

# [Public finance institutions in india- a brief discussion essay](https://assignbuster.com/public-finance-institutions-in-india-a-brief-discussion-essay/)

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Public finance institutions According to sec 4A of companies cat 1956: (1) Each of the financial institutions specified in this sub-section shall be regarded, for the purposes of this Act, as a public financial institution, namely:- (i) the Industrial Credit and Investment Corporation of India Limited, a company formed and registered under the Indian Companies Act, 1913 (7 of 1913); (ii) the Industrial Finance Corporation of India, established under section 3 of the Industrial Finance Corporation Act, 1948 (7 of 1948); iii) the Industrial Development Bank of India, established under section 3 of the Industrial Development Bank of India Act, 1964 (18 of 1964); (iv) the Life Insurance Corporation of India, established under section 3 of the Life Insurance Corporation Act, 1956 (31 of 1956); (v) the Unit Trust of India, established under section 3 of the Unit Trust of India Act, 1963 (52 of 1963); 2[(vi) the Infrastructure Development Finance Company Limited, a company formed and registered under this Act. ] [(vii) the securitisation company or reconstruction company which has obtained a certificate of registration under sub-section (4) of section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. ] (2) Subject to the provisions of sub-section (1) the Central Government may, by notification in the Official Gazette, specify such other institution as it may think fit to be a public financial institution: Provided that no institution shall be so specified unless- i) it has been established or constituted by or under any Central Act, or (ii) not less than fifty-one per cent, of the paid-up share capital of such institution is held or controlled by the Central Government. ] We shall discuss them on by one 1. Industrial Credit and Investment Corporation of India ICICI reported a 1.

15% rise in net profit to Rs. 1, 014. 21 crore on a 1. 29% increase in total income to Rs.

9, 712. 31 crore in Q2 September 2008 over Q2 September 2007. The bank’s current and savings account (CASA) ratio increased to 30% in 2008 from 25% in 2007. ICICI Bank is one of the Big Four Banks of India with State Bank of India, Axis Bank and HDFC Bank. History of ICICI 1955 The Industrial Credit and Investment Corporation of India Limited (ICICI) was incorporated at the initiative of World Bank, the Government of India and representatives of Indian industry, with the objective of creating a development financial institution for providing medium-term and long-term project financing to Indian businesses. 994 ICICI established Banking Corporation as a banking subsidiary.

formerly Industrial Credit and Investment Corporation of India. Later, ICICI Banking Corporation was renamed as ‘ ICICI Bank Limited’. ICICI founded a separate legal entity, ICICI Bank, to undertake normal banking operations – taking deposits, credit cards, car loans etc. 2001 ICICI acquired Bank of Madura (est. 1943). Bank of Madura was a Chettiar bank, and had acquired Chettinad Mercantile Bank (est.

1933) and Illanji Bank (established 1904) in the 1960s. 002 The Boards of Directors of ICICI and ICICI Bank approved the reverse merger of ICICI, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, into ICICI Bank. After receiving all necessary regulatory approvals, ICICI integrated the group’s financing and banking operations, both wholesale and retail, into a single entity.

Also in 2002, ICICI Bank bought the Shimla and Darjeeling branches that Standard Chartered Bank had inherited when it acquired Grindlays Bank. ICICI started its international expansion by opening representative offices in New York and London. 003 ICICI opened subsidiaries in Canada and the United Kingdom (UK), and in the UK it established an alliance with Lloyds TSB. It also opened an Offshore Banking Unit (OBU) in Singapore and representative offices in Dubai and Shanghai.

2004 ICICI opens a rep office in Bangladesh to tap the extensive trade between that country, India and South Africa. 2005 ICICI acquired Investitsionno-Kreditny Bank (IKB), a Russia bank with about US$4mn in assets, head office in Balabanovo in the Kaluga region, and with a branch in Moscow. ICICI renamed the bank ICICI Bank Eurasia. Also, ICICI established a branch in Dubai International Financial Centre and in Hong Kong. 2006 ICICI Bank UK opened a branch in Antwerp, in Belgium. ICICI opened representative offices in Bangkok, Jakarta, and Kuala Lumpur.

2007 ICICI amalgamated Sangli Bank, which was headquartered in Sangli, in Maharashtra State, and which had 158 branches in Maharashtra and another 31 in Karnataka State. Sangli Bank had been founded in 1916 and was particularly strong in rural areas. ICICI also received permission from the government of Qatar to open a branch in Doha. ICICI Bank Eurasia opened a second branch, this time in St. Petersburg.

2008 The US Federal Reserve permitted ICICI to convert its representative office in New York into a branch. ICICI also established a branch in Frankfurt. \*2.

Industrial\* Development Bank of India The Industrial Development Bank of India Limited commonly known by its acronym IDBI is one of India’s leading public sector banks and 4th largest Bank in overall ratings. RBI categorised IDBI as an “ other public sector bank”. It was established in 1964 by an Act of Parliament to provide credit and other facilities for the development of the fledgling Indian industry. It is currently the tenth largest development bank in the world in terms of reach with 1162 ATMs, 702 branches and 468 centers. [1] Some of the institutions built by IDBI are the National Stock Exchange of India (NSE), the National Securities Depository Services Ltd (NSDL), the Stock Holding Corporation of India (SHCIL), and IDBI BANK, which today is owned by the Indian Government, though for a brief period it was a private scheduled bank. The Industrial Development Bank of India (IDBI) was established on July 1, 1964 under an Act of Parliament as a wholly owned subsidiary of the Reserve Bank of India. In 16 February 1976, the ownership of IDBI was transferred to the Government of India and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in the country.

Although Government shareholding in the Bank came down below 100% following IDBI’s public issue in July 1995, the former continues to be the major shareholder (current shareholding: 52. %). During the four decades of its existence, IDBI has been instrumental not only in establishing a well-developed, diversified and efficient industrial and institutional structure but also adding a qualitative dimension to the process of industrial development in the country. IDBI has played a pioneering role in fulfilling its mission of promoting industrial growth through financing of medium and long-term projects, in consonance with national plans and priorities. Over the years, IDBI has enlarged its basket of products and services, covering almost the entire spectrum of industrial activities, including manufacturing and services. IDBI provides financial assistance, both in rupee and foreign currencies, for green-field projects as also for expansion, modernisation and diversification purposes.

In the wake of financial sector reforms unveiled by the government since 1992, IDBI evolved an array of fund and fee-based services with a view to providing an integrated solution to meet the entire demand of financial and corporate advisory requirements of its clients. IDBI also provides indirect financial assistance by way of refinancing of loans extended by State-level financial institutions and banks and by way of rediscounting of bills of exchange arising out of sale of indigenous machinery on deferred payment terms. IDBI has played a pioneering role, particularly in the pre-reform era (1964-91), in catalyzing broad based industrial development in the country in keeping with its Government-ordained ‘ development banking’ charter.

In pursuance of this mandate, IDBI’s activities transcended the confines of pure long-term lending to industry and encompassed, among others, balanced industrial growth through development of backward areas, modernisation of specific industries, employment generation, entrepreneurship development along with support services for creating a deep and vibrant domestic capital market, including development of apposite institutional framework. Narasimam committee recommends that IDBI should give up its direct financing functions and concentrate only in promotional and refinancing role. But this recommendation was rejected by the government. Latter RBI constituted a committee under the chairmanship of S. H. Khan to examine the concept of development financing in the changed global challenges. This committee is the first to recommend the concept of universal banking.

The committee wanted to the development financial institution to diversify its activity. It recommended to harmonise the role of development financing and banking activities by getting away from the conventional distinction between commercial banking and developmental banking. In September 2003, IDBI diversified its business domain further by acquiring the entire shareholding of Tata Finance Limited in Tata Home finance Ltd. , signaling IDBI’s foray into the retail finance sector. The fully-owned housing finance subsidiary has since been renamed ‘ IDBI Home finance Limited’. In view of the signal changes in the operating environment, following initiation of reforms since the early nineties, Government of India has decided to transform IDBI into a commercial bank without eschewing its secular development finance obligations. The migration to the new business model of commercial banking, with its gateway to low-cost current, savings bank deposits, would help overcome most of the limitations of the current business model of development finance while simultaneously enabling it to diversify its client/ asset base.

Towards this end, the IDB (Transfer of Undertaking and Repeal) Act 2003 was passed by Parliament in December 2003. The Act provides for repeal of IDBI Act, corporatisation of IDBI (with majority Government holding; current share: 58. 7%) and transformation into a commercial bank. The provisions of the Act have come into force from July 2, 2004 in terms of a Government Notification to this effect.

The Notification facilitated formation, incorporation and registration of Industrial Development Bank of India Ltd. as a company under the Companies Act, 1956 and a deemed Banking Company under the Banking Regulation Act 1949 and helped in obtaining requisite regulatory and statutory clearances, including those from RBI. IDBI would commence banking business in accordance with the provisions of the new Act in addition to the business being transacted under IDBI Act, 1964 from October 1, 2004, the ‘ Appointed Date’ notified by the Central Government. IDBI has firmed up the infrastructure, technology platform and reorientation of its human capital to achieve a smooth transition. IDBI Bank, with which the parent IDBI was merged, was a vibrant new generation Bank. The Pvt Bank was the fastest growing banking company in India. The bank was pioneer in adapting to policy of first mover in tier 2 cities.

The Bank also had the least NPA and the highest productivity per employee in the banking industry. On July 29, 2004, the Board of Directors of IDBI and IDBI Bank accorded in principle approval to the merger of IDBI Bank with the Industrial Development Bank of India Ltd. to be formed incorporated under the Companies Act, 1956 pursuant to the IDB (Transfer of Undertaking and Repeal) Act, 2003 (53 of 2003), subject to the approval of shareholders and other regulatory and statutory approvals. A mutually gainful proposition with positive implications for all stakeholders and clients, the merger process is expected to be completed during the current financial year ending March 31, 2005. The immediate fall out of the merger of IDBI and idbi bank was the exit of employees of idbi bank. The cultures in the two organizations have taken its toll.

The IDBI BANK now is in a growing fold. With its retail banking arm expanding further after the merger of United western Bank. IDBI would continue to provide the extant products and services as part of its development finance role even after its conversion into a banking company. In addition, the new entity would also provide an array of wholesale and retail banking products, designed to suit the specific needs cash flow requirements of corporates and individuals. In particular, IDBI would leverage the strong corporate relationships built up over the years to offer customised and total financial solutions for all corporate business needs, single-window appraisal for term loans and working capital finance, strategic advisory and “ hand-holding” support at the implementation phase of projects, among others.

IDBI’s transformation into a commercial bank would provide a gateway to low-cost deposits like Current and Savings Bank Deposits. This would have a positive impact on the Bank’s overall cost of funds and facilitate lending at more competitive rates to its clients. The new entity would offer various retail products, leveraging upon its existing relationship with retail investors under its existing Suvidha Flexi-bond schemes. In the emerging scenario, the new IDBI hopes to realize its mission of positioning itself as a one stop super-shop and most preferred brand for providing total financial and banking solutions to corporates and individuals, capitalising on its intimate knowledge of the Indian industry and client requirements and large retail base on the liability side. IDBI upholds the highest standards of corporate governance in its operations. The responsibility for maintaining these high standards of governance lies with its Board of Directors. Two Committees of the Board viz.

the Executive Committee and the Audit Committee are adequately empowered to monitor implementation of good corporate governance practices and making necessary disclosures within the framework of legal provisions and banking conventions. \*3. Life\* Insurance Corporation of India The Life Insurance Corporation of India (LIC) is the largest life insurance company in India, and also the country’s largest investor. ; it is fully owned by the Government of India. It also funds close to 24. 6% of the Indian Government’s expenses.

It has assets estimated of 8 Trillion Rupees (or about $170 Billion dollars). It was founded in 1956. Headquartered in Mumbai, which is considered the financial capital of India, the Life Insurance Corporation of India currently has 8 zonal Offices and 101 divisional offices located in different parts of India, at least 2048 branches located in different cities and towns of India along with satellite Offices attached to about some 50 Branches, and has a network of around 1. 2 million agents for soliciting life insurance business from the public. History Bharat Insurance Company (1896)United India (1906) National Indian (1906) National Insurance (1906) Co-operative Assurance (1906) Hindustan Co-operatives (1907) Indian Mercantile General Assurance Swadeshi Life (later Bombay Life) The first 150 years were marked mostly by turbulent economic conditions. It witnessed, India’s First War of Independence, adverse effects of the World War I and World War II on the economy of India, and in between them the period of world wide economic crises triggered by the Great depression. The first half of the 20th century also saw a heightened struggle for India’s independence.

The aggregate effect of these events led to a high rate of bankruptcies and liquidation of life insurance companies in India. This had adversely affected the faith of the general public in the utility of obtaining life cover. The Life Insurance Act and the Provident Fund Act were passed in 1912, providing the first regulatory mechanisms in the Life Insurance industry. The Indian Insurance Companies Act of 1928 authorized the government to obtain statistical information from companies operating in both life and non-life insurance areas. The subsequent Insurance Act of 1938 brought stricter state control over an industry that had seen several financially unsound ventures fail.

A bill was also introduced in the Legislative Assembly in 1944 to nationalize the insurance industry. Nationalization In 1955, parliamentarian Feroze Gandhi raised the matter of insurance fraud by owners of private insurance companies. In the ensuing investigations, one of India’s wealthiest businessmen, , owner of the Times of India newspaper, was sent to prison for two years. Eventually, the Parliament of India passed the Life Insurance of India Act on 1956-06-19, and the Life Insurance Corporation of India was created on 1956-09-01, by consolidating the life insurance business of 245 private life insurers and other entities offering life insurance services. Nationalization of the life insurance business in India was a result of the Industrial Policy Resolution of 1956, which had created a policy framework for extending state control over at least seventeen sectors of the economy, including the life insurance.

The company began operations with 5 zonal offices, 33 divisional offices and 212 branch offices. Over its existence of around 50 years, Life Insurance Corporation of India, which commanded a monopoly of soliciting and selling life insurance in India, created huge surpluses, and contributed around 7 % of India’s GDP in 2006. The Corporation, which started its business with around 300 offices, 5. 6 million policies and a corpus of INR 459 million (US$ 92 million as per the 1959 exchange rate of roughly Rs. 5 for a US $ http://data. un. org/Data. aspx? d= CDB= srID: 6080), has grown to 25000 servicing around 180 million policies and a corpus of over INR 8 trillion (US$ 173 billion).

The organization now comprises 2048 branches, 109 divisional offices and 8 zonal offices, and employs over 1, 002, 149 agents. The corporate Office of LIC is in Mumbai. It also operates in 12 other countries, primarily to cater to the needs of Non Resident Indians. With the change in the India’s economic philosophy from the early 1990s, and the subsequent relaxation of state control over several sectors of the economy, the monopolistic position of the Life Insurance Corporation of India was diluted, and it has had to compete with a number of other corporate entities, Indian as well as transnational Life Insurance brands. However, it still manages to be the largest player in the Indian market, with the lion’s share of 55%.

The recent Economic Times Brand Equity Survey rated LIC as the No. 1 Service Brand of the Country. In the financial year 2006-07 Life Insurance Corporation of India’s number of policy holders are said to have crossed a whopping 200 million (fourth in terms of population of the countries of the world) Subsidiaries LIC owns the following subsidiaries: Life Insurance Corporation of India International: This is a joint venture offshore company promoted by LIC which commenced operations in July, 1989 with the objectives of offering US$ denominated policies to cater to the insurance needs of NRIs and providing insurance services to holders of LIC policies currently residing in the Gulf.

LIC International operates in all GCC countries. LIC Nepal: A joint venture company formed in 2001 with the Vishal Group of Industries, Nepal. LIC Lanka: A joint venture company formed in 2003 with the Bartleet Group of Companies, Sri Lanka.

LIC Housing Finance: Incorporated in 19 June 1989, its main objective is to provide long term finance for construction or purchase of houses or apartments. It has a Dubai office. {text: list-item} People LIC is one of the largest employers in India.

The organization is headed by 4 officers, namely the Chairman and three Managing Directors. The top brass is appointed by the Government of India after an intensive selection procedure. Though the company was accused to go by mere seniority in number of years for the selection of the senior management, this has changed as seen in the case of Thomas Matthew and A. Dasgupta (Managing Directors). The Chairman assumes authority of the CEO and chairs the board while the Managing Directors are allotted the three main categories of the organization’s functioning. The current Chairman, Mr.

T. S. Vijayan, is particularly responsible for the major IT infrastructure turnaround that the organization has witnessed and for its advanced EDMS structure. D.

K. Mehrotra manages the Marketing Units of LIC, which also happens to be one of the largest spenders on advertising in India. Thomas Mathew manages the close to $187 billion investment portfolio of the company, which is the largest investor in the country. A.

Dasgupta manages the engineering and other functions, many of which are very advanced in the Indian corporate scenario. Objectives of LIC of India Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost. Maximize mobilization of people’s savings by making insurance-linked savings adequately attractive. Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return. Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.

Act as trustees of the insured public in their individual and collective capacities. Meet the various life insurance needs of the community that would arise in the changing social and economic environment. Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy. Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective 4. Unit Trust of India ‘ Unit Trust of India was created by the UTI Act passed by the Parliament in 1963. For more than two decades it remained the sole vehicle for investment in the capital market by the Indian citizens.

In mid- 1980s public sector banks were allowed to open mutual funds. The real vibrancy and competition n the MF industry came with the setting up of the Regulator SEBI and its laying down the MF Regulations in 1993. UTI maintained its pre-eminent place till 2001, when a massive decline in the market indices and negative investor sentiments after Ketan Parekh scam created doubts about the capacity of UTI to meet its obligations to the investors.

This was further compounded by two factors; namely, its flagship and largest scheme US 64 was sold and re-purchased not at intrinsic NAV but at artificial price and its Assured Return Schemes had promised returns as high as 18% over a period going up to two decades..!! Fearing a run on the institution and possible impact on the whole market Government came out with a rescue package and change of management in 2001. Subsequently, the UTI Act was repealed and the institution was bifurcated into two parts . UTI Mutual Fund was created as a SEBI registered fund like any other mutual fund.

The assets and liabilities of schemes where Government had to come out with a bail-out package were taken over directly by the Government in a new entity called Specified Undertaking of UTI, SUUTI. SUUTI holds over 27% stake Axis Bank. In order to distance Government from running a mutual fund the ownership was transferred to four institutions; namely SBI, LIC, BOB and PNB, each owning 25%. Certain reforms like improving the salary from PSU levels and effecting a VRS were carried out UTI lost its market dominance rapidly and by end of 2005, when the new share-holders actually paid the consideration money to Government its market share had come down to close to 10%! A new board was constituted and a new management inducted. Systematic study of its problems role and functions was carried out with the help of a reputed international consultant. Fresh talent was recruited from the private market, organizational structure was changed to focus on newly emerging investor and distributor groups and massive changes in investor services and funds management carried out.

Once again UTI has emerged as a serious player in the industry. Some of the funds have won famous awards, including the Best Infra Fund globally from Lipper. UTI has been able to benchmark its employee compensation to the best in the market, has introduced Performance Related Payouts and ESOPs. The UTI Asset Management Company has its registered office at: UTI Tower, Gn Block, Bandra — Kurla Complex, Bandra (East), Mumbai – 400 051. It has over 70 schemes in domestic MF space and has the largest investor base of over 9 million in the whole industry. It is present in over 450 districts of the country and has 100 branches called UTI Financial Centres or UFCs.

About 50% of the total IFAs in the industry work for UTI in distributing its products! India Posts, PSU Banks and all the large Private and Foreign Banks have started distributing UTI products. The total average Assets Under Management (AUM) for the month of June 2008 was Rs. 530 billion and it ranked fourth. In terms of equity AUM it ranked second and in terms of Equity and Balanced Schemes AUM put together it ranked FIRST in the industry. This measure indicates its revenue- earning capacity and its financial strength. Besides running domestic MF Schemes UTI AMC is also a registered portfolio manager under the SEBI (Portfolio Managers) Regulations.

It runs different portfolios for is HNI and Institutional clients. It is also running a Sharia Compliant portfolio for its Offshore clients. UTI tied up with Shinsei Bank of Japan to run a large size India-centric portfolio for Japanese investors. For its international operations UTI has set up its 100% subsidiary, UTI International Limited, registered in Guernsey, Channel Islands. It has branches in London, Dubai and Bahrain. It has set up a Joint Venture with Shinsei Bank in Singapore. The JV has got its license and has started its operations.

In the area of alternate assets, UTI has a 100% subsidiary called UTI Ventures at Banglore This company runs two successful funds with large international investors being active participants. UTI has also launched a Private Equity Infrastructure Fund along with HSH Nord Bank of Germany and Shinsei Bank of Japan. Bibiography {text: list-item} {text: list-item} {text: list-item} {text: list-item} {text: list-item} {text: list-item}