



# **DAILY EDITORIAL ANALYSIS**

TOPIC

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**INDIA'S FINANCIAL SECTOR  
REFORMS NEED A SHAKE-UP**

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## INDIA'S FINANCIAL SECTOR REFORMS NEED A SHAKE-UP

### In Context

- India's financial sector, particularly the **Banking, Financial Services and Insurance (BFSI) space**, is standing at a critical juncture. While reforms have been ongoing, there are still structural problems that need to be addressed.

### Key Structural Issues in India's Financial Sector

- Inconsistent Nomination Rules Across BFSI:** No uniformity between banks, mutual funds, and insurance companies. Multiple nomination formats lead to legal ambiguities and litigation. Lack of clarity between nominee rights vs legal heir rights.
- Underdeveloped Corporate Bond Market:** Despite policy pronouncements, India's corporate bond market remains shallow, illiquid, and opaque.
  - This increases the cost of capital for businesses (potentially by 2-3%), hindering industrial growth and employment. The RBI's past directive to NSE to develop a secondary bond market was reportedly "quietly ignored," possibly due to higher profits in equity trading.
- Weak Ultimate Beneficial Ownership (UBO) Framework:** India is a FATF member but struggles with UBO (Ultimate Beneficial Ownership) transparency.
- Shadow Banking:** NBFCs, brokers, and margin lenders mimic banks without full regulation.
  - They offer margin funding at effective interest rates >20%, often without clear borrower knowledge.
  - RBI introduced a scale-based regulation (2022), but data collection and transparency remain weak.
- Fragmented Financial Consumer Protection:** No single integrated financial consumer protection authority (unlike the U.S. Consumer Financial Protection Bureau (CFPB)).
  - Investors/savers face hurdles in grievance redressal across SEBI, RBI, IRDAI, PFRDA.
- Digital Financial Inclusion & Cyber Risk:** UPI has transformed digital finance, but digital financial frauds have also spiked. RBI reported 13,530 fraud cases in FY23, involving 30,252 crore.
  - Many rural investors are still digitally excluded from mutual funds, bonds, insurance.

### Government Initiatives and Reforms

- Banking Reforms:** Reforms like EASE 2.0 and EASE 3.0 (Enhanced Access and Service Excellence) were introduced to improve operational efficiency, credit delivery, and customer service in public sector banks.
- Corporate Bonds:** To reduce the overdependence on bank credit and deepen debt markets, the government launched the **Credit Enhancement Scheme through SIDBI**, intended to improve the credit rating of lower-rated bonds and attract investors.
  - The **BSE Bond platform** was established to facilitate online bond issuance and trading. SEBI also issued norms mandating that large corporates raise at least 25% of their borrowing through bonds.
- Retirement Finance:** National Pension System (NPS), Atal Pension Yojana (APY), proposed pension reforms by PFRDA.
  - PFRDA is a **statutory regulatory body** that comes under the jurisdiction of the **Ministry of Finance**.
- Nomination:** Recent SEBI 2024 circular of mandatory nomination or opt-out declaration for demat and mutual fund accounts.
- Shadow Banking:** RBI's scale-based regulatory framework for NBFCs (2022), crackdown on high-risk NBFCs.

### Way Forward

- Harmonise Nomination Rules Across BFSI:** One uniform nomination law for all financial instruments.
  - Clear distinction between nominee (trustee) vs legal heir (beneficiary) in law.

- **Deepen Bond Markets:** Incentivise corporates to issue bonds; develop market-makers and improve credit rating transparency.
  - ♦ Build a retail-friendly bond platform with RBI/NSE/BSE collaboration.
- **Tighten UBO Disclosure and FATF Compliance:** Lower UBO disclosure thresholds to 5% or even 1% in sensitive sectors.
  - ♦ Strict penalties for non-disclosure and delayed reporting.
- **Enable Cost-Effective Retirement Products:** Issue zero-coupon government bonds of 30+ years via online channels.
  - ♦ Integrate NPS with UPI-like auto-debit system for informal workers.
- **Rein in Shadow Banking:** Mandate comprehensive data collection on margin lending and NBFC transactions.
  - ♦ Integrate NBFC lending into CRILC database (RBI's credit info platform).
  - ♦ Introduce risk-based capital norms for brokers offering financing.

Source: TH

### Mains Practice Question

[Q] Examine the challenges posed by India's underdeveloped corporate bond market and opaque Ultimate Beneficial Ownership (UBO) norms.

