

Summary of the Conference of Financial Sector Regulators – March 26- 27, 2012

It is important for regulators to look at markets, institutions and products from the point of view of the consumer, end user and the system, requiring a holistic mindset. It is also important to have the right balance to ensure inclusiveness. Hence such conferences are very useful in promoting cross regulator understanding and communication.

Consumer protection: Regulators could consider mandating all regulated entities to provide a basic product in each segment which is designed for the common consumer, identified in terms of ticket size. Product labelling indicating basic features and important terms and conditions for all financial products may be mandated to enhance transparency. Suggestions were made to minimise conflicts of interest between seller and advisor, conduct regulatory oversight over Board responsibility for treating customers fairly and having a single redress mechanism for products that straddle across regulators. There was discussion on mis-selling of non-banking products by banks driven by the incentive structure, requiring some regulatory action on this front. Although there was no consensus on modifying the institutional structure to separate consumer protection from prudential regulation as exists in some regulatory architectures, this model may be explored further.

Systemic Risk : The global regulators are looking at variety of approaches to deal with concentration of players in financial markets including SIFIs, market intermediaries and infrastructure entities such as rating agencies and CCPs. Indian banks and financial institutions are small in relation to the economy and their global counterparts; hence growth and competition have to be encouraged. Measures to deal with complexity of structure, higher capital, liquidity and closer supervision for SIFIS, resolution mechanisms, the issue of central bank liquidity for FMIs with appropriate collateral management with safeguards to prevent/minimise moral hazard, all of which are issues raised in the global context, are relevant to India from a longer term perspective.

Financial Conglomerates : Communication and sharing of information formally and informally across regulators will greatly enhance the effectiveness of supervision apart from looking at enterprise wide capital and liquidity adequacy as also intra group transactions and exposures. Focused attention by the FSDC/Sub-Committee will give this area of supervision a boost.

Product Development: While regulators provide an enabling framework for generic products such as currency, interest rate, credit derivatives, the markets have to develop specific products within this framework. Light touch regulation for specific products at initial stages with tighter regulation as volumes grow based on learning and evidence has been an approach that has been followed by most regulators. Product education at point of sale, disclosure requirements based on standard performance measures, consumer sign off and entry barrier for high risk products could avoid risks of mis-selling. Harmonisation of tax treatment across products of similar nature and incentives for plain vanilla products for vulnerable customers may encourage sale of no frills low cost products.