

# Chapter 5

## Organizations Facilitating Business

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# Summary of Chapter

- RBI (1 April 1935 , but RBI Act came in 1934)
- SEBI (1988 , but SEBI Act came in 1992)
- CCI (14th October 2003)(Amended in 2007)
- IRDAI (IRDA – 1999)
- NABARD (1982)

# Competition Commission of India

- Competition Commission came on 14<sup>TH</sup> October 2003 , and consists of chairperson & 6 persons appointed by central government
- **Why Competition is needed ?**
  1. Encourages Innovation
  2. Increases Efficiency
  3. Punishes laggards
  4. Boosts choice improves quality , reduces costs
  5. Ensures availability of goods in abundance quality at affordable prices
- There are 2 types of competition
- **Direct** – Products that perform the same function compete against each other
- **Indirect** – Products that are close substitutes compete against each other

# This Act Prohibits :

- Anti-Competitive Agreement
- Abuse of Dominant Position
- Regulates Combinations (Acquisition , Acquiring control & Mergers & Acquisitions)
- Which causes or is likely to cause appreciable adverse effect on competition within India

# Objectives of Competition Commission

- Prevent Practices having adverse effect on competition
- Promote & Sustain Competition in markets
- To Protect the Interest of Consumers
- To Ensure Freedom of trade

# Features of Competition Act 2002

- Competition Act has been enacted to prevent practices having appreciable adverse effect on competition
- Promote & sustain competition in market
- Ensure freedom of trade
- MRTP Act , 1969 will be repealed
- It establishes CCI and prescribes its duties , functions & powers

# To Achieve Objectives , CCI endeavours to do the following :

- Make markets work for benefit & welfare of consumer
- Ensure Fair & Healthy Competition
- Implement competition policies , so we can better utilise economic resources
- Develop relations with all regulators to ensure smooth alignment of laws together with competition law
- Effectively carry out competition and spread benefits of competition to all

# Securities & Exchange Board of India

- As capital markets were growing government introduced SEBI which used to manage CICA from 1988-1992 & CCI got abolished . SEBI came on 12<sup>th</sup> April 1988
- Then in 1992 SEBI law was form and it became main capital market regulator and CICA was abolished . SEBI law came into force with effect rom 30<sup>th</sup> January 1992
- SEBI has its headquarters in Mumbai &
  1. Northern Offices – New Delhi
  2. Eastern Offices - Kolkata
  3. Southern Offices - Chennai
  4. Western Offices - Ahmedabad

## 2 Main roles of SEBI

- Role of interest of investor
- Development & growth of capital markets
- In India there is lack of confidence , trust , education and awareness to bring that back there is SEBI

# Composition of SEBI

- A chairman appointed by central government who shall have ability, integrity, & standing in field of market, law, finance
- 2 members from officials of ministry of central government who are expert in Companies Act, 2013
- 1 member from RBI who shall be nominated by RBI
- 5 members, out of which at least 3 shall be whole time members, appointed by central government

# SEBI is responsible for 3 groups

- Issuers of securities
- Investors
- Market intermediaries
  
- **3 Functions of SEBI Rolled in 1 Body**
  1. **Quasi-Legislative** –Drafts regulation in legislative capacity
  2. **Quasi-Executive**- Conducts investigation & enforcement action
  3. **Quasi-Judicial** – Passes rulings & order in judicial capacity

- In case we are not satisfied with decision of SEBI , we can appeal to Securities appellate tribunal which consist of 3 members
- In case we are not satisfied with SAT , we can appeal to supreme court

# Powers of SEBI

- Approve by-laws of stock exchanges
- Require stock exchanges to amend their laws
- Inspect books of accounts & call for periodical returns from stock exchanges
- Inspect books of accounts of intermediary
- Compel certain companies to list their shares in one of more of stock exchanges

# Reserve Bank of India

- RBI ACT WAS FORMED IN 1934 , BUT RBI started its operations on 1, April 1935
- 5 lacs were issued of RBI and was given to public in which government was only owner of 4.4% shares
- In 1949 all shares of public were transferred to GOI under Transfer of ownership Act , 1948
- RBI got all powers after Banking Regulation Act , 1949 , because earlier Banks were regulated under Companies Act , 1913
- Central Office of RBI was initially in Calcutta but was permanently moved to Mumbai

# Functions of RBI

- **Issuer of currency** – Other than one rupee coins & notes & subsidiary coins whose magnitude is small
- **Banker to Government** – It does all general business on behalf of government , and also makes advances to central & state government repayable within 90 days of advances. It also acts as advisor to government on new loans & areas
- **Banker's Bank** – It will supervise & control all Banks under RBI Act , 1934 & Banking Regulation Act , 1949
- **Custodian of Foreign Exchange Reserves** – It has to maintain external value of rupee , when foreign exchange reserves are inadequate it borrows from IMF
- **Controller of Credit** – It has qualitative & quantitative method to control credit
- **Promotional Functions-** Responsible for mobilizing savings from every corner of country . It has also set up NABARD , EXIM & SIDBI for separate functions
- **Collection & Publication of Data** – It is responsible for task of collection & compilation of statistical information relating to banking & other financial sectors

# RBI's Role in Business Facilitation

- **Currency Policy** – It plays important role in determination of exchange rates , i.e rates at which domestic currency is exchanged with foreign currency & vice-versa
- **Credit Policy** – SLR & CRR are quantitative measures of credit policy & there are qualitative measures too i.e PSL.
- **Development of Financial System** – It oversees functioning and outreach of commercial banks as well as NBFC .
- **Fund Transfer & Payment Mechanism** – It has made efficient payment system with paper based and digital payments & fund transfer mechanisms.

# Understanding CRR & SLR

- **CRR** – Amount of funds which Bank has to keep with RBI
- *Situation 1*
- **High CRR**
- Higher funds kept with RBI
- Less Funds with Bank
- Higher Interest rates
- Less Borrowings
- Less Purchasing Power
- Inflation will reduce
- **SLR** – Amount of funds Banks **have to keep in liquid Assets with themselves** . Eg – Cash , gold , Government Approved securities
- *Situation 2*
- **Lower CRR**
- Low funds kept with RBI
- More funds with Bank
- Less Interest Rates
- More Borrowings
- More Purchasing Power
- Inflation will increase

# Other Important Terms

- **Bank Rate** – It is rate at which RBI lends to Bank . It reflects cost of funds to bank who will adjust their lending rates accordingly
- **Repo Rate** – Rate at which Banks Borrow from RBI . These are short duration loans for upto 2 weeks. Repo rate differs from Bank rate with respect to time horizon
- **Reverse Repo Rate** – It is rate of interest offered by RBI , when banks deposit their surplus funds with RBI for short period

# Insurance Regulatory Development Authority of India

- It regulates insurance industry in India. It came in 1999 and FDI in insurance is allowed to the extent of 49%
- But Insurance Act came in 1932
- It protects interests of policy holders to regulate , promote & ensure orderly growth of insurance industry & matters connected therewith
- It's right is to protect right of policy holders & they provide registration certificate to life insurance companies & responsible for renewal , modification , cancellation & suspension of this registered certificate

# Section 14 – Powers , Duties & Functions of IRDA

- Issue to the applicant certificate of registration , renew , modify, withdraw , cancel or suspend registration
- Specifying qualification , code of conduct & training for insurance intermediaries , agents
- Specifying code of conduct for surveyors
- Promoting efficiency in insurance business
- Promoting & regulation all organizations connected with insurance & reinsurance
- Levying fees & charges for this act

- Calling for information from undertaking , inspection , enquiries and investigation including audit of insurers , intermediaries
- Control and regulate rates , advantages , terms & conditions offered by agents
- Specifying the form and manner in which books of accounts shall be kept
- Regulating investment of funds by insurance companies
- Regulation maintenance of margin of solvency

- Adjudication of disputes between insurers and intermediaries
- Specifying percentage of premium income of insurer to finance schemes for promoting professional organization
- Specifying percentage of life insurance and general insurance to be taken in rural or social sector
- Exercising such other powers as prescribed

# NABARD(National Bank for Agriculture & Rural Development)

- NABARD is apex development bank in India with headquarters at Mumbai & branches all over India.
- It deals with credit of agriculture and other economic activities in rural areas in India
- NABARD is active in developing financial inclusion policy and is member of Alliance for Financial inclusion (AFI)

- Development of cottage , small & village industries and other rural industries
- Reaches out to allied economies and supports & promotes integrated development

# Roles of NABARD

- Apex agency for providing investment & production credit in rural areas
- Credit delivery system , including monitoring , rehabilitation schemes , training of personnel etc
- Coordinates rural financing activities of all institutions engaged in development work at field level
- Monitoring & evaluation of projects refinanced by it
- Development of institutions which help rural economy
- Regulates institutions which provide financial help to rural economy
- Training facilities to institutions in field of rural upliftment
- Regulates cooperative & RRB's and manages talent acquisition through institute of banking personnel

- NABARD self help group program encourages banks to lend credit to SHG group because there are poor women
- It has undertaken various programs like Watershed Development , Tribal Development & Farm Innovation through dedicated funds set up for this purpose