Financial Inclusion and Market Development

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NIPFP

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Outline

1. Need for financial inclusion and market development
2. Issues with development initiatives
3. FSLRC Recommendations on Development

Need for financial inclusion and market development

Introduction

- FSLRC has focused for most part on regulatory functions and governance.
- There remain other concerns that regulators must engage with.
- Specifically two aspects need to be highlighted:
    - financial inclusion; and
    - market development.

Financial Inclusion

- FSLRC understands financial inclusion to signify initiatives where certain sectors, income or occupational categories are the beneficiaries of redistribution of financial services.
- Underlying objective being to foster more equitable distribution of financial services.
- Examples include branch licensing norms and priority sector lending.

Market Development

- FSLRC understands market development to mean initiatives aimed at:
  - modernisation of market infrastructure or market process, particularly with regard to the adoption of new technology;
  - expanding consumer participation; and
  - aligning market infrastructure or market process with international best practices.

Issues with development initiatives

Hidden costs

- Financial inclusion and market development initiatives pose certain issues for public administration.
- Financial inclusion initiatives impose costs on society as whole and yield gains for certain sections.
- Similarly implementing market development measures may also impose cost on financial service providers.

Dilution of accountability

- Competing objectives can hinder accountability.
- Limited knowledge on embedding accountability checks into such initiatives.

Inefficiency

- Transfer achieved by taxing some consumers to deliver gains to others is a form of taxation.
- Such taxation is inefficient.

FSLRC Recommendations on Development

Recommendation 1

- Development and improvement of market- wide infrastructure and processes should be pursued by regulators.
- This goal would be subordinate to the goals of consumer protection and micro-prudential regulation.
- Regulators must embark on such initiatives in the event of co-ordination failures in the market.
- High-quality rule-making process to be followed, including cost-benefit analysis and notice-and-comment periods.
- Ex-post evaluation of the initiatives, to assess the costs of these initiatives and compare them with the benefits must be held.

Recommendation 2 (1/2)

- Central Government will be able to direct specific regulators to ensure certain practices in the financial markets.
- Such directions should:
    - be in the form of an order in writing issued by the Central Government;
    - be notified in the Official Gazette; and

Recommendation 2 (2/2)

- It may direct a specific Regulator to ensure the provision of any specific financial service by any specific category of financial service provider or to any consumer or classes of consumers on such conditions as may be prescribed, with a view to ensuring effective and affordable access of financial services to any category of persons who would ordinarily not have such access.
- Central Government should reimburse the cost of granting such access by providing either cash or cash equivalents, or tax benefits to the financial service provider.

Recommendation 3

- For initiatives involving multiple regulators, FSDC would play a think-tank role.
- FSDC would perform a research and analytical role.
- It would measure the state of play and the rate of progress of initiatives.
- Also, undertaking post-facto analysis of past initiatives and formulating new ideas for reform and raising them before the Council.

Recommendation 4

- Market development initiatives will require inter-regulatory coordination.
- Where the issue is cross-sectoral and there is a need for co-ordination among regulators, this co-ordination should be done through FSDC.

Thank You!