and we have experienced or heard about corruption and fraud from our childhood. The present generation especially, wants to become 'crorepati over night. !'. They do not mind enjoying life at someone else's cost.

The present day media is also responsible for encouraging the younger generation to make fast bucks so as to live lavishly. Thus, advertisements, cigarette smoking, liquor-green label and soft drinks make the viewer feel that it is the way of today's life. When the means, are limited and wants are many, it encourages people to indulge in unfair means to fulfill their desire, which is the main cause of creating a fraud.

It is believe that unless fraud is prevented and or controlled, any amount of development will not be helpful to the Indian economy. Whatever benefit has been acquired by development, is nullified by fraud. As development takes place, the magnitude of fraud also increases.

Banks issue credit cards and debit cards so that people need not take the risk of carrying cash. In India some people have found a way to misuse these cards. The banks provide loans i.e. personal loans liberally for the purchase of car, household items etc., but here
also some people cheat the banks by taking loans on the basis of fake documents.

In the Harshad Mehta security scandal, Rs. 5000 crore of money was lost and reputed banks like the Standard Chartered Bank, State Bank of India, National Grin lays bank and Karad bank suffered losses. Because of this security scandal the general public lost faith and interest in investing in shares. The latest scandals, which have drawn a lot of media, public and government attentions are the:

**Unit Scheme-64 [US64] Scandal** : Unit Scheme-1964 is the most popular and beneficial scheme as it provided the middle class and the salaried class with the opportunity to invest their money in a government scheme, with the assurance of a guaranteed dividend. UTI paid dividends at handsome rates, till the year 1998. UTI had suffered losses in 1998 but paid a 20% dividend. After that, in the year 2000, UTI invested in the shares of 'Cyberspace' Infosys @ Rs.930 per share while the value of the share in market is said to be Rs1130 per share. However, it was found afterwards that the share actually has only Rs1- as its market value. In this situation, the share value actually tumbled down, as it represented a loss of Rs.929 per share net. Then the issue of the scam and scandals of the US-64 schemes by the 'Big Bull' like Ketan Parekh came light attracting negative reports by the media. The investors lost their trust in the UTI and are still reluctant to sell their units in the repurchase scheme of the UTI.
Ketan Parekh's Scam: It created an erosion of almost Rs.1.5 lakh crore in market capitalization and a loss of 700 points in the BSE, in just eight days. A 900 points gyration in 30 share index, in one single trading day on March 13, 2000, the wildest in the browsers in its 125 years history. The entire broker directors on BSE were suspended by the SEBI for alleged insider trading and a cooperative bank in Ahmedabad faces a run on its deposits. However, the new bull Ketan Parekh's horns were finally clipped. Ketan Mehta first came into the limelight in early 1999. His average daily turnover was about Rs.400 crore. He manipulated the stock price with the help of funds borrowed from the bank and the transactions there took place directly between individuals. So the exchange received no margin money, has no records of any transaction, and the carry-forward rates are unofficial. All these events indicate that the Indian investor follows the principle of 'invest and forget', which is totally wrong. The investors should be aware about each and every principle in that area, as they have invested their hard earned money. They should be careful with their investments. Because of this protection is needed from the government and other financial as well as non-financial institutions.
5.2: Present Position:

Investor protection means that the stock market and participants should be fair to the investors and should not do anything, which may appear deliberate attempts on their parts to inflict loss to the investors. They should be provided adequate and reliable information, so that they can make sound investment decisions. However, investor protection may cover broadly the following areas:

- Equitable, fair and prompt allotment of securities.
- Proper and efficient servicing provided by companies with regard to allotment of the shares and the transfer of shares to the shareholders.
- Prompt payment of interests and dividends.
- Equal and fair treatment to all investors.
- Availability of reliable and adequate information.

Earlier, before the setting up of the Securities and Exchange Board of India [SEBI], the protection of investors rights and interests have been followed within the provisions of the Indian Companies Act 1956, Capital Issues Act 1947 and the Securities Contracts Act 1956. Amendments have been made in these Acts and the guidelines were issued from time to time to protect the interests of the shareholders and the debenture holders. The 'Investors Beware' should be the watchword of all the programmes for the mobilization of savings for investment.
The complaints of investors come from two major sources:

[i] Against member broker of Stock Exchanges;

[ii] Against companies listed for trading on the Stock Exchanges.

Complaints against Members:

The investors have complaints against brokers regarding the price, quantity etc. at which transactions are put through, defective delivery, delayed payment, non-settlement of badia dues, etc. There is a Grievance Cell in all the stock exchanges, which attends to the investor complaints.

Complaints against Companies:

The investors have complaints against the companies regarding the non-receipt of the allotment letters, the refund orders, non-receipt of dividends, interest and the delay in the transfer of shares. The Cell also attends these complaints by writing to the companies. But the clearance of these complaints is slow due to the non-compliance made by the Cell.

Customers Protection Fund:

The customers' protection fund is constituted by many stock exchanges to safeguard the interests of the investor from defaults of the stockbrokers.
Protection in the New Issues Market:

The main source of information on which, the investors depend is, the prospectus, which should contain the correct statements of facts. Any false statements and fraud are punishable under the Companies Act. Under section 56 of the Companies Act, the Directors of the company, are subject to civil liability for any misstatement of the facts or untrue statements.

Protection for Fixed Deposits:

Section 58A of the Companies Act deals with the fixed deposits. There are some rules and guidelines, which are applicable to the non-banking companies and to the private and public limited companies at the time of raising the deposits from the public. On the non-payment of the deposit on the maturity, the depositor can lodge their complain to the Company Law Board. [CLB].

Despite the existence of the above Acts and the important provisions therein, to look after investors rights, there are still certain areas which require proper attention in order to promote a healthy capital market in India. The areas which requires the attention are:

1. Proper scrutiny of companies at the time of listing.
2. Changes in the settlement period in respect of non-specified securities.
3. Removing delay in the collection and processing of the application forms, allotment and refund.
4. Making the prospectus adequate and reliable.
5. Checking the insider trading.
6. Measures and provisions to stop manipulation of the share prices in the stock market.
7. More transparency in the securities dealings and trade.
8. More protection to the small investors.
9. Protecting the interest of the minority shareholders.
10. Improving post-issues servicing by the companies.
11. Removing the investor grievances quickly and adequately.
12. Allotment to the favoured investors.
13. Regulating the determination of the premium on the shares.
14. Checking the violation of the rules, by the companies and the stock exchanges.
15. Checking the misuse and the diversion of investor funds.

**Securities and Exchange Board of India (SEBI):**

The need to curb the malpractices and to promote the healthy capital market in India, the Government has set up the Securities and Exchange Board of India (SEBI) in April 1988. The head office of the SEBI is located at Mumbai. The objectives of SEBI are as follows:

[a] Investor protection, so that there is a steady flow of saving into the capital market.

[b] Ensuring the fair practices by the issuers of securities, so that they can raise resources at the least cost.
Promotion of the efficient services by the brokers, merchant bankers and the other intermediaries, so that they become competitive and professional.

The following are the functions of the SEBI as provided in the Act:

- Regulating the business in the stock exchanges and other securities markets.
- Registering and regulating the working of the securities market.
- Registering and regulating the working of the collective investment schemes.
- Prohibiting the fraudulent and the unfair trade practices relating to the securities.
- Prohibiting the insider trading of the securities.
- Regulating substantial the acquisition of the shares and takeover of the companies.
- Performing other functions and exercising other powers under the Act.
- Promoting and regulating self-regulatory organizations.
- Promoting investor's education and training of intermediaries of stock markets.
- Calling for the information from, undertaking the inspection, conducting the inquiries and the audit of the stock exchanges and the intermediaries.
• Levying fees or other charges for carrying out the purposes of this section.
• Conducting the research for the above purposes.
• Performing such other functions as may be prescribed.

The SEBI has issued the guidelines from time to time separately for the New Issues Market, Stock market, Mutual funds, and Merchant banks, Registrars, Underwriters, Brokers and the Portfolio managers. During 1994, even the foreign financial institutions and the foreign brokers were licensed by the SEBI to operate in the Indian Capital market.

The SEBI has instituted a mechanism for the redressal of the investor grievances. It enjoys the power of the prosecution against the companies for the above-mentioned violations. The SEBI has made mandatory for all the companies coming out with the public issues, to deposit 1% of the size of the issue as the security deposit with the regional stock exchange. A new product called Stock-invest was introduced which allows investors to use their funds en-marked in the interest bearing bank deposits to apply for the primary market issues. It has made compulsory to allot in 30 days from the closure of the issue. It has also recognized investor associations. The use of consumer courts is being encouraged. It has been educating the investors and making them aware of institutional mechanisms to solve their problems.
Over-the-Counter Exchange of India [OTCEI]:

It was set up in August 1989, but the actual operations started only in October 1992. It provides a less expensive method of getting shares listed for trading and for raising capital from the market. The OTC market will prove a boon to the small investors as it provides easier liquidity and quicker transactions and help in the formation of national market. 'Dave' committee was formed in 1996 to suggest the measures to revive the OTCEI and make it viable and lively. The SEBI has given the various guidelines for the issue of shares through OTC.

National Stock Exchange:

The National Stock Exchange was, set up by the IDBI and other all India Financial Institutions in Mumbai in November 1992. The objectives of the NSE are as follows:

1. To help the privatization of the public sector units.
2. To spread the investment habit and cult to savers in rural and semi urban areas.
3. To professionalise the members & to improve the investor services.
4. To create more employment opportunities in the service sector.
5. To promote the market for debt instruments.
The National Securities Depository Limited [NSDL]:

The National Securities Depository Limited has been registered with the securities exchange board of India and launched on Nov. 7, 1996 as India's first depository to facilitate trading and settlement of securities in dematerialized form. A depository is an organization where the securities of a shareholder are held in the electronic form at the request of the shareholder.

Securities Trading Corporation of India [STCI]:

The STCI was registered in Mumbai with the objective to foster the development of the secondary market in the government securities and public sector bonds, by buying and selling these securities at market prices. It aims at encouraging the turnover of securities, thereby imparting liquidity to them.

The SEBI monitors and controls all the activities that took place in the share market. Various guidelines and suggestions are given by SEBI from time to time. With many guidelines and regulatory power in hands, it is expected that, the SEBI will be able to contribute greatly in creating a dynamic and vibrant stock market, which will provide long-term funds to the Indian industry and protect the rights and interests of Indian investors. This will help in building a harmonious and healthy relationship among the market participants. A more efficient and transparent functioning of the stock markets would stimulate the equity cult among the large masses of the Indian investors and the stock-
brokers. With the free pricing of the shares, the Indian companies can easily move up to the capital market to raise finance for their expansion and modernization programmes. The SEBI guidelines has entrusted great responsibility on the merchant bankers, lead managers and underwriters to ensure that all issues of capital made by the companies fulfill the disclosure standards and criteria of investor protection as suggested in the guidelines. Although the SEBI has taken many steps to improve stock market trading and to enforce discipline among the market participants, there are yet some areas, which require attention from the SEBI. The areas are:

- Curbing speculation.
- Reducing delay in payment to investors.
- Plugging loopholes in regulations to check manipulation and malpractices.
- Transparency in the functioning of the stock market and informal disclosure by the companies.
- Increase in trading hours at the stock exchanges.
- Simplifying procedures in share allotment and transfers and refund.
- Totally curbing insider trading.
- Protecting investor rights during takeovers, etc.
Depositories: A System:

A Depository is an organization where, the securities of a shareholder are held in electronic data form, as compared to the traditional way of holding physical paper certificates. According to the SEBI guidelines, the financial institutions, banks, custodians and the stockbrokers can become participants in the depository. In India, depositories are required to be registered with the SEBI. The Depositories Act, 1996, governs them and the regulations and the by-laws framed for depositories by the SEBI are applicable to them.

Reserve Bank of India:

The RBI was established under the Reserve Bank of India Act, 1934 on 1 April 1935 and nationalized on 1 January 1949. The bank acts as the banker to the central government, state governments, commercial banks, state cooperative banks and some of the financial institutions.

The RBI controls and monitors all the activities of the commercial, non-commercial, cooperative banks and also the credit societies. The RBI is the central bank of all the banks, which are working in India. The monetary policy is implemented by the RBI. To safeguard the interests of the investors, the RBI frames the rules and the regulations and all banks are supposed to work as per the guidelines decided by RBI. The RBI controls the interest rate policy, deposit policy, capital structure and the liquidity policy. Now a day it is
mandatory for the banks to disclose the non-performing assets. The RBI fixes the maximum interest rates on deposits.

**Deposit Insurance Act:**

To safeguard the interest of the depositors, bank deposits were insured and in the year 1961 Deposit Insurance Act was passed. During the year 1962, Deposit Insurance Corporation was established and in addition to this Credit Guarantee Corporation of India was created by the RBI. Later on after the amalgamation of these two corporation, another organization was established namely, the 'Deposit Insurance and Credit Guarantee Corporation'. [DICGC] All the banks should register themselves with the corporation. The registered banks are called as the insured banks. At present the bank deposits up-to Rs.100000, are insured. However the Deputy Finance Minister of Maharashtra State, Mr. Anandrao Adsul had announced the limit upto Rs 200000, but till 20th Sep. 2003, no authentic written letter has been received to the banks.

Despite success in many fields, the Reserve Bank of India has not been able to attain the expected success in regard to the indigenous bankers. In India the indigenous banks even today play a prominent role. It was expected that the Reserve Bank would play a positive role in removing them. The RBI has not been successful in establishing its contact with these indigenous bankers. It has failed in exercising any control over the indigenous bankers, and still a large
number of unauthorized banking sector operate outside the limit of RBI.

1. The rates of interest vary from time to time and place to place in the money market. Some bankers provide loans at a very high rate of interest while the others at a low rate of interest. Big industrialists are able to take loans at low rate of interest, while the poor people are given loans on much higher rates of interest.

2. The internal value of Indian rupee is declining and the RBI failed in controlling the inflation. The prices of the commodities are touching and the RBI has been helpless in arresting price rise.

3. The RBI has been successful only in solving the problems of Indian banking only up-to limited extent.

4. The RBI has contributed significantly to this field yet there is much to be done. The problem of agricultural finance is still grave and RBI can not disown its responsibility in providing sufficient finance to the agriculture.

5. The RBI could not develop a well-equipped bill market in the country. There is a shortage of good and discountable bills of exchanges in the country.
Many investors invest in the Credit Co-operative Society. The intention of the investors is to earn the maximum interest on their deposits. To protect the interest of such investors, the promise of deposit insurance in credit co-operative society, is given by the state finance minister upto the deposit of Rs.50000.

**Non-Bank Finance Companies [NBFCs] RBI Directives:**

During the last one and half decades, the number of NBFCs mobilizing deposits has increased by 5 times and more. The growth of deposits of NBFC was also high.

The Narasimham Committee on the financial reforms recommended that these companies should be brought under the fold of the regulations of the RBI. The various recommendations were suggested by the Shah committee, Khanna committee on the various aspects of working of the NBFC. The RBI has announced a series of measures to protect the interests of depositors and public from any unhealthy practices by the NBFC. Firstly, the NBFC, not having Net Owned Funds of Rs.25 lakh at least, will not be allowed to raise funds in the form of deposits. Secondly, Mutual benefit Company can only accepts the deposit from the shareholders and the members. Thirdly, there is a credit rating requirement for all the NBFC. The NBFC having credit rating less than ‘A’ cannot raise deposits from public. The NBFC accepting the public deposits will be required to comply with all the prudential norms.
5.3: FUTURE :

5.3.1: BANKING: CHALLENGES AND PROSPECTS :

In the recent years, the banking sector reforms were made with the objective of making the banking sector viable, efficient, competitive, vibrant, productive, profitable and transparent. The first round of banking reforms has brought about the significant improvements in the macro structure of the banking. The prominent among these are the stronger capital base, more transparent accounting and income recognition policies, the awareness of market risks, less emphasis on the direct lending and increasing concern for the bottom-line. This has helped to strengthen the banking system with its huge branch network set up. However certain dominant trends in the Indian economy will also impact the banking sector. They are as follows:

1. Full convertibility of the rupee, leading to the free mobility of capital.
2. Greater coordination between the monetary, fiscal and exchange rate policies for achieving the sustainable economic growth.
3. Growing privatization and commercialization of the infrastructure sectors.
5. Merger or acquisition, takeover and amalgamation in the corporate world.
6. Consequent rise of knowledge economy and knowledge workers.

Another development has been the deregulation of the interest rates both for deposits and advances of the commercial banks. In view of this, banks now need to pay more attention to the management of interest rate and the proper pricing of their liabilities and assets.

**Competition:**

The Globalization has brought the competition from the foreign banks. In order to compete, the commercial banks need to possess strong balance sheets, which indicate the real strength of the bank. The entry of the new private sector banks and foreign banks equipped with the latest technology and technology-driven product lines, have really sensitized the ordinary customers of the banking services in terms of innovative products as well as delivery process. The competition has intensified due to the product coverage overlap between the commercial banks and the NBFCs. At the top of all, the competition amongst the commercial banks for higher quality business will be a common phenomenon.
Electronic Banking:

In the future, banking will be driven by more of the technology and the telecommunication systems. Due to the improved telecommunication and technology, the PSBs have made rapid strides in the product innovation and delivery, thereby improving quality of customer service. Technological changes have brought about paradigm shift in the process. Today's banking may be redefined as 'Triple A' banking – anytime, anywhere, anyhow banking. The Internet banking has elevated the banking beyond the barriers of time and space. It enables the customers to access their accounts directly from houses. The use of VSAT, networking, and SWIFT will change the complexion of the banking. The tele-banking, home-banking, increasing network of ATMs, SPNs, electronic clearing services and anywhere connectivity are some of the technology-oriented innovations that offer convenience to customers. The Internet banking will enable three profit centers, treasury, corporate banking and retail banking. The banks need to draw up the prudent technology plans, to invest huge amount in the software and hardware application and spend on employee training and internal surveillance measures. The information technology is an integral part of the banking services. Without large-scale and sophisticated application of the IT, the banking just can't keep pace with the ongoing changes in the various sectors of economy.
Customer service and marketing:

With the change in customers, perceptions and expectations, the future of business very much depends upon the ability of the banks to develop a close relationship with the customers. The banks have moved from the sellers market to the buyers market. The Customer relationship has become a strategic mantra. Having realized the need and importance of CRM, banks have started developing their customer data warehouse to do a more purposeful study on the behavioural patterns of customers. New innovative products and services can be developed on the basis of such analysis. The examples of such systems include executive information system (EIS), decision support system (DSS), and management information system (MIS). CRM aims to retain existing customers and acquire new customers. E-CRM is becoming an effective mechanism to cope with ongoing and emerging challenges in this era.

Universal Banking Model:

The universal trend towards the bank assurance where insurance and deposit taking are mixed within the same firm may hit Indian banks with the opening of insurance sector. With the onset of the universal banking recommended by Khan Committee, customers will look for banks having expertise to provide multiple services under one roof at competitive price and maintain service quality. The banks need to learn new skills of universal banking. With the globalization,
the financial markets will witness a number of risks. The risk minimization and return maximization would be the objectives.

**Human Resource Development:**

The new generation of bank employees is becoming less loyal to the organization and more loyal to their individual career. Banks need to accept it as a positive development. The task before the banks will be to retain the employees and constantly enable them to upgrade the existing skills and acquire new skills. The objective of human resource management in banks should be to bring about the attitudinal change, enrich work ethics, and instill a sense of accountability and responsibility among all employees. Therefore, HRM policy in banks should be transparent, motivating, facilitative, and empowering. The HRM policy should focus on 3 Cs – competition, customer and change.

**Non-Performing Assets:**

The huge growth of the Non-Performing Assets (NPA) is a big challenge for the banking industry as it affects the profitability, capital adequacy, and the overall rating of the banks. The Corporate Debt Restructuring (CDR) is a proactive step for the prevention of NPAs. The CDR aims to ensure a timely and transparent mechanism for restructuring of corporate debts of viable corporate entities affected by internal or external factors. NPA can also be assigned to the Asset
Reconstruction Companies (ARCs) by the banks at a discounted price, enabling one time clearing of the balance sheet of the banks of sticky loans. The new securitisation and reconstruction of financial assets and enforcement of security interest bill give power to the bankers to clean up their NPAs.

**Post VRS Challenges:**

The VRS has been introduced in PSBs with a view to downsize the overstaffed manpower, thereby reducing expenses and improving operational efficiency. The long-term challenges are:

- Streamlining the manpower and rightsizing the workforce on the continuous basis.
- Making the staff technology savvy.
- Realignment of the roles and responsibilities with the available resources.
- Organizational restructuring including mergers.
- Proper orientation and infusing sense of commitment among the staff members.

Faster implementation of the IT plans, mobility of staff to different pockets, re-engineering of the business process and training to bring about desired changes and outsourcing of some of the activities will have to be undertaken on urgent basis. The following practices need to be adopted by the banks on urgent basis:
• Greater professionalism.
• Greater emphasis on diversification.
• Consultancy services.
• Autonomous organization to monitor banking activities.
• Changes in the legal stipulations.
• Cost management.
• Up-gradation of service standards.

The banks who understand the market dynamics, perceive threats, anticipate volatility, show high degree of professionalism and dynamism in their functioning and respond promptly to the market needs would survive and prosper.

5.3.2: The Indian Insurance Industry:

The performance of the LIC and the GIC in the investor services has been deteriorating. Despite its operation in huge amounts, the margin of profits and profitability is not satisfactory. High premiums and poor after sales service and inefficient marketing have been the weaknesses of the insurance industry. The LIC is being in the public sector, accountability is poor and management efficiency is also low. The reasons are lack of initiative, bureaucratic and political interference into their working. There is no regulatory authority, independent of the Government departments and as such, the committee under the chairmanship of R.N.Malhotra, recommended the...
setting up a Regulatory authority for the insurance separately. It has also become necessary to introduce efficiency, competition and market oriented forces into this sector, to improve customer service and to reduce costs and thereby to reduce the premiums payable by the public to those services.

Following the Malhotra Committees report, the Government finally opened the insurance sector, effectively ending the monopoly of the LIC and the GIC in life and general insurance business.

Private Life Insurance Companies Licensed So Far:

- HDFC Standard Life.
- ICICI Prudential Life.
- Max New York Life.
- Reliance Life.
- Tata AIG Life.
- ING Vysya Life.
- SBI Cardiff Life.
- Birla Sun Life.
- Old Mutual Kotak.
Other Non-Life insurance Companies Licensed So Far:

- Royal Sundaram Alliance.
- Reliance General.
- IFFCO Tokio General.
- Tata AIG General.
- Bajaj Allianz General.

Some of the latest products of GIC and its subsidiary companies:

- Videsh Yatra Mitra, Suchana Safar and Marga Bandhu.
- Rajrajeshwari and Bhagayashree.
- Industrial All Risks Policy.

In view of the extremely important position of a teacher occupies in our society, the Bajaj Allianz and PAN Insurance Brokerage Co. Pvt. Ltd., have considered it appropriate to design a policy for this segment and launched a policy called Gururaksha. This policy is exclusively for teachers. The policy coverage includes Personal Accident, Education Fund, Loss of Voice, Loss of Limb, and Termination of Employment etc.

Insurance Regulatory Authority Bill (1998):

Due to the liberalization policy, the Government of India introduced the Insurance Regulatory Authority Bill, in the Parliament on 15th December 1998. The main features of the bill are the following:

1) Removal of monopoly status of LIC and GIC.

2) Opening up of insurance sector and allowing foreign equity.
3) No foreign insurance company.
4) Additional 14% equity for NRIs, FII, and OCBs.
5) 10 member statutory IRA.
6) Safeguarding the flow of premium outside the country.
7) Protection of interest of policyholders.
8) Government can issue directives to IRA.

Insurance reforms will lead to deeper and wider coverage providing social security to the people. It is expected from the industry to build a new culture of planning and saving for old age retirement needs. The competition will give Indian customers a choice in respect of new and innovative products, wider choice of prices and quality service to consumers. It is expected that the agents should be professionals. The set-up of surveyors that exists today in a very loose and unorganized manner gets converted into a self-regulating body. The measures should be taken to minimize loss and loss reduction techniques should be implemented. It is with hope and belief that the existing controller will not fail to live up to those expectations.

The most private life insurance companies are joint ventures between the reputed Indian business houses and the foreign life insurance companies that have years of experience and expertise in insurance. Every insurance company needs to have a minimum paid-up capital of Rs.100 crore and are also required to maintain minimum solvency margin of Rs.50 crore. Hence investments with private players are generally secure.
5.3.3: Post Offices: The Emerging Banks:

An analysis of the composition of the household savings shows that a major part constitutes, in the saving instruments of the postal saving system, run by the post offices spread throughout the country. The Indian post offices, has been performing the role of providing the postal mail service. The Indian post offices also perform a vital banking function through operating millions of savings accounts and savings certificates. The post offices have proved, itself as no less competent than commercial banks.

Though most of the states have a wide network of postal savings system, there is a considerable inter-state disparity in the mobilization of postal savings. There are some states with a small savings collection above the other states. The states with low level of small savings mobilization need to adopt appropriate strategies and policies on small savings mobilization. The postal savings system have been developed as a major source of domestic savings, the most noteworthy being the highly developed postal saving system of Japan which is an ideal model of modern, efficient and dynamic savings system. In Japan, postal savings are utilized for a development programmes. In Japan, postal savings are treated as a separate entity. The Japan post offices can extend loans to the deposit holders. No doubt, the Indian post offices have a higher potential for saving mobilization, but considering the stiff competition from banks, other financial and non-banking institutions, there is need for the Central and
the state governments to revamp the postal system on the modern lines. This will help in comparing to banks and other institutions in terms of the attractive rate of return and quality of service. This would be necessary to develop the post offices into an ideal and effective institution for saving mobilization in rural areas.

5.3.4 : Benchmarking of administered interest rates :

With the launching of liberalization programmes, a gradual process of deregulation was initiated to align the administered rates of interest to the market rates. But it is only the small savings; the rates are still government determined. In the light of the changed context, the Governments are bent upon reducing their cost of capital and explore a better system for the determination of interest rates on small savings. Hence the Government of India constituted an expert committee on April 19, 2001 to review the system of Administered interest rates, under the chairmanship of Dr. Y.V. Reddy.

The choice of correct basis for benchmarking depends upon different factors. First, it is necessary to ensure that small savers may be able to get a real rate of return on their savings. Second, the return on savings should be connected with the growth rate of the economy. Third, the rate of return should take into account the social discount rate. Fourth, a risk premium may have to be embedded. Fifth, a single or multiple benchmarking to be used should be considered. Finally, it is essential to deliberate on whether the benchmark should be a lead or a
lag rate. The committee deliberated on the following four indicators to serve as benchmarks.

(a) **Inflation Rate**: The real rate of return on investment depends on the inflation prevailing in the economy. The committee did not favour inflation rate as a suitable benchmark. The first reason is that wholesale price index; consumer price index and GDP index had its own problems in computation. The second reason is the practical problem in arriving at the expected inflation.

(b) **Bank Rate**: It is the Chief Quantitative Credit Control rate of the Central Bank of the country. But the experience shows that bank rate was a poor measure of credit control and is ineffective. The interest rates prevailing in the economies did not maintain any relation with the bank rate. Bank rate is not suitable for long-term rates. Hence the committee did not approve the bank rate as a benchmark.

© **Deposit Rates of Banks**: Commercial banks are free to fix up their own schedules of interest. Except in case of savings deposits, the interest rates on other deposits are deregulated. But, in actual practice, banks are more concerned with the lending rates than deposit rates.

(d) **Yield on Government Securities**: The government securities are used to finance government borrowing requirements. Small saving instruments are also used to finance government spending. Therefore, it is reasonable to fix yield on securities of comparable maturity as a basis. The committee recommended the various rates for various alternative instruments of small savings.
<table>
<thead>
<tr>
<th>Type of Instrument or Deposit</th>
<th>Benchmarking rate recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Office Savings Bank</td>
<td>3.5% as long as the inflation rate rules above 3.5% or the savings bank deposit rate of commercial banks is not below 3.5%</td>
</tr>
<tr>
<td>One year Postal Deposit</td>
<td>Average yield of 364 days Treasury Bills traded in the secondary market during the previous year.</td>
</tr>
<tr>
<td>Five year postal deposit or POMIS or PORD</td>
<td>Average secondary market yield of government securities having a residual maturity of around five years.</td>
</tr>
<tr>
<td>2/3 year postal deposit</td>
<td>Calibrated between one and five year postal deposit rates.</td>
</tr>
<tr>
<td>Non-Bearer/Bearer Certificates</td>
<td>Higher or lower than 5-year postal deposit rate, depending upon the maturity of instruments.</td>
</tr>
<tr>
<td>PPF/EPF/GPF and others</td>
<td>Average secondary market yield on government securities having a residual maturity of around ten years.</td>
</tr>
</tbody>
</table>

The then Finance Minister, Mr. Yashwant Sinha has incorporated the recommendations of the Y.V.Reddy Committee on administered interest rates in the Budget for 2002-03. Accordingly, the interest rates on small savings will be based on the yields of the government securities. He also cut in interest rate and rationalizes the rebate under section ‘88’ of the I.T.Act. It was revealed that small savings become less and less attractive. Finance Minister should help to create a reliable and risk free market mechanism as an alternative.
5.3.5: Interest Vs. Dividend:

Rate of interest is the chief motivator of savings and investment. India has entered in the era of soft interest rate regime. The R.B.I. has cut down its bank interest of Banking Rate and CRR rate. The interest rate on bank deposits and lending shows diminishing trend. A lower interest rate on the deposit is a positive loss of income to the bank depositors. The prime interest rate is lower than the interest rate offered by companies accepting public deposits for more five years. The soft interest rate regime is based on the premises that it will ensure folio of liquidity to the desired sectors.

The investment channel consists of bank deposits, public deposits of NDFs and other papers on which interest at fixed rate is receivable. The alternative channel is investment in shares on which dividend is receivable. Investment in debentures and non-government bonds carry interest at fixed rate. The investors are in search of higher yield. When interest rate and dividends are competitive, the investors have to choose portfolio according to their choice. But in case of wide difference between them, it is natural that the investors would bid for securities offering higher yield. Under this situation the investment flows towards corporate sector. The soft interest regime has so far not been able to either lift the economy from the morass of stagnation or recession.
If we look at Mutual Funds, it also tends to loose public confidence at present. The Mutual fund schemes are the most misunderstood financial product in India. The mutual funds in India swear by small investors. In many funds, the Net Asset Value [NAV] is around or below par value and market quotes are 30 to 40 percent below NAV. The dividend rates have fallen and in a few cases funds have not paid the promised amounts. These developments have badly shaken the confidence of the small investors in the Mutual Funds. In the present context, the interests of the investors of all types of financial institutions should be protected. The regulations regarding the deposit acceptance activities and the supervisory control of RBI should be applicable to all types of institutions. It is impressive to adopt the sound financial policies. They should maintain always a minimum liquidity and be prepared to meet the demands of the investors. The RBI should evolve some system of control over all types of companies. The department of supervision of RBI should be available in almost all the states. It would also be helpful if the RBI maintained a separate cell in all states.

There are certain areas have been identified in order to build investors confidence in mutual funds. These include investor's disenchantment, poor growth in NAV and consequent low yield, dearth of innovative schemes, poor marketing and unsatisfactory investor servicing. They should develop a well-informed agency force to market
their products. Mutual Funds will have to take steps to improve the standard of investor service by changing their systems, procedures and infrastructure facilities. Mutual Funds should employ the right technique investment analysts for attractive returns. The mutual funds should nurture and develop good research teams and enhance the skills of the fund managers in taking investment decisions. The Association of Mutual Funds of India should place investor’s interest and protection topmost on its agenda. The AMFI should emerge as a self-regulatory authority in due course, lay down proper regulations and make MFs follow the guidelines. It should also ensure orderly growth of the MF industry. It has to play a significant role in investor’s education, investor protection, product innovation and market development while resisting over-regulation.

The investors are the backbone of the capital market. Their interests should be well safeguarded and protected in order to meet the changing economic scenario. Every effort should be made by the financial institutions and the regulatory authorities to maintain the investors protection. The investors must equally to decide properly before making their investments. If keen attention is given to the above-mentioned areas, then it is obvious that the interests of the investing public will be encouraged.
5.3.7: Protection of investor's rights:

The investors should be educated about their rights. Educational institutions, voluntary organizations and institutional agencies can provide such education to the investors.

1. The right to safety.
2. The right to be informed.
3. The right to choose.
4. The right to be heard.
5. The right to be redressal.
6. The right to investor's education.
7. The right to healthy environment.

5.3.8: Private Organizations:

In Pune City, at present there are two private organizations that are working to protect the investor's interest. They are the "Investors Grievances" and the "Investors Forum". These private organizations take care of investor's problems and various remedial measures are undertaken to promote the interest of individual investors.

5.3.9: New Products and Services:

It is the expectation of the investor that the banking and non-banking sector will make necessary changes in the present products and services. The investors are expecting the new innovative investment avenues to protect from the interest declines and the better services from the various investment organizations.
Electronic banking in India at present is as under:

- Electronic Funds Transfer. [EFT]
- Electronic Clearing System. [ECS]
- Telebanking.
- Automated Teller Machines. [ATMs]
- Shared Payment Network System. [SPNS]
- Credit cards / debit cards.
- Corporate banking terminals.
- Point of sale terminals.
- Electronic data interchange.

The new products and services:

- Super Savings Accounts of Bank of Baroda, introduced in March 2003.
- Citibank, Shopper Stop Launch Co-branded Card.
- Citibank Introduces New Wireless Application For Credit Card Transactions.
- Corpn Bank Launches Crop e-cheque.
- Corporation Bank Launches CorpSmart
- GTB Launches Vyapar.
- HDFC Bank: Account for cell users.
- IDBI Bank Launches Visa Electron.
- Indian Bank: Power Account.
- Punjab National Bank: International Credit Card.
- SBI Launches 'Debit Card'.

- 162 -
• StanChart Launches Sapnay Electronic Card.
• Union Bank of India: e-payment facility and Premium Credit Card.
• Vysya Bank Launches ‘mi-b@nk’.

Recently, five public sector banks, Bank of India, Union Bank of India, Indian Bank, and United Bank Of India are set to formalize their grand ATM network alliance ‘Cash Tree’ from 27th July 2003. The customers will be benefited from the low transaction cost and also have access to a countrywide network of 3000 ATMs to transact business.

**Summary**: Concluding, it can be said that investors can seek their protection within the provisions of the Indian Companies Act 1956 and the Securities and Exchange Board of India Act 1992. It is in the interest of investors themselves to be fully aware about all the rules and regulations. It is also advisable that investors should know the latest amendments and the future challenges and prospects.