

HISTORICAL EVOLUTION
of the **INDIAN**
FINANCIAL SYSTEM



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of the **INDIAN**
FINANCIAL SYSTEM



**Institute of
Management Technology**
Ghaziabad, Delhi NCR





Dr. Atish Chattopadhyay

Director, IMT Ghaziabad

Message From The Director

IMT Ghaziabad, over the last 44 years, has significantly contributed to the growth of the Indian Financial Markets through education, knowledge creation and dissemination.

I am glad that the Board, alumni, faculty and staff members have united to launch the *Centre for Financial Markets* in Mumbai, at a time when disruptive business models, political realignment and artificial intelligence are challenging the traditional order.

We have witnessed disruptive business models challenging traditional banks: PhonePe dominating the Indian UPI market, and Zerodha's profitable model in the securities industry. How will the banks adapt to these new models?

With the dawn of the Trump era, politics is playing a much bigger role in financial decisions. With the current strength of the US dollar stemming from increasing investor inclination to hold dollar assets, what will be the impact on capital inflows? Will there be change from the previous era, when investors were looking at diversifications across asset classes? Will the US dollar pull capital out of emerging markets?

What are the opportunities and threats as retail investors across India are putting more money into equities? Will Foreign Institutional Investors (FIIs) use this as an opportunity to book profits and move their money to other global markets?

With President Trump's intent to correct US trade deficit with India, will there be an additional load on India's current account deficit?

What will be the implications of artificial intelligence on productivity in the financial sector? How should we create new opportunities in the post-AI world?

The *Centre for Financial Markets* will play an important role in finding answers to these questions, and will be able to nurture the next generation of finance professionals for the post-AI world.

I thank our industry partners for their unwavering commitment to IMT Ghaziabad. We are truly honoured to have you as a partner.

I wish the *Centre for Financial Markets* all the success.



Dr. Harsimran Sandhu

Professor of Finance, IMT Ghaziabad

Message From Chairperson : Centre For Financial Markets

It is with great pleasure that I introduce the coffee table book titled Historical Evolution of the Indian Financial System. This coffee table book traces the evolution of the Indian economy from its pre-colonial roots—where early trade routes and traditional markets laid the foundation of economic activity—to the transformative post-colonial era, marked by the emergence of modern financial institutions, policies, and regulatory frameworks. It provides a comprehensive account of the historical milestones, visionary leadership, and collective efforts that have shaped India's economic growth, positioning the nation on its path to becoming the fifth-largest economy in the world. More than just a chronicle of events, this book is a tribute to India's resilience—its ability to overcome challenges and envision a future where finance is both empowering and equitable. It takes readers on a journey through the transformation of an agrarian economy into a global powerhouse, illustrating how money, institutions, and people together laid the foundations of modern India.



ADVISORY BOARD OF CENTRE FOR FINANCIAL MARKETS



Dr. Harsimran Sandhu

Professor of Finance

PhD from IIM Indore

Expertise: Investments, Financial Services Regulations
IMT Ghaziabad

Dr. Harsimran Sandhu brings over 18 years of expertise in banking and financial services, including 16 years at Standard Chartered Bank (SCB). At SCB, he played a pivotal role in the leadership team for wealth management, branch banking, foreign exchange, and wealth lending. He was also a member of the Global Management Group (International Investment Committee), contributing to investment strategies for global investors.



Dr. Arit Chaudhury

Associate Professor Finance

PhD from IIM Lucknow

Expertise: Business Valuation, Financial Modeling, Portfolio Management
IMT Ghaziabad

With over 18 years of experience, including 11 years as an equity research analyst and fund manager, followed by 7+ years in academia, he brings a unique blend of industry expertise and academic insight. His teaching focuses on business valuation, financial modeling, and portfolio management, aiming to bridge the gap between traditional finance theories and real-world applications. He has presented at prestigious academic conferences and published research in renowned ABDC and ABS-ranked journals.



Prof. Anand Krishnamoorthi

Professor of Finance

Expertise: Global Markets, Risk Management, Fixed Income, Derivatives, Market Infrastructure
IMT Ghaziabad

A banker with over 35 years of global experience across HSBC, Chase Manhattan, and Bankers Trust, covering Asia, Europe, the Middle East, and North America. Previously, he led a 70-member team from HSBC's regional head office in Hong Kong, overseeing a USD 250+ billion fixed-income portfolio across 19 countries.

About IMT Ghaziabad

Established in 1980, the Institute of Management Technology, Ghaziabad (IMTG), is one of India's premier AACSB-accredited management schools, dedicated to grooming future leaders through innovation, execution, and social responsibility. As an autonomous, not-for-profit institution under the aegis of the Lajpat Rai Educational Society (LES)—a society registered under the Societies Act 1860—IMTG has consistently ranked among the top management institutes in the country. Over the past four decades, it has built a strong reputation for its industry-oriented curriculum and robust academic programs. Currently, IMTG offers five AICTE-approved post-graduate programs: Two-Year PGDM Programs, PGDM BFS (Banking & Financial Services), PGDM Dual Country Program (DCP), 18-Month PGDM ExP, and the Fellow Program in Management (FPM).

IMTG's impact extends beyond academics, with a distinguished alumni network comprising over 1,000 C-suite executives and thousands of professionals in leadership roles across industries such as Finance, Marketing, Sales, Operations, Human Resources, Consulting, and Information Technology. Driven by its vision to be a leading management institution that contributes to business and societal development, IMTG continually fosters excellence in leadership, entrepreneurial talent, and research.

About the Centre for Financial Markets (CFM) at IMT Ghaziabad

In line with IMT Ghaziabad's vision, the Centre for Financial Markets (CFM) at IMT Ghaziabad will play a crucial role in bridging academia and industry in the financial sector. CFM aims to create a collaborative platform where students, faculty, and industry experts engage in knowledge exchange, research, and professional development. By integrating industry insights into academic learning, CFM will enhance course delivery, strengthen industry networks, and promote experiential learning. Its key objectives include advancing financial market research, fostering data-driven decision-making, and driving innovation through industry partnerships.

CFM Mumbai: Strengthening Industry-Academia Collaboration

To further strengthen its engagement with the financial sector, CFM is expanding its presence to Mumbai—the financial capital of India and home to leading financial institutions, regulatory bodies, and global investment firms. Establishing CFM in Mumbai will provide direct access to industry leaders, fostering greater collaboration between academia and the financial industry. The Mumbai centre will serve as a hub for financial research, executive education, and industry-driven initiatives, ensuring that students and professionals gain real-world insights and hands-on experience in the evolving financial landscape. This strategic expansion aligns with IMT Ghaziabad's mission to develop skilled professionals who can contribute meaningfully to the financial ecosystem while driving innovation and thought leadership in the sector.

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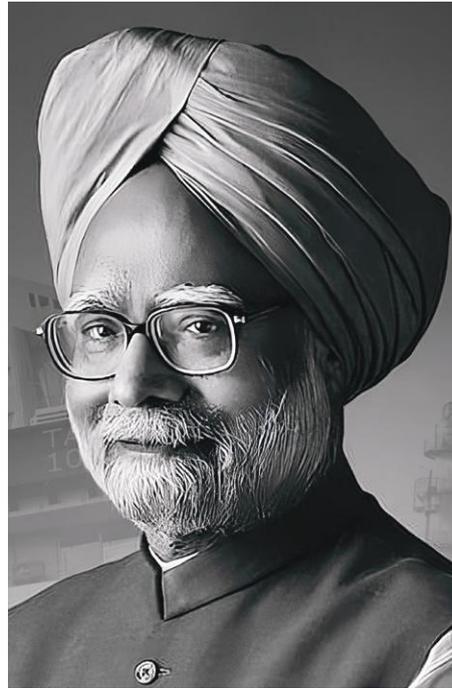


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1970–1991

**INDUSTRIAL
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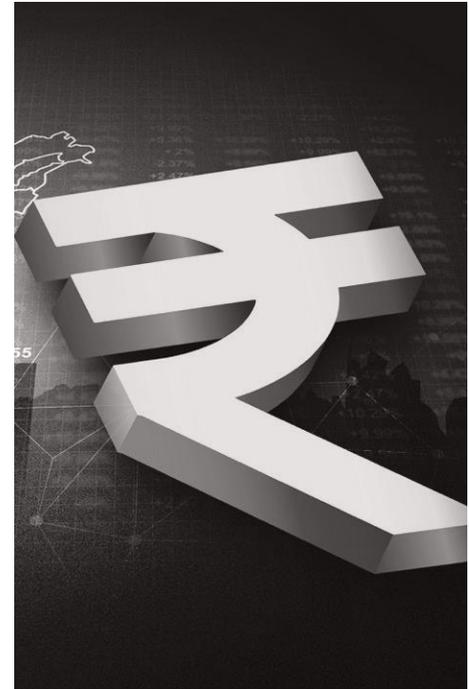


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**ECONOMIC
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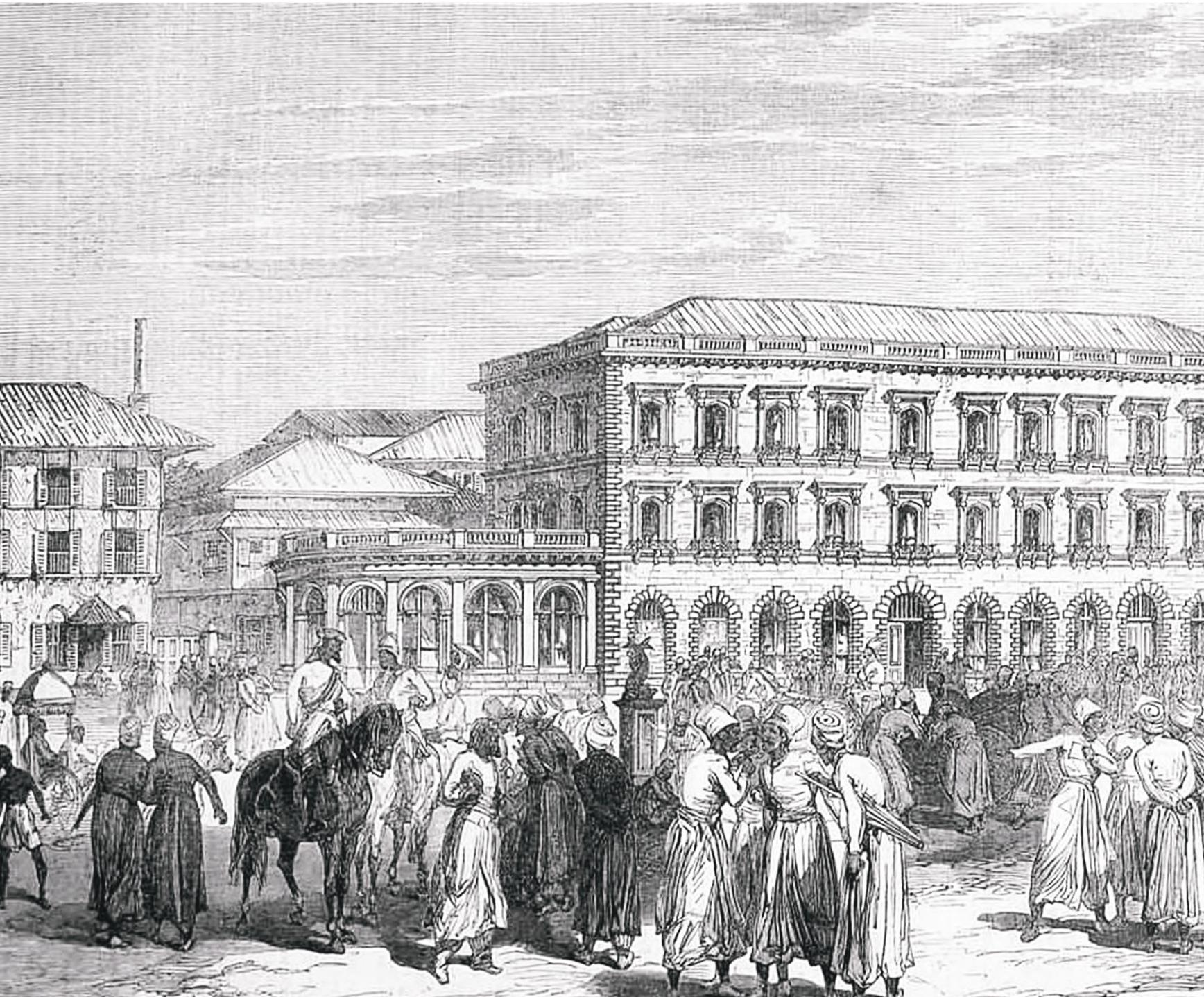


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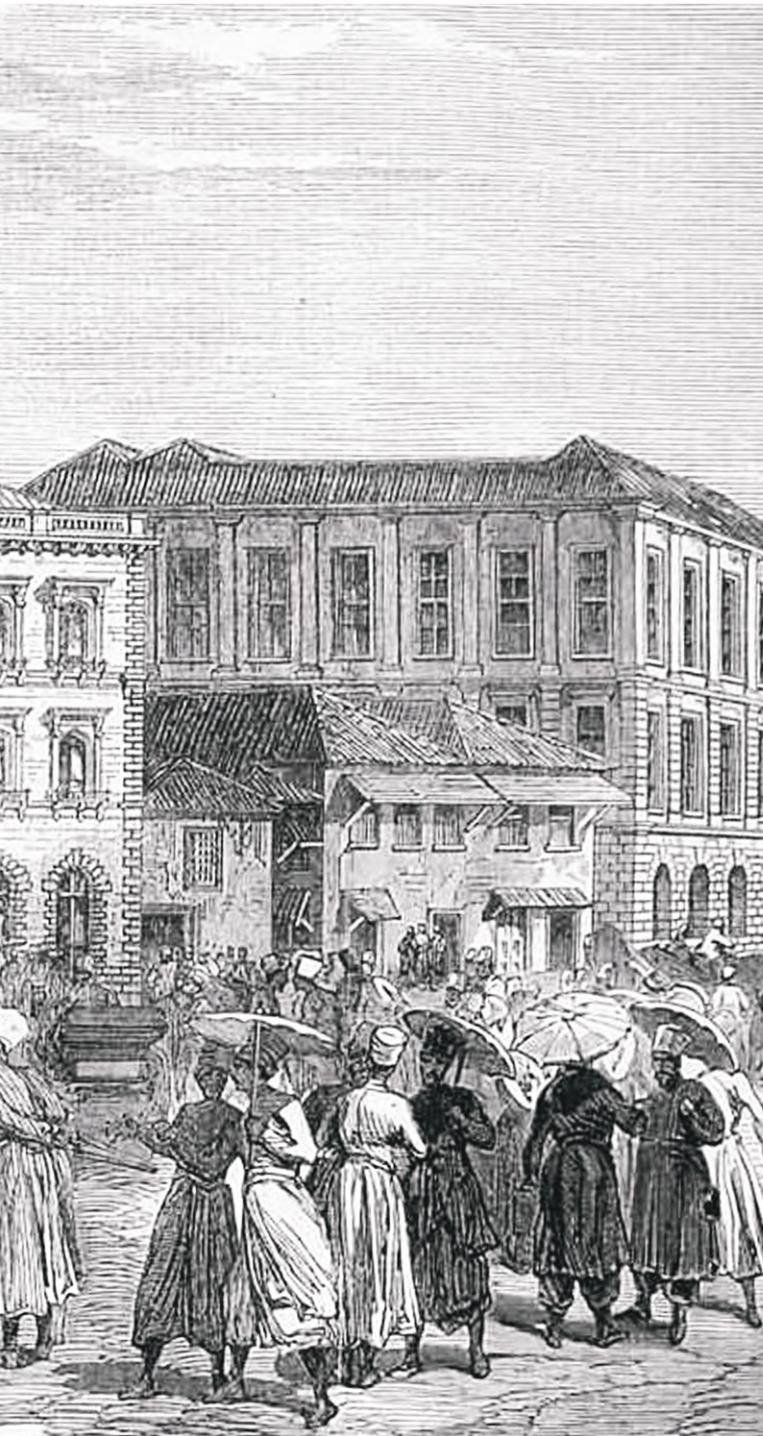
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2000–Present

**MODERN FINANCIAL
INNOVATIONS**



The New Oriental Bank and Share Market, Bombay (1865)



CHAPTER

01

Before 1947

COLONIAL FOUNDATIONS AND EARLY BANKING

The Chartered Bank, Bombay





The Birth of Banking in India

Banking in India has a deep-rooted history, beginning with indigenous banking systems such as moneylenders and informal credit systems. These early systems played a crucial role in facilitating trade and lending within local communities. However, their unregulated nature led to high interest rates and exploitative lending practices. The transition from traditional banking to structured financial institutions was influenced heavily by colonial trade and administration.

During the British rule, economic policies favoured European businesses and restricted Indian entrepreneurs' access to formal credit. The early 20th century saw a significant rise in banking institutions, but weak regulation led to multiple bank failures, highlighting the need for robust financial supervision.

Presidency Banks and British Influence

Bank of Bengal (1806): The first major commercial bank, the backbone of British economic interests.

Bank of Bombay (1840) and Bank of Madras (1843): Created to facilitate trade in western and southern India.

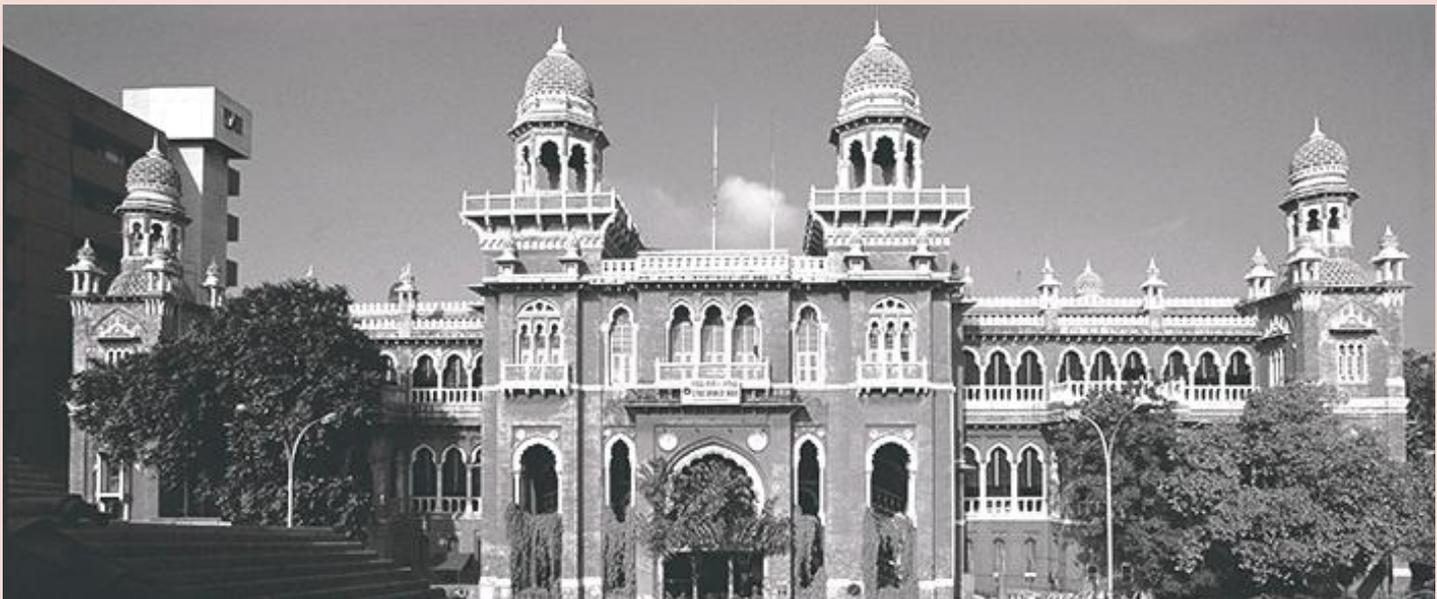
- ◆ These banks played a significant role in issuing currency, managing government finances, and financing trade.
- ◆ The Presidency Banks were initially created to fund the trading activities of the British East India Company and later became central to the economic policies of colonial rule. Over time, these banks introduced formal banking practices, including deposit accounts and structured lending mechanisms, shaping the banking landscape in India.



Down Memory Lane: Bank of Bombay



Bank of Bengal



Bank of Madras 1905

Imperial Bank of India

The Blueprint for a Centralized System

- ◆ The Imperial Bank functioned as a quasi-central bank, regulating monetary policies and credit issuance, though primarily favouring British businesses.
- ◆ The financial inclusion of Indians was minimal, and access to credit was restricted.
- ◆ The institution played a key role in financing large infrastructure projects, including railways, ports, and irrigation systems.
- ◆ These three banks were later merged in 1921 to form the Imperial Bank of India, which eventually became the State Bank of India (SBI) in 1955.



The Imperial Bank of India eventually became the State Bank of India in 1955, forming the backbone of India's public banking sector.

Pic: Imperial Bank

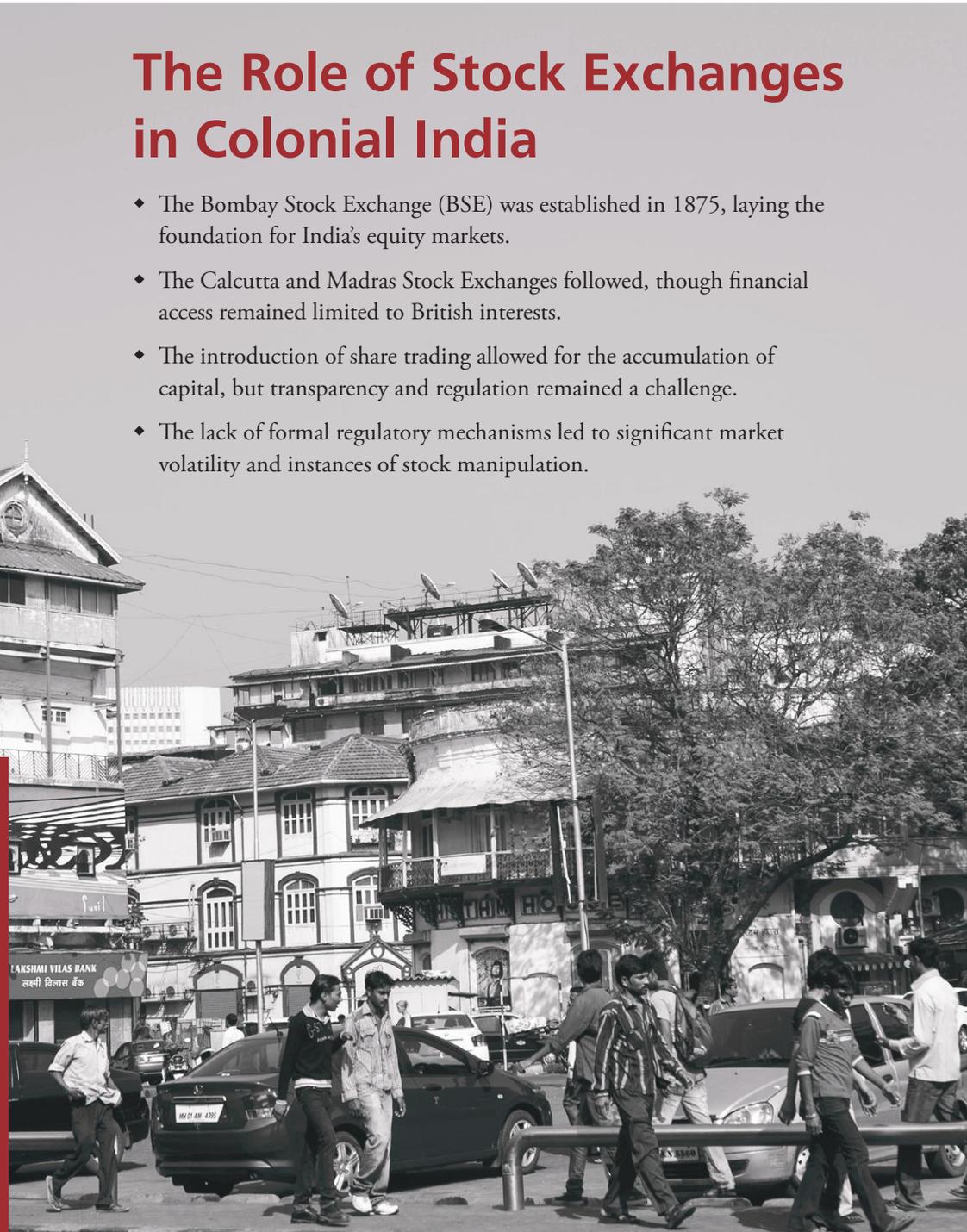


The Role of Stock Exchanges in Colonial India

- ◆ The Bombay Stock Exchange (BSE) was established in 1875, laying the foundation for India's equity markets.
- ◆ The Calcutta and Madras Stock Exchanges followed, though financial access remained limited to British interests.
- ◆ The introduction of share trading allowed for the accumulation of capital, but transparency and regulation remained a challenge.
- ◆ The lack of formal regulatory mechanisms led to significant market volatility and instances of stock manipulation.



BSE is the oldest stock exchange in Asia and remained the dominant stock exchange in India until the rise of NSE in the 1990s.



Bombay Stock Exchange

The Currency Crisis, the Great Depression & the Birth of a Central Bank

By the 1920s, India's struggling capital markets faced two major challenges:

Currency Mismanagement:

- ♦ The regional banknotes issued by the Presidency Banks created inefficiencies and increased transaction costs long after the banks themselves had ceased to exist. The complexity of exchange rates led to higher menu costs, reducing liquidity for merchants in various regions.

Global Economic Crisis:

- ♦ **World War I (1914-1918):** The war drained India's resources and disrupted its economy. Inflation soared due to an uncontrolled increase in the money supply.
- ♦ **The Great Depression (1929-1933):** A collapse in commodity prices severely impacted India's agrarian economy. Farmers, burdened by loans, faced repossession and bankruptcy.



Hilton Young Commission and Reserve Bank of India

The Hilton Young Commission was established in 1926 to review India's financial structure, and its recommendations were clear and decisive. It advocated for the creation of a central bank to issue currency and supervise credit, along with the implementation of a standardized monetary policy to control inflation and ensure steady economic growth. These recommendations led to the enactment of the Reserve Bank of India Act in 1934. As a result, on April 1, 1935, the Reserve Bank of India (RBI) officially commenced its operations.



Hilton Young





Reserve Bank of India


RBI
Reserve Bank of India



1st APRIL 1935
RESERVE BANK OF INDIA (RBI)
FOUNDATION DAY

RBI was conceptualized as per the guidelines, working style and outlook presented by **Dr. B. R. Ambedkar** in his book. It was titled "**The Problem of the Rupee its origin and its solution**" and presented to the Hilton Young Commission. The bank was set up based on the recommendations of the 1926 Royal Commission on Indian currency and finance, also known as the Hilton Young Commission

It was **Dr. Ambedkar's** tireless efforts due to which the **Reserve Bank of India** came into existence. On this day we pay our hearty tributes to the master of economics and the champion of Human Rights, who's vision shaped today's Modern India



The absence of central control over the money supply, inflation, and credit creation exacerbated the crisis. Gradually, the British administration recognized the need for a central bank to serve as the cornerstone of India's monetary framework.



Reserve Bank of India





CHAPTER

02

1947–1969

INDIA'S INDEPENDENCE AND FINANCIAL NATIONALIZATION

After India's independence, the Reserve Bank of India (RBI) was nationalized in 1949 to regulate monetary policies and ensure financial stability. In its initial years, the RBI focused on stabilizing the currency and controlling inflation. During the 1950s and 1960s, it played a pivotal role in implementing government policies aimed at economic development and industrial growth.

Banking Regulation Act, 1949

- ♦ **Need for Regulation:** Between 1913 and 1948, over 1,400 banks failed due to poor management and lack of supervision, leading to widespread depositor losses.
- ♦ **Introduction of the Banking Regulation Act, 1949:** The Act aimed to bring stability, transparency, and control over banking operations in India.
- ♦ **Licensing Requirements:** Banks were required to obtain RBI license, ensuring financial strength and governance compliance.
- ♦ **RBI's Role:** The Act empowered the RBI to regulate, inspect, and intervene in bank management to prevent financial collapses.
- ♦ **Governance Reforms:** The Act restricted lending to bank insiders and set qualification criteria for bank directors.
- ♦ **Impact on Banking Sector:** The Act led to the consolidation of small banks, improving financial stability and depositor confidence.
- ♦ **Evolution Over Time:** The Act has undergone multiple amendments to extend its reach to cooperative banks, digital banking, and financial technology innovations.
- ♦ **Significance Today:** The Banking Regulation Act remains the backbone of India's financial system, ensuring its resilience and adaptability.



The Birth of Private Sector Banking in the 1950s –

ICICI transitioned into ICICI Bank in 1994, becoming one of India's largest private sector banks after merging with its banking subsidiary in 2002.

- ♦ **Urban-Centric Banking System:** By the 1950s, India's banking sector was risk-averse and lacked long-term industrial financing.
- ♦ **Establishment of ICICI (1955):** Founded as a Development Financial Institution (DFI) to provide long-term funding for private industries.
- ♦ **Government & Global Collaboration:** ICICI was formed with support from the Indian government, corporate houses (Tatas, Birlas, Dalmias), and the World Bank, which brought global expertise in project evaluation.
- ♦ **Role Complementary to SBI:** While SBI expanded rural banking, ICICI focused on financing large industrial projects, addressing a key financial gap.



- ♦ **Pioneering Project Financing:** Shifted from traditional collateral-based lending to assessing projects based on future cash flow potential, introducing a new credit assessment model.
- ♦ **Major Contributions:** Funded significant industrial projects, including the Bhilai and Bokaro steel plants, hydroelectric power projects, and early-stage support for Tata Motors.
- ♦ **Initial Challenges:** Faced criticism for prioritizing large industries over SMEs and being influenced by Western financial models but proved its impact through long-term industrial growth.
- ♦ **Legacy & Evolution:** ICICI eventually transitioned into a commercial bank, later becoming ICICI Bank, now one of India's leading private sector banks.



Narayanan Vaghul, a pioneer in Indian banking and former Chairperson of ICICI Bank.



V. Kamath, Former CEO and MD of ICICI Bank, a visionary leader in Indian banking and finance.

Employees' Provident Funds Act, 1952

- ♦ **A Revolutionary Policy:** The Employees' Provident Funds Act, 1952, established a structured savings and retirement scheme for India's workforce, ensuring financial security post-retirement.
- ♦ **Formation of EPFO:** The Employees' Provident Fund Organisation (EPFO) was created to manage provident fund contributions & oversee retirement benefits for employees.
- ♦ **Employer-Employee Contributions:** Both employers and employees contribute 12% of the employee's basic salary and dearness allowance, building a strong financial corpus over time.

Key Characteristics of EPFO:

- ♦ **Compounded Growth:** Contributions are invested, and interest is compounded annually, providing employees with returns that often exceed traditional savings instruments.
- ♦ **Flexible Withdrawals:** EPFO allows partial withdrawals for emergencies such as medical needs, home purchases, and education, making it a vital financial safety net.
- ♦ **Evolution Over Time:** Initially met with skepticism, EPFO has grown into one of the world's largest social security organizations, managing a corpus of over ₹12 lakh crore.
- ♦ **Adaptability and Trust:** Over the decades, EPFO has introduced digital services, automated claim settlements, and enhanced coverage, reinforcing trust in India's financial framework.
- ♦ **Global Standing:** The fund managed by EPFO surpasses the GDP of several smaller nations, making it one of the largest and most stable financial institutions in the world.
- ♦ EPFO functions under the Ministry of Labour and Employment, Government of India and is one of the world's largest social security organizations.



From Imperial to People's Bank: The Nationalization of the Imperial Bank of India (1955)

Colonial Legacy of the Imperial Bank

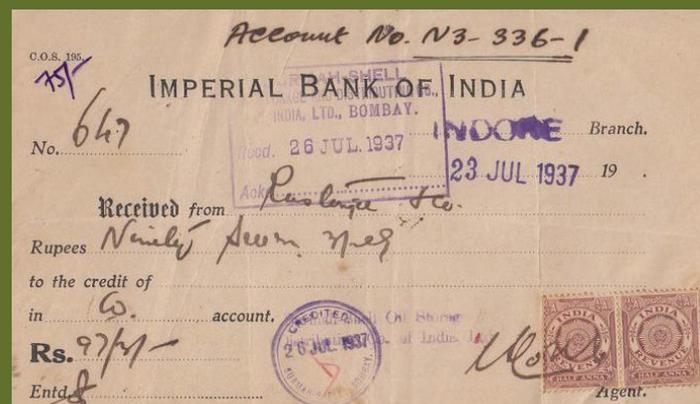
- ♦ Formed in 1921 by merging the Bank of Bengal, Bank of Bombay, and Bank of Madras.
- ♦ Primarily served urban elites, industrialists, and colonial enterprises.
- ♦ Excluded rural farmers, small traders, and labourers reinforcing financial inequality.

Rural Credit Crisis

- ♦ By the 1950s, 70% of India's population lived in villages, but less than 10% had access to banking services.
- ♦ Small farmers relied on moneylenders charging exorbitant interest rates (up to 50%).



Imperial Bank Seal



Imperial Bank Cheque

Nationalization & Structural Reforms (1955)

- ♦ Government nationalized the Imperial Bank under the State Bank of India Act to enhance financial inclusion.
- ♦ SBI was given a dual mission: economic development and expanding banking services to rural India.
- ♦ The new entity, State Bank of India (SBI), was given a dual mission:
 - ☐ Economic development.
 - ☐ Expanding banking services to rural India.

Expansion and Rural Focus

- ♦ Imperial Bank's 400 branches were realigned, and 480 new rural branches were planned within five years.
- ♦ By 1960, 60% of SBI's lending focused on agriculture and rural development.
- ♦ By early 1960s, over 1,000 rural branches served 3 million customers.
- ♦ Agricultural loans reached ₹200 crore by 1965.

SBI's Ongoing Evolution

- ♦ Continues to modernize while maintaining its rural banking mission.
- ♦ Offers digital banking services and agricultural credit cards.
- ♦ Manages ₹50 lakh crore in assets, serves 450 million customers, and operates 25,000 branches across India and abroad.

Impact on India's Financial System

- ♦ Marked a turning point in making formal banking accessible to rural India.
- ♦ Transformed from an exclusive colonial institution into "The People's Bank."

LIC: Transforming Insurance in India (1956)



भारतीय जीवन बीमा निगम
LIFE INSURANCE CORPORATION OF INDIA

*Zindagi ke Saath bhi,
zindagi ke baad bhi*



Symbol of Trust

Its famous tagline,
“Zindagi ke Saath bhi,
Zindagi ke Baad bhi”,
became synonymous with
trust.

Formation of LIC (1956): Nationalizing Life Insurance for Financial Security

- ♦ **Nationalization:** The Life Insurance Corporation of India (LIC) was nationalized in 1956, consolidating the life insurance sector under a single, state-owned entity.
- ♦ **Finance Minister's Role:** While C.D. Deshmukh (Finance Minister from 1950–1956) was instrumental in shaping India's financial policies, the actual nationalization of LIC happened under T.T. Krishnamachari in 1956.
- ♦ **Key Policymakers:** Senior bureaucrats and financial experts played a crucial role in transitioning private insurers into a government-controlled institution.
- ♦ **Legacy:** LIC emerged as India's largest and most trusted life insurance provider, significantly contributing to financial inclusion and economic stability.



C. D. Deshmukh - RBI's First Indian Governor

Laying the Foundation for Stock Market Regulation: The Securities Contracts (Regulation) Act, 1956



Stock Market Challenges in the 1950s

Bombay's stock markets were booming but plagued by malpractices.

Insider trading and speculative trading were rampant, creating artificial price bubbles.

Small investors often suffered losses due to fraud and lack of oversight.

Powerful brokers dominated the market without formal regulatory checks.

The Haridas Mundhra Scandal

- ◆ Mundhra, a politically connected stockbroker, used high finance unethically, leading to a financial controversy.
- ◆ Such incidents highlighted the urgent need for regulatory oversight.
- ◆ The government recognized the need to protect investors and build trust in financial markets.

Introduction of the Securities Contracts (Regulation) Act (SCRA), 1956

- ◆ Aimed to bring order to the chaotic & unregulated stock market.
- ◆ Established a structured legal framework to regulate securities transactions.
- ◆ Introduced rules for transparency, fair practices, and penalties for violations.

Key Provisions of the SCRA

- ◆ **Mandatory Registration of Stock Exchanges:** Ensured standardized operations under government-mandated rules.
- ◆ **Transparency and Accountability:** Stockbrokers and intermediaries had to operate under clear regulations.
- ◆ **Investor Protections:** Standardized contracts to safeguard small investors from fraud.
- ◆ **Collaborative Regulation Model:** Exchanges were responsible for enforcing rules among their members.

Resistance and Implementation

- ◆ Brokers initially resisted the regulations, seeing them as government interference.
- ◆ The government remained firm in enforcing the Act.
- ◆ By the late 1950s, the Bombay Stock Exchange set an example for compliance, influencing other regional exchanges.

Legacy of the SCRA

- ◆ Laid the foundation for modern securities regulation in India.
- ◆ Evolved to address new market challenges & complexities.
- ◆ Established trust and stability in India's financial markets, shaping future regulatory frameworks.

India's Journey to Deposit Insurance: Building a Shield for Depositors



Bank Failures in the 1960s and the Need for Protection

- ◆ The collapse of **Laxmi Bank (1960)** and **Palai Central Bank (1961)** shocked the nation.
- ◆ Thousands of depositors faced financial ruin, creating a crisis of trust in the banking system.
- ◆ A strong safety net was urgently needed to protect small depositors.

Introduction of Deposit Insurance (1961)

- ◆ The **Deposit Insurance Corporation (DIC) Bill** was introduced in Parliament.
- ◆ India became the **second country in the world**, after the U.S., to implement deposit insurance.
- ◆ The **DIC started operations in 1962**, ensuring that small depositors wouldn't lose all their money if a bank failed.
- ◆ This move boosted public confidence in the banking system.

Expansion & Strengthening of the System

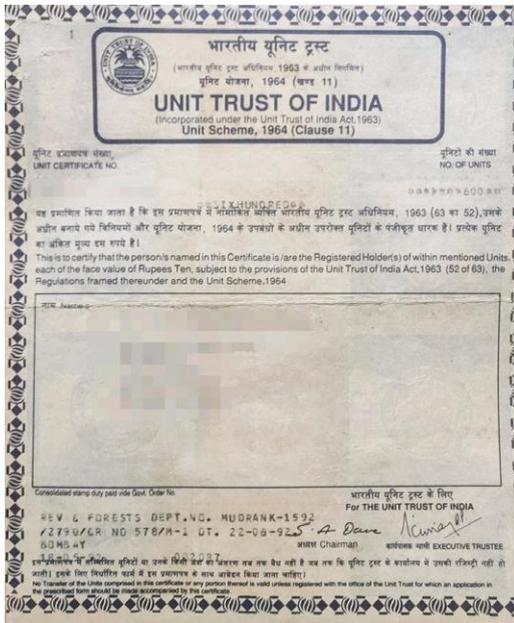
- ◆ **1978:** The DIC merged with the **Credit Guarantee Corporation** to form the **Deposit Insurance and Credit Guarantee Corporation (DICGC)**.
- ◆ The new entity not only protected depositors but also helped **small businesses and farmers** by guaranteeing loans.

Adapting to Economic Changes

- ◆ **1990s:** As India's economy modernized, the **DICGC refocused on deposit protection** to maintain banking stability.
- ◆ Continued to be a key institution in ensuring depositor safety and financial stability.

Long-Term Impact

- ◆ The introduction of deposit insurance transformed the banking landscape in India.
- ◆ Built trust among millions of depositors, encouraging them to keep money in banks.
- ◆ Strengthened the overall resilience of India's financial system.



1964 - Depositor Protection to Investor Empowerment – The Birth of UTI

Beyond Deposit Protection: A New Vision (1964)

- ◆ After the success of deposit insurance, India sought a way to mobilize savings for economic growth.
- ◆ The Unit Trust of India (UTI) was established with RBI's support, creating a gateway for ordinary Indians to invest.
- ◆ By the 1980s and early 1990s, UTI had become one of India's largest institutional investors, significantly influencing corporate financing.

US-64: The Game-Changer

- ◆ Unit Scheme 1964 (US-64) became India's first mutual fund product, attracting homemakers, teachers, and small shopkeepers.
- ◆ For the first time, small investors gained access to stock markets.
- ◆ US-64 was structured as a hybrid scheme, offering both equity and debt exposure with assured returns, which made it unique at the time.

UTI as an Institutional Investor

- ◆ Pooled investments helped businesses grow, making UTI a stabilizing force in stock markets.
- ◆ It played a crucial role in industrial expansion and capital market development.

Post-Liberalization and UTI's Legacy

- ◆ Economic liberalization brought private and global competitors, yet UTI's impact remained deep-rooted.
- ◆ UTI transformed how Indians thought about money, laying the foundation for India's modern mutual fund industry.



The Turning Point: Rise of NBFCs in India's Financial Landscape - 1960's

Gap in the Financial System

- ♦ While UTI enabled investment, many individuals and businesses struggled to access credit from banks.
- ♦ Non-Banking Financial Companies (NBFCs) emerged as an alternative, offering loans and credit to the underserved.

Challenges & RBI's Regulatory Intervention

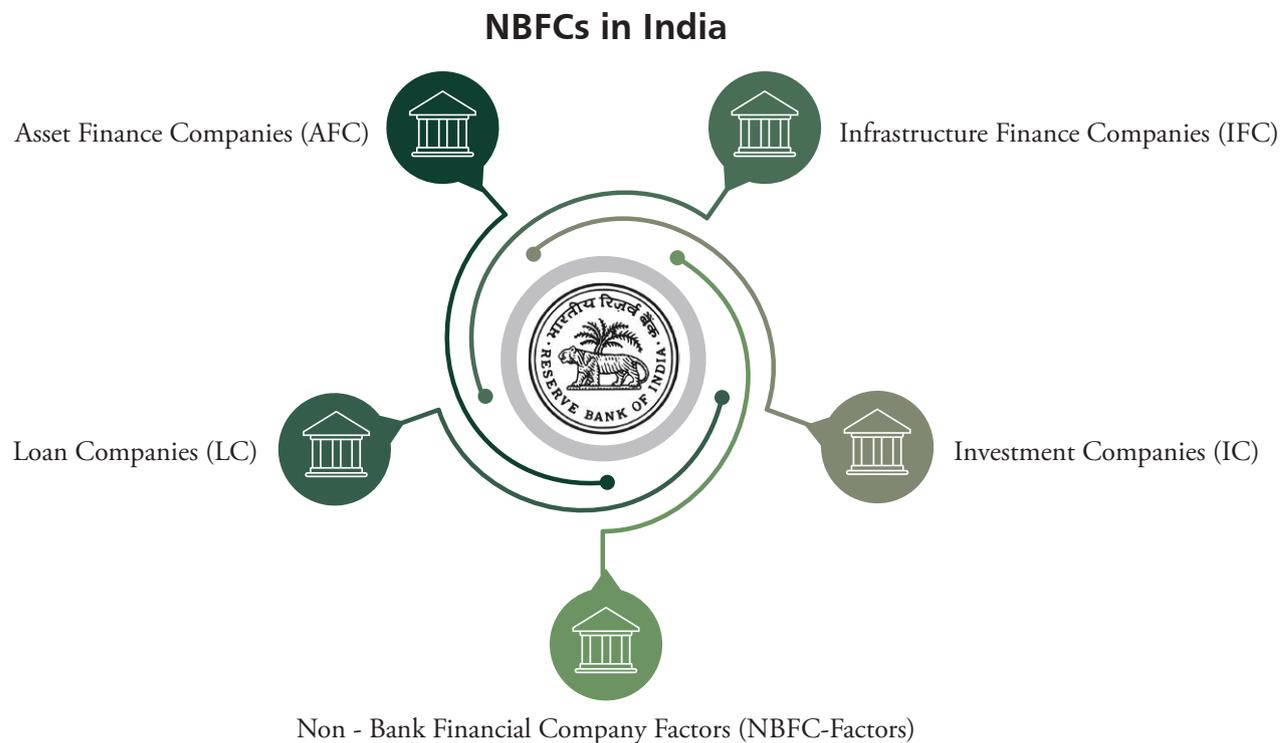
- ♦ NBFCs expanded rapidly, but lack of regulation led to financial instability.
- ♦ RBI introduced regulations to ensure order, setting limits on deposit collection and interest rates.

NBFCs' Growth & Role in India's Economy

- ♦ With RBI oversight, NBFCs gained credibility, expanding financial access and becoming a vital pillar of India's financial system.
- ♦ Over time, they evolved into key players in lending for housing, businesses, and infrastructure.

NBFCs: A Pillar of India's Financial Future

- ♦ What started as a small regulatory step in 1963 became a major financial sector transformation.
- ♦ Today, NBFCs play a crucial role in financial inclusion and economic development.



1964 - The Creation of IDBI – Building India's Industrial Backbone

The Need for Industrial Financing (1963-64)

- ◆ IDBI was set up as a subsidiary of the Reserve Bank of India (RBI) to provide long-term financing for industrial development. In 1976, IDBI was separated from RBI and became an autonomous financial institution, directly controlled by the government.
- ◆ The economy was growing, and big projects needed long-term financial support.

Establishment of IDBI (1964)

- ◆ Industrial Development Bank of India (IDBI) was created on July 1, 1964, under the IDBI Act.
- ◆ Initially part of the Reserve Bank of India (RBI), IDBI had a special role—promote, fund, and organize industrial growth.

IDBI's Role in Nation-Building

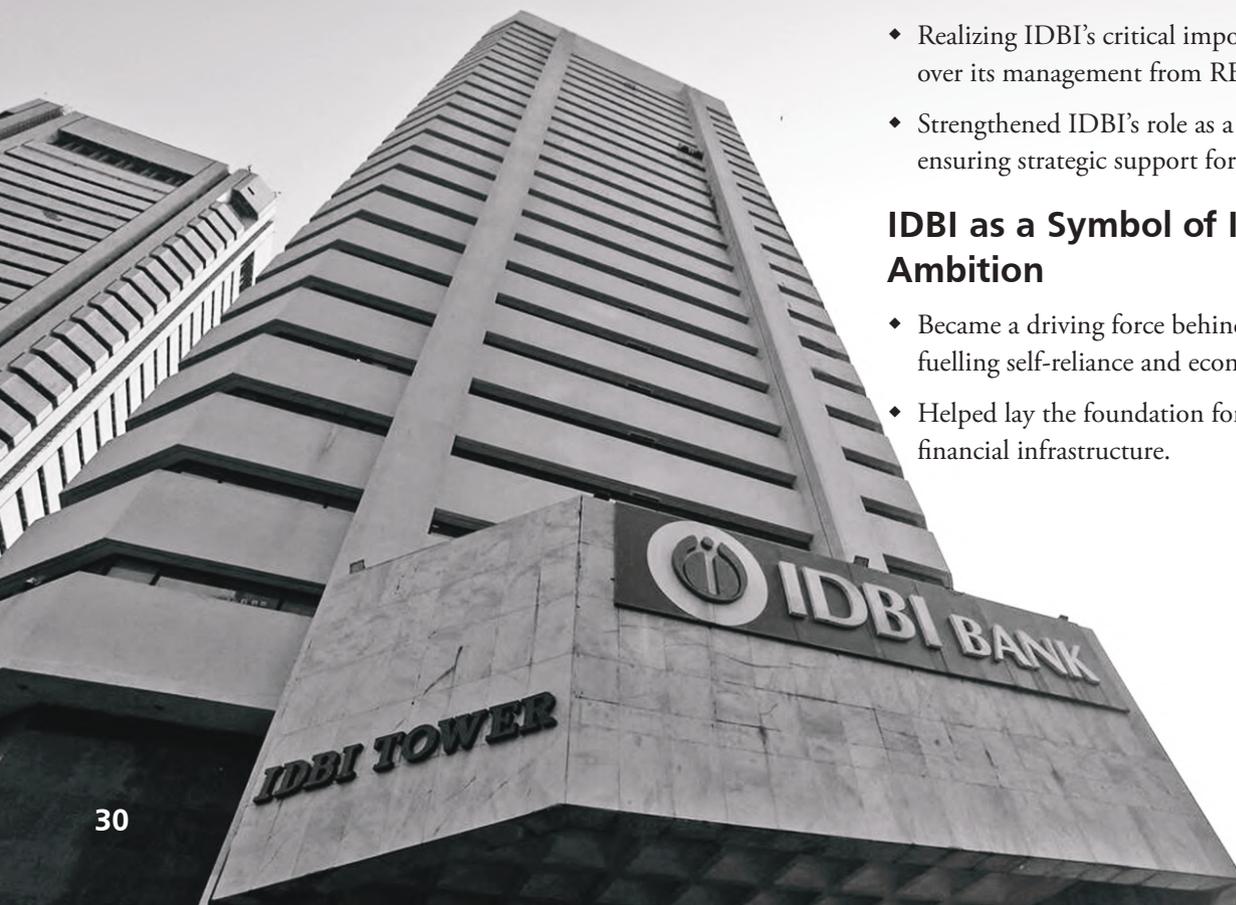
- ◆ Provided long-term financing for key infrastructure projects, including factories, roads, and power plants.
- ◆ Played a crucial role in India's self-reliance, supporting industrial expansion and modernization.

Government's Direct Control

- ◆ Realizing IDBI's critical importance, the government took over its management from RBI.
- ◆ Strengthened IDBI's role as a pillar of industrial financing, ensuring strategic support for India's economic growth.

IDBI as a Symbol of India's Industrial Ambition

- ◆ Became a driving force behind India's industrialization, fuelling self-reliance and economic strength.
- ◆ Helped lay the foundation for India's modern industrial and financial infrastructure.



Transforming India's Banking Landscape: The Nationalization of Banks (1969)

- ◆ Indira Gandhi's government nationalized 14 major commercial banks.
- ◆ This move aimed to expand banking to underserved regions, improve economic equity, and reduce the concentration of banking power in private hands and align banking with national economic priorities.
- ◆ Nationalization led to a significant increase in banking penetration but also introduced bureaucratic inefficiencies.
- ◆ By the early 1980s, public sector banks accounted for nearly 90% of the total banking business in India.
- ◆ The growth of public sector banks facilitated the expansion of priority sector lending, benefiting agriculture, small-scale industries, and self-employment programs.







CHAPTER

03

1970–1991

INDUSTRIAL GROWTH AND MARKET REFORMS

Before 1972, insurance was controlled by private companies focused on profits.

It was expensive and confusing, making it inaccessible to most Indians, especially rural and low-income families.

1972: The Year Insurance Became Accessible to All

The Need for Change

- ◆ Before 1972, insurance was dominated by private companies prioritizing profits.
- ◆ High costs and complex policies made insurance inaccessible, especially for rural and low-income families.

The General Insurance Nationalization Act (1972)

- ◆ The government took over private insurance companies to ensure fair and affordable coverage.
- ◆ Objective: To extend insurance insurance benefits to all, not just the wealthy.

Impact on Financial Inclusion

- ◆ Made insurance affordable and accessible to farmers, shopkeepers, and workers.
- ◆ Provided financial protection against accidents, natural disasters, and health issues.
- ◆ Increased insurance adoption, strengthening economic security for millions.

A Lasting Legacy

- ◆ The 1972 reforms weren't just about business; they ensured financial security for all.
- ◆ Ensuring insurance as a fundamental right" is an overstatement. While nationalization made insurance more accessible, it did not legally establish insurance as a right.

Creation of Public Insurance Companies



National Insurance Company



New India Assurance Company



Oriental Insurance Company



United India Insurance Company



The General Insurance Corporation of India (GIC) was established to oversee and guide them.

The Rise & Fall of BCCI

The Rise of BCCI (1972–1980s): A Banking Powerhouse in the Making

- ◆ The Bank of Credit and Commerce International (BCCI) was founded in 1972 by Agha Hasan Abedi.
- ◆ Backed by Bank of America & Sheikh Zayed of Abu Dhabi.
- ◆ Aimed to become a global financial powerhouse, expanding rapidly.
- ◆ Operated in Luxembourg, Cayman Islands, and other financial hubs.



The Warning Signs

- ◆ BCCI misused customer deposits for expenses rather than smart investments and was deeply involved in large-scale financial fraud, money laundering, and illegal loan schemes.
- ◆ Complex banking structures made transparency difficult.
- ◆ Regulators noticed irregularities, but growth overshadowed concerns.

The Collapse (1980s–1991)

- ◆ Investigations uncovered risky loans, misused funds, and money laundering.
- ◆ Global authorities forced BCCI's closure in 1991 due to financial fraud.



Key Takeaways from the BCCI Scandal

Weak regulatory oversight can enable large-scale financial fraud.

Transparency and strong governance are critical for banking stability.

Exposed the dangers of offshore banking and tax compliance measures.

1969: The Midnight Banking Revolution

Political and Economic Context

- ♦ India was facing political instability, with internal conflicts within the Congress party.
- ♦ Over 350 private banks had collapsed since Independence, causing widespread depositor losses and public distrust.

1969: The Bold Step That Transformed Indian Banking

- ♦ **14 Major Banks Nationalized:** Banks with deposits over ₹50 crore, including Punjab National Bank, Bank of India, Canara Bank, and Central Bank of India, were brought under government control.
- ♦ **Objective:** Redirect banking services from the elite to farmers, small businesses, and the common citizen.
- ♦ **Impact:** Marked a turning point in India's financial inclusion, ensuring broader access to credit and banking services.

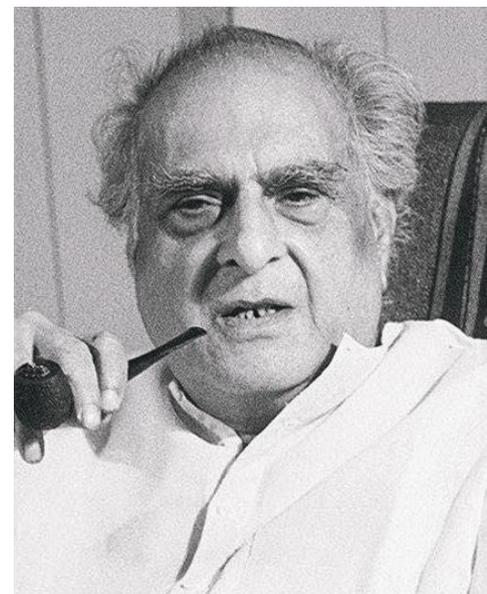
Immediate Reactions and Legal Challenges

- ♦ Prime Minister Indira Gandhi announced the decision via national radio, making it a defining moment.
- ♦ Courts initially ruled it unconstitutional, but the government introduced a new ordinance in 1970 to uphold nationalization.



Impact on Banking and Governance

- ♦ Expanded banking services to rural areas, increasing financial access for farmers and small businesses.
- ♦ Strengthened Indira Gandhi's political position, consolidating her power within the Congress party.
- ♦ While economists continue to debate its long-term impact, bank nationalization undeniably transformed India's financial landscape, paving the way for greater financial inclusion.



P.N. Haksar

The Political Drama Behind Nationalization

- ♦ Finance Minister Morarji Desai, a staunch opponent of bank nationalization, was dismissed just a day before the announcement.
- ♦ The ordinance was secretly drafted overnight (July 17-18) by P.N. Haksar and a small team to ensure swift execution.
- ♦ Acting President V.V. Giri signed the ordinance before stepping down, securing its immediate implementation.

1975 – Taking Banking to the Villages

The Rural Banking Challenge

- ♦ Majority of India's population lived in villages, relying on farming and small businesses.
- ♦ Limited access to banking services made it difficult for them to grow financially.

The Birth of Regional Rural Banks (RRBs) – October 2, 1975

- ♦ Based on Narasimham Committee recommendations, the government launched small, rural-focused banks.
- ♦ Prathama Bank (Moradabad, Uttar Pradesh) was the first RRB, sponsored by Syndicate Bank.
- ♦ Four other RRBs were established the same day:
 - ♦ Gaur Gramin Bank (UCO Bank)
 - ♦ Gorakhpur Kshetriya Gramin Bank (SBI)
 - ♦ Haryana Kshetriya Gramin Bank (PNB)
 - ♦ Jaipur-Nagaur Anchalik Gramin Bank (UCO Bank)

Unique Ownership Structure

- ♦ 50% Central Government, 15% State Government, 35% Sponsoring Bank.
- ♦ Ensured joint responsibility for supporting rural economic growth.

Impact on Rural Development

- ♦ Provided loans to farmers for seeds, equipment, and irrigation.
- ♦ Funded small businesses, promoting self-employment and economic stability.
- ♦ Helped villagers save money and access financial services for the first time.

Evolving Role of RRBs

- ♦ Began handling MGNREGA wage disbursement and pension payments.
- ♦ Played a key role in financial inclusion, integrating villages into the formal banking system.



A Milestone in Rural Banking

RRBs transformed rural India,
making banking more accessible &
strengthening the rural economy.

Key Financial and Industrial Reforms (1977–1990): Reshaping India's Economic Landscape

Empowering Small-Scale Industries (SSIs) and Regional Growth

- ◆ **Boosting Small Enterprises:** Over 500 products were reserved for SSIs and rural artisans, reviving traditional crafts and fostering local entrepreneurship.
- ◆ **Regional Development:** Policies aimed at reducing regional disparities by promoting industrial activity in rural and semi-urban areas.
- ◆ **Challenges:** While these reforms generated employment, they limited technological advancements and restricted large-scale industries, impacting competitiveness and modernization

Prime Minister Morarji Desai (1977-1979)



A Golden Turnaround: Repeal of the Gold Control Act 1968

Legalization of Gold Trade

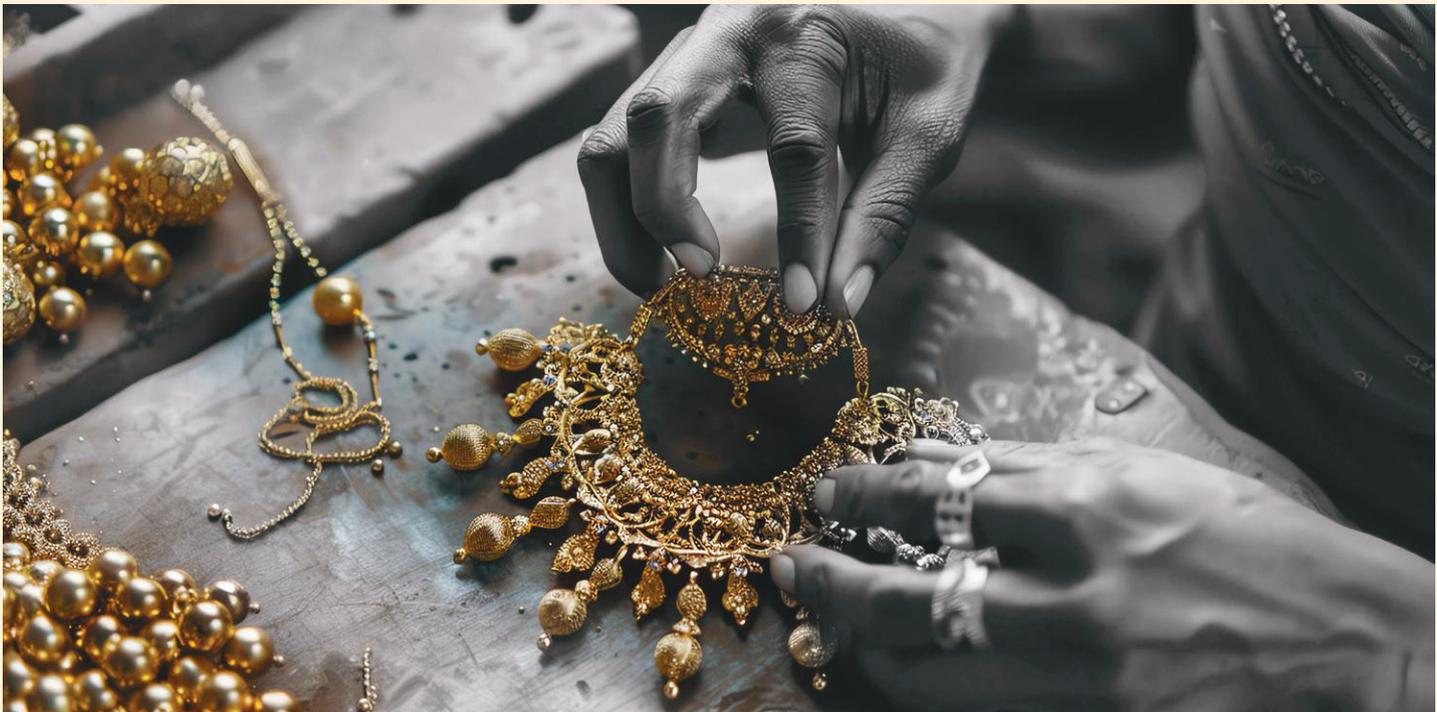
- ◆ In the past, the Gold (Control) Act of 1968 was enacted to regulate the possession and trading of gold, aiming to curb gold hoarding and black-market activities. This Act imposed strict restrictions on owning and dealing in gold. However, due to its stringent nature and challenges in enforcement, the Act was repealed in 1990 to liberalize the gold market.
- ◆ Ended restrictive controls, allowing free trade and ownership of gold.
- ◆ Benefited jewellers and artisans, particularly in Gujarat and Tamil Nadu.

Elimination of the Black Market

- ◆ Brought gold into the formal economy, reducing smuggling and illegal trade.

Integration of Gold into Financial Markets

- ◆ Laid the foundation for gold-backed financial instruments, merging cultural values with modern finance.



1980: A New Era of Financial Inclusion

Second Wave of Bank Nationalization

- ◆ Six more commercial banks were nationalized, extending banking to rural India.
- ◆ Increased financial inclusion for farmers, small businesses, and marginalized communities.

Democratization of Capital Markets

- ◆ Revival of the Delhi Stock Exchange, encouraging broader public participation in equity markets.

Strengthened Financial Infrastructure

- ◆ Combined efforts led to a more inclusive and stable financial system.



Breaking Barriers: EXIM Policy Liberalization

Export Promotion and Global Integration

- ◆ Shifted India's economic approach from protectionism to globalization.

Creation of Export Processing Zones (EPZs)

- ◆ India's first EPZ was set up in Kandla in 1965. More EPZs followed in the 1970s and 1980s (Santacruz, Noida, Falta, Cochin, Chennai, etc.). The EPZ model evolved into SEZs in the early 2000s.

- ◆ Provided tax benefits & modern infrastructure to boost exports.
- ◆ Supported industries like textiles, electronics, and manufacturing.

Laying the Groundwork for Economic Reforms

- ◆ Opened doors for foreign trade and investment, leading to future liberalization in the 1990s.



Evolution of Mutual Funds

SEBI MUTUAL FUND REGULATIONS

First regulatory framework for mutual funds to ensure investor protection and transparency. Opened industry to private and foreign players.

1996

RISK PROFILING & NAV DISCLOSURE

Funds required to disclose risk factors and publish daily NAVs for investor transparency.

2000

KYC GUIDELINES

Made Know Your Customer (KYC) mandatory for all mutual fund investments to enhance security and prevent fraud.

2004

1998

PERFORMANCE DISCLOSURE

Mandated quarterly disclosures of portfolio performance.

2003

AMFI CODE OF ETHICS

Introduced ethical standards for fund houses to prevent mismanagement and unethical practices.

2006

ULIP REGULATION

Unified regulations for Unit-linked Insurance Plans and mutual funds to avoid overlap and confusion.

ENTRY LOAD BAN

SEBI abolished entry loads to reduce hidden costs for investors. Promoted transparency in fee structures.

2008

SCHEME CATEGORISATION

Standardized the classification of mutual fund schemes for clarity. Simplified investor decision-making by clearly defining fund categories.

2013

RISKOMETER

Mandated fund houses to label schemes based on risk levels. Enhanced investor awareness about potential risks.

2021

2013

INTRODUCTION OF DIRECT MUTUAL FUNDS

Allowed investors to invest directly in mutual funds without intermediaries. Reduced expense ratios, increasing returns for direct investors.

2018

TER CAPS

SEBI capped TER for mutual funds to ensure cost efficiency for investors. Reduced fees charged by fund houses for managing schemes.

2023

ESG FUND GUIDELINES

SEBI introduced specific norms for ESG mutual funds, focusing on sustainability and responsible investing.

A New Era for Investors: Mutual Funds Take Root (1987)

Introduction of Mutual Funds by Public Sector Banks

- ◆ Enabled middle-class investors to participate in equity and debt markets.
- ◆ Encouraged systematic savings and wealth creation.

Democratization of Investments

- ◆ Made stock market investments accessible to a broader population.
- ◆ Strengthened India's financial ecosystem for future private sector participation.

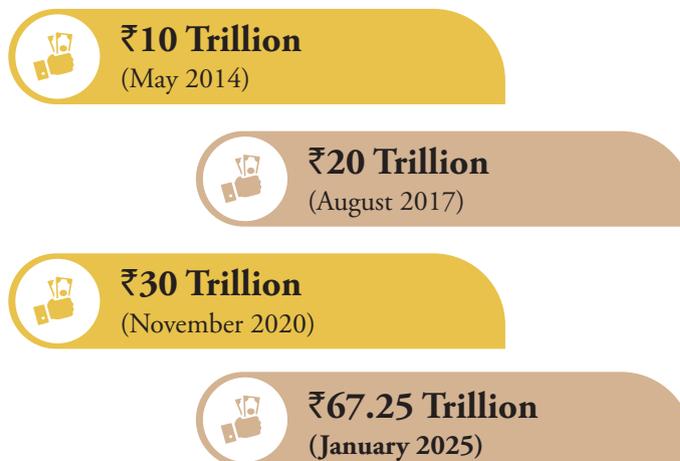




Key Points on Mutual Fund Industry Growth (2014–2025)

Steady Growth Since 2014 – Continuous rise in Assets Under Management (AUM), which represents the total market value of investments managed by mutual funds, along with an increasing number of investor folios.

AUM Milestones:



5-Year Growth (2020–2025):

- ♦ AUM grew from ₹27.86 Trillion to ₹67.25 Trillion (2.4x increase).
- ♦ Investor folios increased from 8.85 Cr to 22.92 Cr (2.6x increase).
- ♦ 23.44 lakh new folios added per month on average.

Growth Drivers:

- ♦ **Regulatory Support** – SEBI's 2012 reforms helped re-energize the MF industry.
- ♦ **Distributor Network** – Expansion of retail investor participation.

Building Institutions: SEBI and NHB in 1988

Formation of SEBI (Securities and Exchange Board of India)

- ◆ Regulated stock markets, ensuring transparency, efficiency, and investor protection.
- ◆ Strengthened corporate governance and boosted investor confidence.
- ◆ It was later granted statutory powers on January 30, 1992, with the enactment of the SEBI Act, 1992.

Establishment of NHB (National Housing Bank)

- ◆ Bridged the housing finance gap, promoting affordable home loans.
- ◆ Encouraged real estate growth and home ownership for low-income families.

SEBI Office



Legacy of Empowerment: The Story of SIDBI (1990)

The Need for MSME Development

- ♦ Micro, Small, and Medium Enterprises (MSMEs) faced limited access to credit.
- ♦ Large-scale industries received priority, leaving MSMEs behind.

Creation of SIDBI (Small Industries Development Bank of India)

- ♦ Established as a national financial institution to support MSMEs.
- ♦ Mandate: Promote, develop, & finance small-scale industries.

Initial Functions and Expansion

- ♦ **Enhancing MSME Credit Access** – Refinancing banks and financial institutions to support small businesses.
- ♦ **Expanding Reach** – Collaborated with regional banks and cooperatives to serve remote entrepreneurs.

Evolving Role Post-Liberalization

- ♦ Expanded beyond financing to include capacity building, technology upgradation, and skill development.
- ♦ Helped MSMEs modernize, compete globally, and meet international standards.

SIDBI's Lasting Impact

- ♦ **Boosting Employment** – Enabled job creation and economic decentralization.
- ♦ **Driving Industrial Growth** – Played a pivotal role in India's path to industrial self-sufficiency.







CHAPTER

04

1991–2000

**ECONOMIC
LIBERALIZATION
AND GLOBAL
INTEGRATION**

Turning Point in India's History

The Economic Crisis of 1991

- ♦ India faced a severe balance-of-payments crisis, with foreign exchange reserves barely enough for three weeks of imports.
- ♦ The Gulf War disrupted oil supplies, and inflation was soaring.
- ♦ The government, led by P.V. Narasimha Rao, realized that bold reforms were necessary.

Leadership and Vision

- ♦ Rao appointed Dr. Manmohan Singh as Finance Minister to rescue the economy.
- ♦ Singh, an Oxford-educated economist, crafted a historic budget that laid the foundation for sweeping reforms.
- ♦ His plan focused on economic survival and long-term growth.



P.V. Narasimha Rao with Dr. Manmohan Singh

The LPG Reforms of 1991

The Birth of LPG: Liberalization, Privatization, and Globalization

◆ Liberalization:

- ✧ Ended the License Raj, which had restricted industries for decades.
- ✧ Removed bureaucratic hurdles, allowing private enterprises to grow.

◆ Privatization:

- ✧ Reduced government control over state-owned enterprises by selling stakes.
- ✧ Aimed to improve efficiency, competition, and resource allocation.

◆ Globalization:

- ✧ Lowered import duties and allowed foreign direct investment (FDI).
- ✧ Opened key sectors like telecommunications, automobiles, and consumer goods to multinational companies.

Political Opposition and Challenges

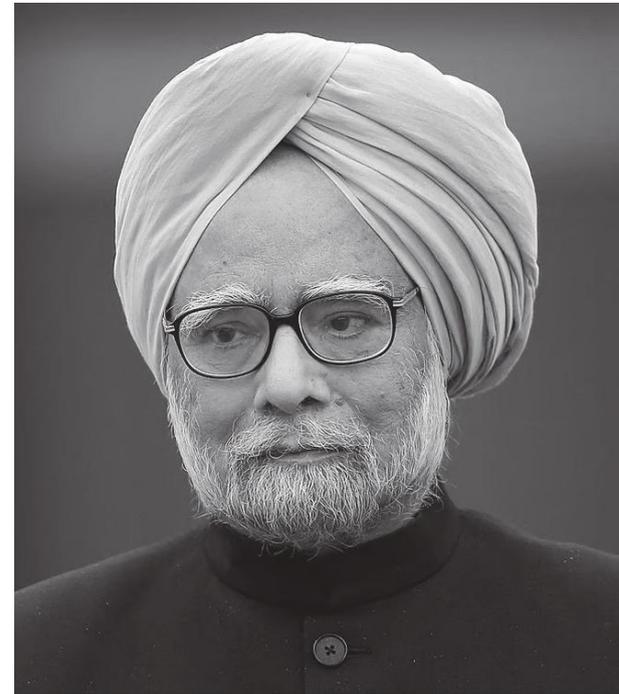
- ◆ Many MPs feared foreign domination and job losses due to privatization.
- ◆ Singh defended the reforms with a historic speech in Parliament, declaring:

“India is awake, India is prepared.

This is not the time for hesitation, but for courage.”



At a meeting of the Planning Commission Prime Minister P.V. Narasimha Rao (centre) with Defence Minister Sharad Pawar, Planning Commission Deputy Chairman Pranab Mukherjee, Finance Minister Manmohan Singh and Agriculture Minister Balram Jakhar.



*Architect of Economic Liberalization -
Dr. Manmohan Singh*

The Economic Miracle – Outcomes of LPG Reforms

- ◆ GDP growth surged, attracting billions in foreign investments.
- ◆ IT, pharmaceuticals, and automobile sectors expanded rapidly.
- ◆ Job opportunities increased, improving living standards for ordinary citizens.
- ◆ India transitioned into a **global economic powerhouse**, setting the stage for sustained growth and modernization.

1992 - From Crisis to Confidence: The SEBI Act and the Rise of NSE

The Crisis of Trusts (1992 Securities Scam)

- ◆ In March 1992, a major securities scam exposed loopholes in the banking and stock market systems.
- ◆ A stockbroker manipulated shares, causing massive investor losses.
- ◆ Regional stock exchanges lacked supervision, and SEBI had no real power to prevent such fraud.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

SEBI's Emergence as a Watchdog (1992 SEBI Act)

- ◆ SEBI (Securities and Exchange Board of India) was established in 1988, but it lacked enforcement powers.
- ◆ The SEBI Act (1992) granted statutory authority, empowering SEBI to:
 - ✧ Enforce stricter disclosure requirements.
 - ✧ Introduce new listing norms.
 - ✧ Monitor insider trading and stock market practices.



Finance Minister Dr. Manmohan Singh inaugurates the National Stock Exchange (NSE)

The Birth of the National Stock Exchange (NSE) (1994)

- ◆ The NSE was launched in 1994 to replace the traditional broker-dominated regional exchanges.
- ◆ Introduced screen-based electronic trading, replacing the outdated open-outcry system.
- ◆ Ensured transparency, efficiency, and real-time price discovery, eliminating price manipulation.

Challenges and Resistance

- ◆ Traditional brokers resisted NSE, fearing loss of monopoly.
- ◆ SEBI and NSE launched investor education campaigns to promote confidence in the system.

The Impact and Legacy

- ◆ By the late 1990s, NSE became India's largest stock exchange, surpassing BSE.
- ◆ Brought innovations like index-based trading and derivatives trading.
- ◆ SEBI and NSE modernized India's financial markets, transforming it into one of the world's most advanced securities markets.



India's Leap to Economic Freedom: The Story of Current Account Convertibility (1992–1994)

The Economic Crisis of the Early 1990s

- ♦ India faced a severe balance-of-payments crisis, with low foreign exchange reserves.
- ♦ A High-Level Committee on the Balance of Payments, chaired by Dr. C. Rangarajan, recommended partial convertibility of the rupee.

The First Step: Partial Convertibility (1992-93)

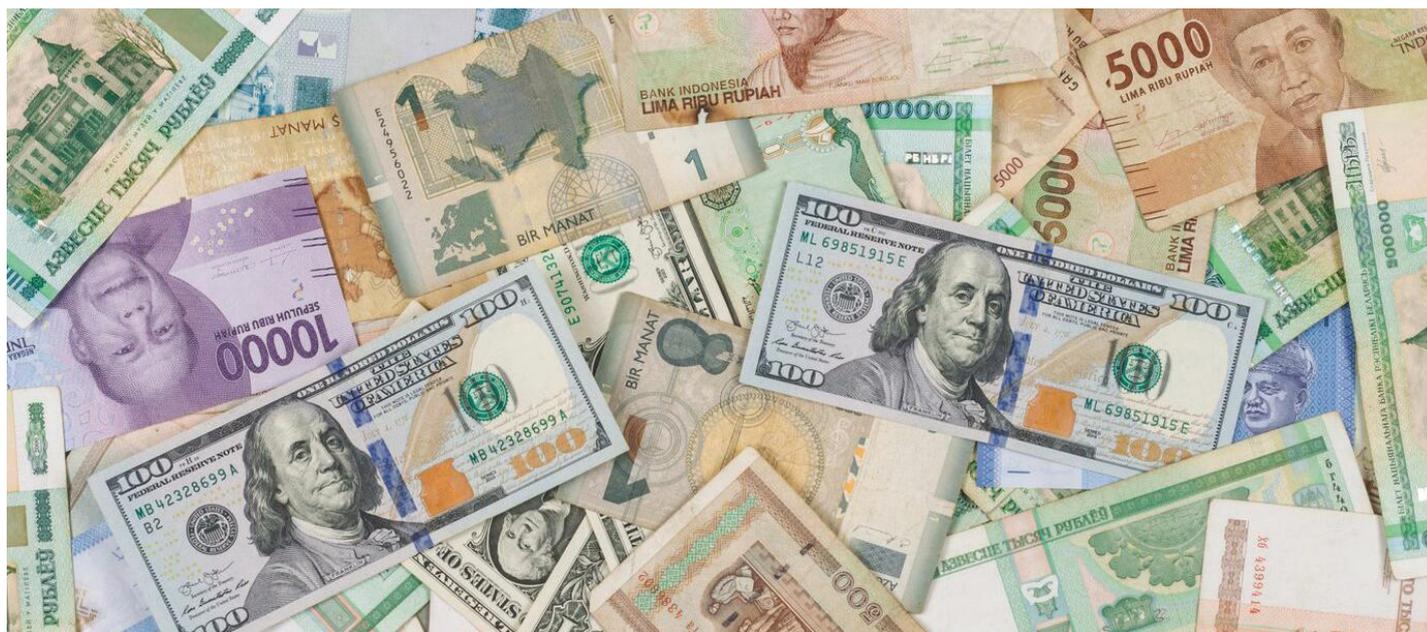
- ♦ Introduced in the 1992-93 Union Budget under Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh.
- ♦ Allowed businesses and consumers to acquire foreign currency for trade, travel, education, and medical expenses.

Full Convertibility on the Current Account (August 1994)

- ♦ In August 1994, the government allowed full convertibility on the current account.
- ♦ India formally accepted Article VIII obligations of the IMF, signaling its commitment to economic liberalization.

Outcomes and Impact

- ♦ Increased foreign investments, as global investors saw India as a growing market.
- ♦ Boosted exports and industrial growth, driving economic expansion.
- ♦ Marked India's integration into the global financial system, laying the foundation for future economic reforms.



The Dawn of a New Era in Mutual Funds (1993)

The Historic Announcement (January 1993)

- ◆ SEBI announced comprehensive regulations for mutual funds, opening the industry to private players.
- ◆ This marked a shift from a state-controlled system to a liberalized financial market.

The Backstory: A Monopoly Ends

- ◆ Before the 1990s, Unit Trust of India (UTI) dominated the mutual fund industry.
- ◆ Liberalization in the 1990s created the need for competition and innovation.
- ◆ Private and international investment firms saw an opportunity in India's expanding middle class.

The Entry of Private Players

- ◆ SEBI assured investors with strict regulations on transparency, accountability, and fairness.
- ◆ The entry of private players diversified investment options and increased investor confidence.

The Ripple Effect: Innovations in Mutual Funds

- ◆ The competition led to the introduction of:
 - ☒ Systematic Investment Plans (SIPs)
 - ☒ Equity-Linked Savings Schemes (ELSS)
 - ☒ Sectoral and thematic funds
- ◆ Lower costs and increased accessibility attracted middle-class investors, shifting focus from fixed deposits and gold to mutual funds.

A Legacy of Growth

- ◆ Private participation fuelled market expansion, demonstrating how liberalization could be well-regulated and beneficial.
- ◆ Mutual funds empowered millions of Indians to participate in wealth creation.
- ◆ SEBI's 1993 announcement wasn't just a policy shift—it was a revolution in financial inclusion and investment culture.



1995: Laying the Foundation Stone of EPS

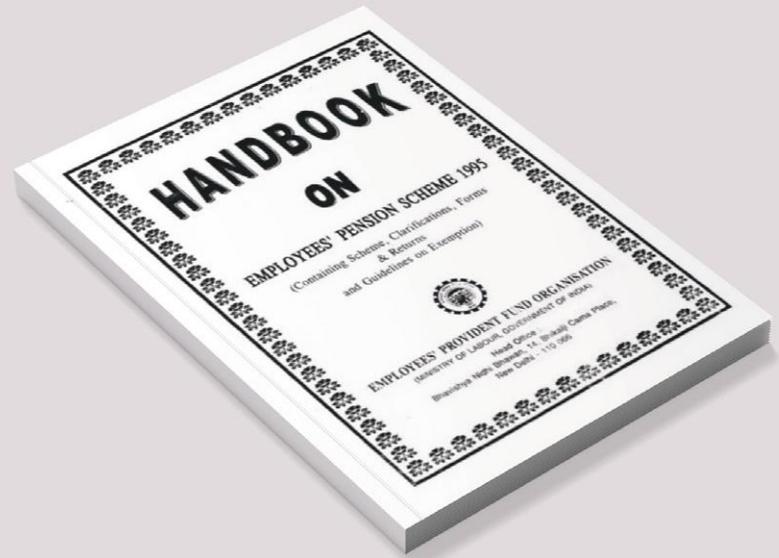


Employee Pension Scheme (EPS) Introduced

The scheme was established under the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, aiming to provide pension benefits to employees in the organized sector.

Provided financial security for workers in their retirement years.

Aimed at protecting the working class by ensuring a stable pension system.



The Digital Transformation of Stock Trading

- ◆ Bombay Stock Exchange (BSE) introduced electronic trading in 1995 via the BSE Online Trading (BOLT) system.
- ◆ NSE was the first fully electronic exchange in India, starting in 1994.
- ◆ BSE initially resisted electronic trading but later adopted it in 1995 to stay competitive.
- ◆ Enabled faster transactions, reduced errors, and improved market efficiency.



Formation of the Association of Mutual Funds in India (AMFI)

- ◆ Created to bring structure, ethics, and investor education to the mutual fund industry.
- ◆ Established industry-wide best practices to promote transparency.

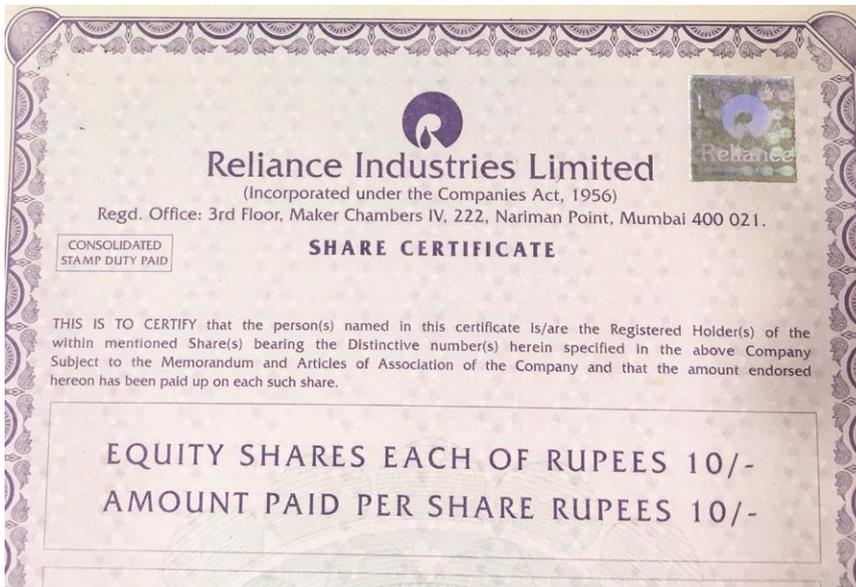
1996: The Year of Giants

Establishment of National Securities Depository Limited (NSDL)

- ◆ Shifted from physical share certificates to digital transactions.
- ◆ Eliminated risks of loss, theft, and forgery in stock trading.

Launch of the Nifty 50 Index

- ◆ Introduced as a benchmark for the top 50 companies, providing a transparent measure of market performance.



Formation of the National Securities Clearing Corporation (NSCC)

- ◆ Provided a secure and efficient trade settlement system, reducing counterparty risk.

SEBI's Mutual Fund Regulations Introduced

- ◆ Established clear guidelines for mutual fund operations.
- ◆ Focused on investor protection, transparency, and risk management.

1997: A Crisis Sparks Transformation

NBFC Crisis and Regulatory Intervention

- ◆ Poor oversight led to defaults and public distrust in Non-Banking Financial Companies (NBFCs).
- ◆ RBI introduced mandatory registrations and capital adequacy norms, restoring stability.



2000: The Year India Insured Its Future

Insurance Regulatory and Development Authority (IRDAI) Established

- ◆ Formed under the IRDA Act of 1999 to open the insurance sector to private and foreign players.
- ◆ The Malhotra Committee (1994) recommended privatization of the insurance sector and allowed private companies to enter, breaking LIC & GIC's monopoly. Foreign companies could own up to 26% in insurance firms (later increased to 74% in 2021).
- ◆ Ensured policyholder protection, transparency, and market stability.

End of Insurance Monopoly

- ◆ LIC and GIC's dominance ended, encouraging competition and innovation in the sector.
- ◆ Private insurers entered the market, expanding coverage across India.



2001–2003: The UTI Crisis and Reforms



Collapse of Unit Trust of India's (UTI) US-64 Scheme

- ♦ UTI mismanaged funds and manipulated returns, leading to a liquidity crisis.
- ♦ The Ketan Parekh scam (2001) caused a market crash, worsening the situation.

Government Bailout (2002)

- ♦ ₹14,561 crore bailout package approved to protect investors.
- ♦ UTI was split into:
 - ♦ UTI Mutual Fund – A professionally managed, SEBI-regulated entity.
 - ♦ Specified Undertaking of UTI (SUUTI) – Managed stressed assets until recovery.

Outcome of UTI Reforms

- ♦ UTI Mutual Fund regained investor trust and became a top industry player.
- ♦ SUUTI's asset management led to government repayment and market stability.



P.S. Subramanyam, UTI Chairman



Ketan Parekh: The Mastermind Behind India's Stock Market Scam 2001

Strengthening Financial Stability: The SARFAESI Act's Impact (2002)

Addressing the NPA Crisis

- ◆ Indian banks struggled with high levels of non-performing assets (NPAs).
- ◆ SARFAESI applies only to secured loans.
- ◆ Agricultural land and small loans are exempt from SARFAESI.

Key Provisions of the SARFAESI Act

- ◆ The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act empowered banks to seize and auction assets of defaulting borrowers without court intervention.
- ◆ Facilitated the creation of Asset Reconstruction Companies (ARCs) to buy and recover distressed assets.
- ◆ Allowed banks to clean up their balance sheets, improving financial stability.

Impact on the Banking Sector

- ◆ Accelerated loan recovery and reduced NPAs.
- ◆ Strengthened financial discipline among borrowers.

The Establishment of the Ministry of Corporate Affairs (MCA) (2004)

Need for a Unified Corporate Regulator

- ◆ Corporate governance was previously managed by multiple agencies, leading to inefficiencies.

Role and Responsibilities

- ◆ Implemented Companies Act, 1956 (later replaced by Companies Act, 2013).
- ◆ Ensured compliance, transparency, and shareholder protection.
- ◆ Handled corporate restructuring and bankruptcy resolution.

Impact on India's Corporate Sector

- ◆ Modernized corporate governance, attracting domestic and foreign investment.
- ◆ Aligned corporate regulations with international best practices.



India's Shift from a Cash Economy to Digital Transactions

Challenges of a Cash-Based Economy

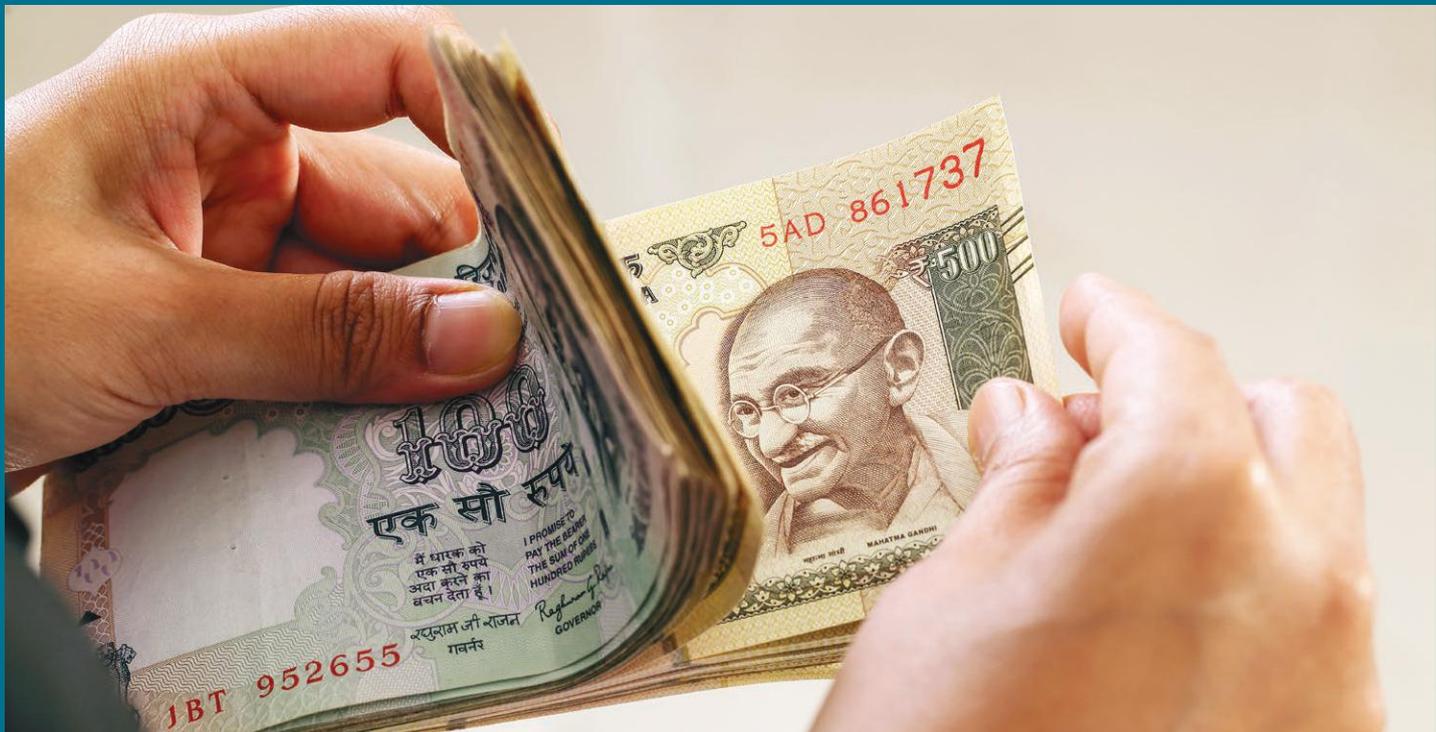
- ◆ Over 90% of transactions were cash-based, leading to:
 - ◆ Counterfeit currency problems, reducing trust in the financial system.
 - ◆ High costs of cash management (transportation, security, and storage).
 - ◆ Inefficient business transactions due to outdated payment methods.

The Need for a Digital Transformation

- ◆ Recognized as a necessary step for economic growth and transparency.
- ◆ The government launched initiatives to modernize payment systems and increase financial inclusion.

The Move Toward a Cashless Economy

- ◆ Demonetization (2016) and GST (2017) accelerated digital payment.
- ◆ Aimed to empower businesses and individuals with faster, secure, and efficient transactions.
- ◆ Led to the rise of UPI, mobile banking, and digital wallets.



Growth of NBFCs: A Double-Edged Sword (2005–2020)

Rapid Growth and Market Share

- ◆ NBFCs became key players in financial inclusion, serving small businesses and underserved communities.
- ◆ Between 2005-06 and 2019-20, the total number of NBFCs declined (from 13,014 to 9,618), but asset size grew significantly.
- ◆ NBFCs recorded a CAGR of 18.7%, making them one of the fastest-growing sectors in the financial system.

Dependence on Market and Bank Borrowings

- ◆ NBFCs relied on both bank loans and market borrowings for funding.
- ◆ After the 2018 IL&FS crisis, market confidence weakened, reducing NBFCs' access to funds.
- ◆ Ratio of market borrowings to bank borrowings fell from 3.1 (2016-17) to 1.9 (2019-20).



Systemic Risks and Regulation

The **2018 liquidity crisis** raised concerns about financial stability.

RBI stepped in with **stricter regulations and oversight**.

Fair Practices Code (FPC) was revised multiple times (2013, 2015, 2018)

Objective: Ensure Transparency and Consumer Protection

- ◆ RBI introduced the Fair Practices Code (FPC) to regulate NBFCs and financial institutions.

Key Provisions

- ◆ Clear disclosure of loan terms to customers.
- ◆ Transparent pricing, ensuring no hidden charges.
- ◆ Fair recovery process, preventing borrower exploitation.
- ◆ Customer grievance redressal mechanisms.

Impact on Financial Institutions

- ◆ NBFC regulatory changes (2021) introduced risk-based classification.
- ◆ Increased trust in NBFCs, aligning them with international ethical standards.
- ◆ Strengthened financial inclusion while ensuring responsible lending.

The 2008 Financial Crisis – A Timeline of Turmoil

The Illusion of Prosperity (2005–2006)

- ♦ The U.S. housing market boomed, fuelled by low interest rates and easy lending.
- ♦ Subprime mortgages were widely issued to borrowers with poor credit.
- ♦ Banks repackaged risky loans into Mortgage-Backed Securities (MBS) and Collateralized Debt Obligations (CDOs).
- ♦ Investors worldwide rushed to buy these high-yield, low-risk instruments, sustaining the illusion of prosperity.

The Storm Clouds Gather (2007)

- ♦ Subprime mortgage defaults surged, revealing the true risk of MBS and CDOs.
- ♦ Hedge funds and banks that heavily invested in these securities began collapsing.
- ♦ The global financial system became interconnected, spreading panic among financial institutions.

The Meltdown (2008)

- ♦ **March 2008:** Bear Stearns collapsed and was forcibly sold to JPMorgan Chase.

- ♦ **September 2008:** Lehman Brothers filed for bankruptcy, triggering global panic.
- ♦ Credit markets froze, and banks faced a severe liquidity crisis.
- ♦ The U.S. government launched the Troubled Asset Relief Program (TARP), a \$700 billion bailout.
- ♦ Stock markets crashed worldwide, unemployment surged, and millions lost homes and savings.
- ♦ Countries dependent on exports to the U.S. fell into deep recession.

Picking Up the Pieces (2009–2010)

- ♦ The Dodd-Frank Wall Street Reform and Consumer Protection Act was introduced in the U.S. to:
 - ✧ Enhance financial transparency.
 - ✧ Reduce systemic risks.
 - ✧ Strengthen consumer protections.
- ♦ Global cooperation intensified, with the IMF providing financial aid to struggling economies.
- ♦ The recovery was slow and uneven, with some nations rebounding faster than others.





THE WALL STREET JOURNAL

THURSDAY, SEPTEMBER 18, 2008 • VOL. CCLII, NO. 67
DOW JONES 11,947.99 ▲ 1.2% RUSSELL 2000 2,971.65 ▲ 2.1% NYSE COMP. 12,272.16 ▲ 1.42%
S&P 500 1,401.16 ▲ 1.1% NASDAQ 2,018.05 ▲ 1.4% NYSE VIX 28.00 ▲ 0.01 GOLD 1,248.00 ▲ 27.10 EURO 1.4352 YEN 104.74

Mounting Fears Shake World Markets As Banking Giants Rush to Raise Capital

By TOM LAURICELLA,
LIZ RAPPAPORT,
AND ANSELINA LOEB

Four started through the U.S. financial system on Wednesday, as hope for a resolution to the year-old credit crisis faded. Swiss financial concern Credit Suisse and Japanese bank Dai-ichi Kangyo Bank announced they would buy back \$1 billion of their own stock, a move that would reduce the amount of capital available to the market. The market turmoil is driving more than \$100 billion in new issues, borrowing costs for U.S. companies have skyrocketed, and the debt markets have become nearly unrecognizable to all but the most aggressively borrowers. The desperation was expressed clearly in the market for U.S. government debt, which was considered the safest of investments.

Joseph Sabatini, a portfolio manager at Federated Investors, says the market is "in a panic." A 410-point selloff took the Dow Jones Industrial Average to its lowest level in almost three years, leaving it 23% below where it stood a year ago. Volatility on the New York Stock Exchange was the second highest in history, falling just shy of the record set on Tuesday. The VIX, a widely watched measure of market volatility that is often referred to as the "fear index," hit its highest level since late 2002. In Europe, stock markets lost roughly 2% of their value. In Russia, the scope of recent massive declines, trading on the exchange for the second day in a row, hit the Russian gold prices near 9% to \$244.00 an ounce.



Morgan Stanley in Talks With Wachovia, Others

By AARON LUCCHETTI,
RANDALL SMITH
AND JENNY STRASBERG

Morgan Stanley sought alternative financing Wednesday, entering preliminary talks with Wachovia and other banks as a way to shore up its balance sheet. After a borrowing day, Morgan Stanley's shares tumbled down 24% on Wednesday, the largest U.S. stock price decline since 1998. While the auction is under way, the auction is under way, the auction is under way.

Reaching Down
Morgan Stanley's share price dropped 24% on Wednesday



Source: NYSE Market Data Group

Goldman employees The desperation battle in

Goldman employees are reportedly in a desperate battle to secure their jobs as the bank's financial situation worsens. The company is facing significant challenges, and many employees are concerned about their future.

India's Response to the Global Financial Crisis

- ◆ India saw FII outflows of over \$13 billion in 2008 due to risk aversion.
- ◆ RBI had to intervene in forex markets to manage excessive volatility.
- ◆ **Foreign Capital Outflows:** Significant withdrawals by Foreign Institutional Investors (FIIs) led to currency depreciation and market volatility.
- ◆ **Export-Driven Sectors Struggled:** Industries like IT, textiles, and manufacturing faced setbacks due to reduced global demand.
- ◆ **Credit Tightening:** Infrastructure projects and corporate borrowing slowed down as banks became cautious.
- ◆ **India's Resilience:** A well-regulated banking sector avoided toxic assets, while government stimulus packages and RBI's monetary easing helped stabilize the economy.



2008 Stock Market Crash: A Historic Plunge

The BSE Sensex plummeted nearly 60% from its January 2008 peak to October 2008, driven by global financial turmoil, investor panic, and capital outflows.



Transforming India's Financial Landscape

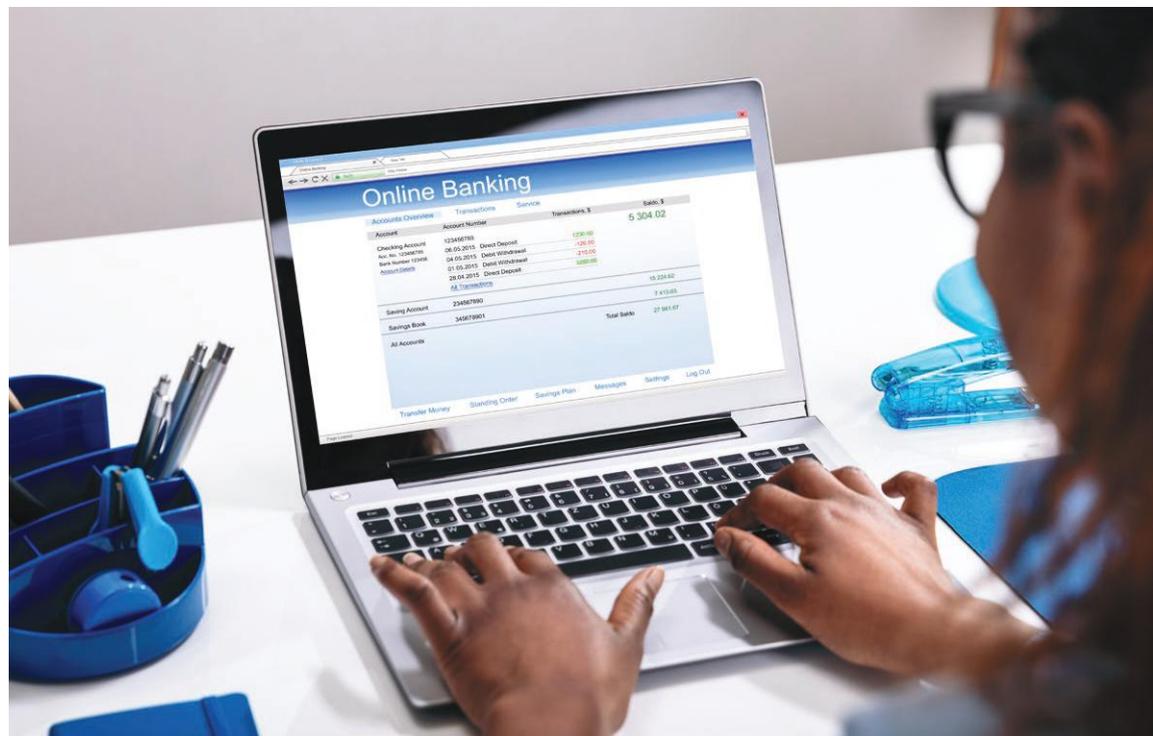
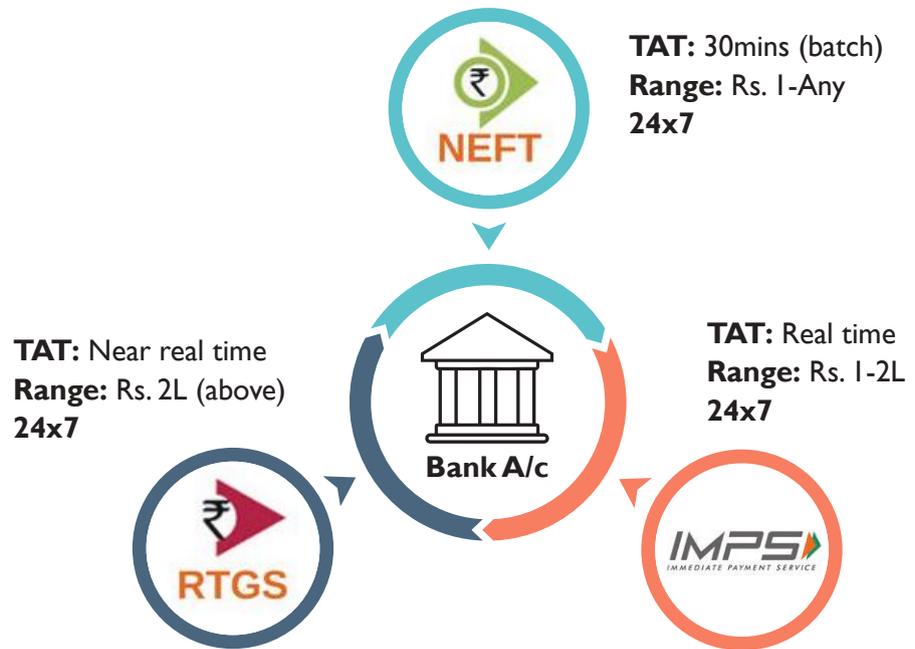
The Seeds of Change: Early Innovations in Digital Payments (Early 2000s)

- ◆ Emergence of digital payment options started in the early 2000s, reducing dependence on cash.
- ◆ ATM facilities and online banking became widespread, simplifying financial transactions.
- ◆ However, digital payments were largely limited to urban areas due to:
 - ✧ Infrastructure deficiencies in rural areas.
 - ✧ Low financial literacy, restricting adoption in underdeveloped regions.



IMPS: Steps Towards Modernization (2010)

- ◆ Immediate Payment Service (IMPS) launched on November 22, 2010, managed by National Payments Corporation of India (NPCI).
- ◆ Enabled real-time, 24x7 interbank fund transfers, improving upon NEFT and RTGS, which were limited to banking hours.
- ◆ Initially launched by four banks:
 - ✦ State Bank of India (SBI)
 - ✦ Bank of India (BOI)
 - ✦ Union Bank of India
 - ✦ ICICI Bank
- ◆ Slow initial adoption due to cumbersome Mobile Money Identifier (MMID) registration.
- ◆ Growth accelerated with:
 - ✦ Smartphone penetration and increasing digital payment awareness.
 - ✦ Banks streamlining registration processes.
- ◆ By April 2023:
 - ◆ 722 banks adopted IMPS.
 - ◆ 200 million transactions per month, with a value of ~\$20 billion.



The NSEL Scam: A Wake-Up Call (2013)



Key Issues in the Scam

Fake commodities were traded, misleading investors.

Massive liquidity crisis emerged when NSEL defaulted.

Brokers misled clients about the safety of investments.

Hawala transactions and benami trades were uncovered during forensic audits.

- ♦ National Spot Exchange Limited (NSEL) was launched in 2008 to revolutionize commodity trading.
- ♦ Promised 12–14% returns, attracting over 13,000 investors.
- ♦ July 31, 2013: NSEL suspended trading, revealing a ₹5,600 crore (\$840 million) scam.

Regulatory and Market Reforms Post-Scam

- ♦ Economic Offences Wing (EOW) launched investigations, exposing large-scale fraud.
- ♦ Forward Markets Commission (FMC) merged with SEBI, strengthening regulatory oversight of commodity markets.
- ♦ Amendments to the Prevention of Money Laundering Act (PMLA) allowed investor restitution.
- ♦ Investor education programs were launched to increase financial awareness.
- ♦ Tighter corporate governance rules were introduced for financial institutions.

Efforts to Recover Investor Funds

- ♦ As of 2019, the EOW had attached properties worth close to ₹4,500 crore, and the Enforcement Directorate (ED) had attached properties worth around ₹800 crore. However, specific details about the exact amount recovered by investors by April 2024 are not readily available in the provided sources.
- ♦ By April 2024, more than 8,000 investors had recovered ₹1,220 crore of their losses.
- ♦ NSEL scam became a watershed moment, driving greater transparency and accountability in India's financial markets.



Jignesh Shah, Founder of Financial Technologies India Ltd (FTIL)

Economic Reforms Under Prime Minister Narendra Modi: Strengthening India's Financial Future

When Prime Minister Narendra Modi took office in 2014, India faced economic stagnation and structural inefficiencies.

His government embarked on a mission to modernize and revitalize the economy through comprehensive reforms.

Make in India (Launched September 2014)

Objective:

- ◆ Transform India into a global manufacturing hub by attracting FDI.

Goals:

- ◆ Increase manufacturing's share of GDP from 16% to 25% by 2025.
- ◆ Create millions of jobs and boost innovation.

Impact:

- ◆ Attracted substantial foreign investment.
- ◆ Set the foundation for India's emergence as a manufacturing destination.

Challenges:

- ◆ Slow infrastructure development.
- ◆ Bureaucratic hurdles affecting implementation.

Goods and Services Tax (GST) (Implemented July 2017)

Objective:

- ◆ Replace multiple indirect taxes with a unified tax regime.

Key Benefits:

- ◆ Simplified tax compliance and reduced tax evasion.
- ◆ Created a seamless national market across states.

Challenges:

- ◆ **Initial glitches and resistance** from businesses.
- ◆ **Technological hurdles** slowed the early adoption phase.

Long-Term Impact:

- ◆ Expanded the tax base and improved revenue collection.



Insolvency and Bankruptcy Code (2016)

Objective:

- ◆ Provide a clear framework for resolving insolvency cases.

Key Benefits:

- ◆ Streamlined business closures & revival of distressed assets.
- ◆ Strengthened creditor rights & improved business confidence.

Impact:

- ◆ Helped India improve its ease of doing business rankings.



Economic Growth and India's Global Standing

GDP grew from \$2.04 trillion (2014) to \$3.4 trillion (2022) (~70% increase).

India became one of the fastest-growing major economies.



Demonetization (November 8, 2016)

Objective:

- ◆ Invalidate ₹500 and ₹1,000 notes overnight to curb black money and counterfeit currency.
- ◆ Promote digital transactions.

Immediate Impact:

- ◆ Sharp rise in digital payments as people sought alternatives to cash.
- ◆ UPI transactions surged, leading to a long-term shift towards cashless payments.

Challenges:

- ◆ Rural areas struggled due to low internet penetration and digital illiteracy.
- ◆ Concerns over cybersecurity and privacy increased with rising digital adoption.



UPI: Revolutionizing Transactions (Launched April 2016)

Allowed seamless peer-to-peer transactions using mobile numbers or virtual IDs.

UPI adoption skyrocketed post-demonetization, expanding from small payments to:

- ✧ Merchant payments.
- ✧ Utility bills.
- ✧ E-commerce and government transactions.
- ◆ Launch of BHIM App (December 30, 2016) made UPI accessible to a wider population.
- ◆ By early 2023, UPI accounted for over 75% of retail digital payments in India.

Digital Infrastructure and Financial Inclusion

- ◆ Recognizing the need for digital accessibility, the government launched:
 - ✧ Internet expansion initiatives in rural areas.
 - ✧ Digital literacy programs to educate citizens.
- ◆ **Aim:** Build a strong cashless economy while ensuring financial inclusion.



The Digital Rupee is stored in a secure digital wallet, enabling users to send, receive, and make payments just like physical cash. Transactions are recorded on a secure ledger maintained by the RBI, ensuring transparency and security.



The Digital Rupee: A New Era in India's Financial System

Vision & Announcement (2022):

- ◆ In February 2022, Finance Minister Nirmala Sitharaman unveiled plans for India's Central Bank Digital Currency (CBDC), the Digital Rupee.
- ◆ The Reserve Bank of India (RBI) introduced it to enhance the efficiency of digital transactions while maintaining regulatory oversight over the monetary system.

Wholesale & Retail Pilot Programs

- ◆ **November 2022:** Wholesale Digital Rupee launched for interbank settlements.
- ◆ **December 2022:** Retail Digital Rupee (e₹) pilot began in cities like Mumbai and Bengaluru.
- ◆ Select users and merchants tested transactions without relying on traditional banks.



Adoption & Challenges

- ◆ Competing with UPI, which was already widely accepted.
- ◆ Digital Rupee offers direct RBI-backed currency, reducing reliance on intermediaries.
- ◆ Concerns over cybersecurity, accessibility in rural areas, and tax implications.

India's Leadership in the CBDC Space

- ◆ Following China's Digital Yuan and Sweden's e-Krona, India positioned itself as a leader in digital currency adoption.
- ◆ The Digital Rupee symbolizes India's ambition to lead the global financial revolution.

The Day India Roared: India Becomes the World's 5th Largest Economy (2022)

A Historic Milestone

- ◆ **September 2022:** India overtook the UK to become the world's 5th largest economy, with a GDP of \$3.5 trillion.
- ◆ A defining moment—a former British colony surpassing its colonial ruler, symbolizing resilience and progress.

India's Economic Journey: From Independence to Global Power

- ◆ **1947:** India gained independence but faced severe economic challenges.
- ◆ **1991:** Economic liberalization unleashed industrial growth, globalization, and private sector expansion.
- ◆ **2000s–2020s:** Key factors driving India's rise:
 - ✦ **Technology & IT boom** – Global leaders like TCS, Infosys, and Wipro put India on the world map.
 - ✦ **A young, dynamic workforce** – Fuelling entrepreneurship, consumption, and innovation.
 - ✦ **Digital revolution** – UPI, Aadhaar, and fintech expanded financial access like never before.
 - ✦ **Manufacturing & exports** – The 'Make in India' initiative strengthened India's industrial capabilities.

The Road Ahead: India's Next Leap

- ◆ Experts predict India will surpass Germany and Japan to become the 3rd largest economy by 2030.
- ◆ Key challenges that need attention:
 - ✦ Reducing poverty and income inequality.
 - ✦ Agricultural reforms for sustainable rural development.
 - ✦ Bridging infrastructure gaps to support long-term growth.

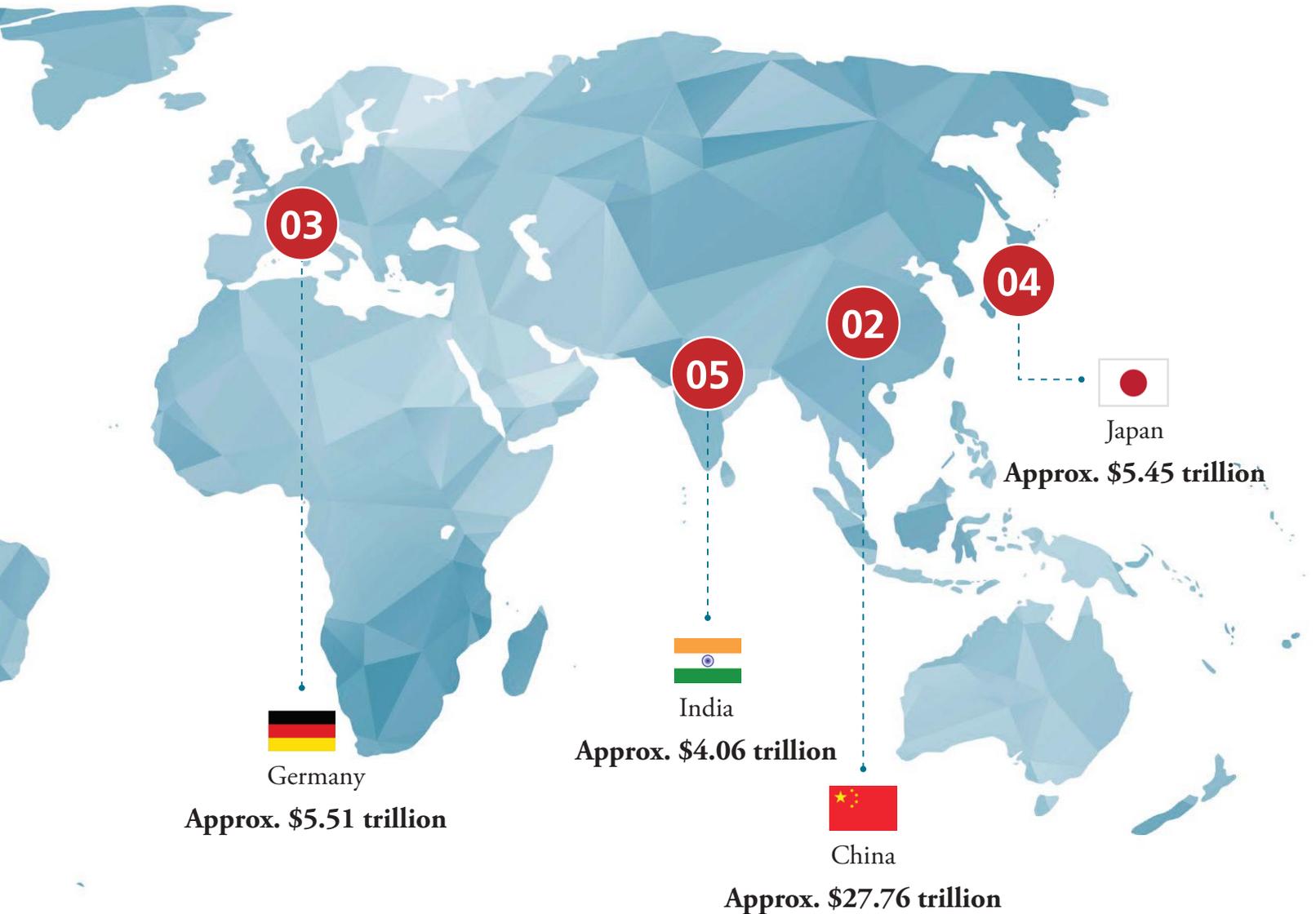
Conclusion

India's economic ascent is more than just statistics—it marks a global power shift, solidifying its role as a key player in the world economy.



According to the International Monetary Fund's (IMF) projections, the top five largest economies in the world by nominal Gross Domestic Product (GDP) in 2025 are expected to be:

- ♦ United States: Approximately \$30.34 trillion
- ♦ China: Approximately \$27.76 trillion
- ♦ Japan: Approximately \$5.45 trillion
- ♦ Germany: Approximately \$5.51 trillion
- ♦ India: Approximately \$4.06 trillion



Climate Finance: The Future of Sustainable Investments

The Need for Climate Finance

- ◆ Climate change threatens economic stability and financial institutions.
- ◆ RBI's 2022 paper highlighted:
 - ✧ Extreme weather risks (floods, droughts).
 - ✧ Financial risks from unprepared industries.

RBI's Three-Pronged Climate Finance Strategy

- ◆ **Governance:** Assign leadership to manage climate risks.
- ◆ **Strategy:** Align profits with sustainability goals.
- ◆ **Risk Management:** Conduct stress tests for climate risks.

Green Finance Innovations

- ◆ **Green Deposits:** Direct savings towards eco-friendly projects.
- ◆ Independent audits to ensure transparency in green investments.
- ◆ Banks & financial institutions shifting focus towards renewable energy projects.



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