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## Sebi vs. IRDA Regulatory Battle



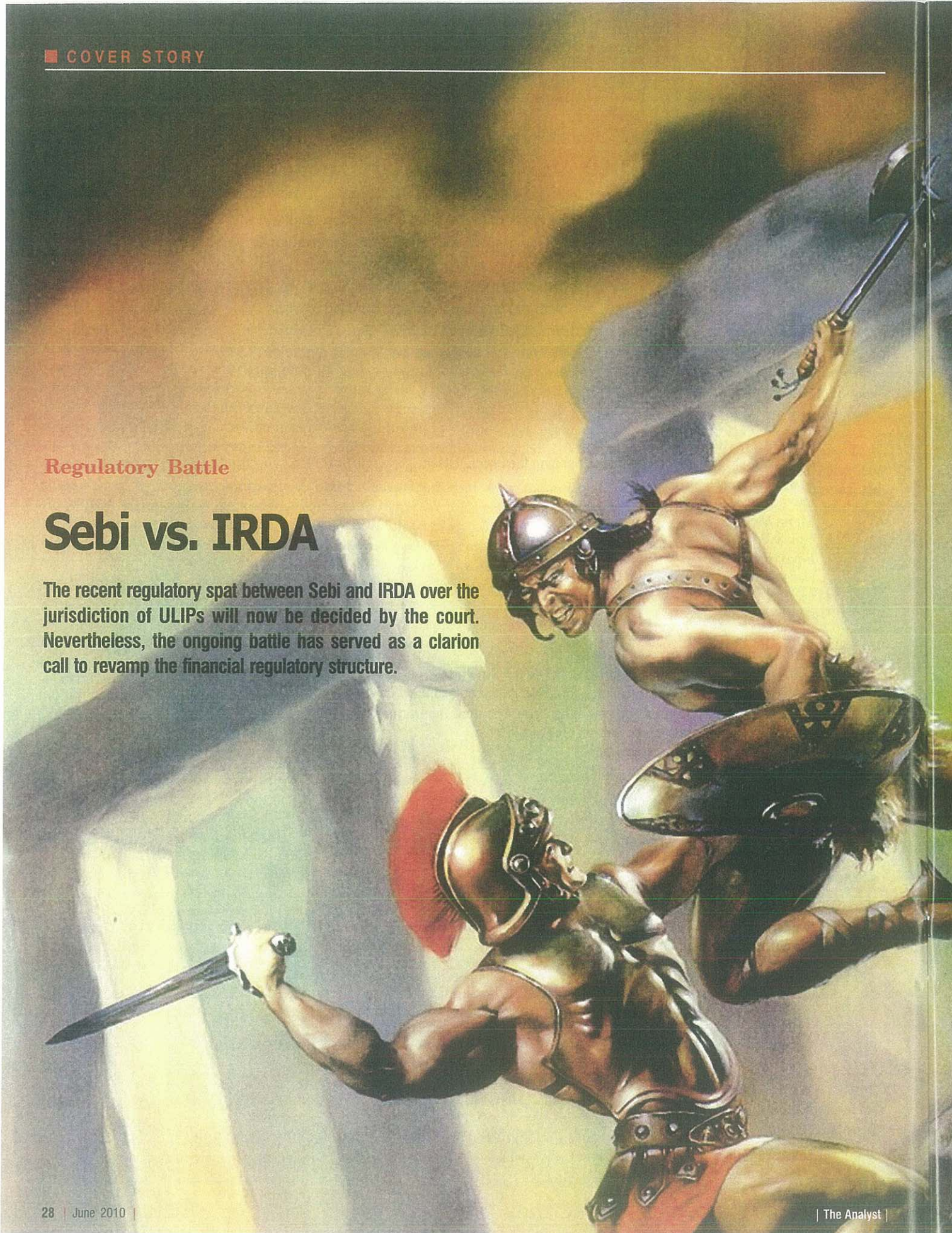
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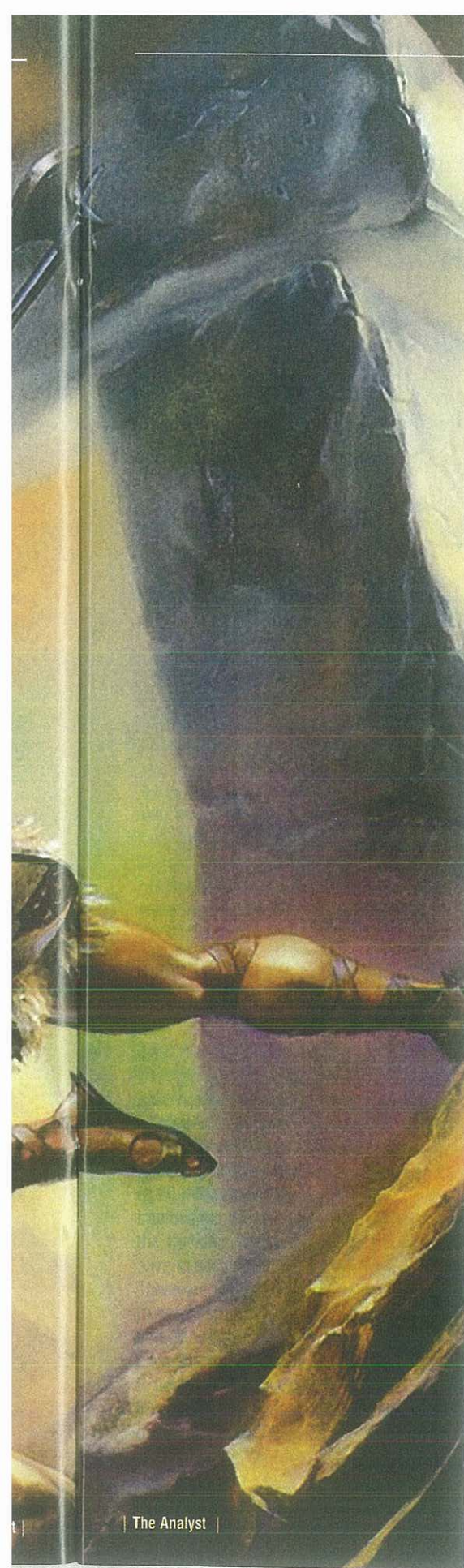
Regulatory Battle

## Sebi vs. IRDA

The recent regulatory spat between Sebi and IRDA over the jurisdiction of ULIPs will now be decided by the court. Nevertheless, the ongoing battle has served as a clarion call to revamp the financial regulatory structure.







Insurance companies' darling product, Unit-Linked Insurance Plan (ULIP), has now been caught in a regulatory logjam. Capital market regulator, Securities and Exchange Board of India (Sebi) and insurance watchdog Insurance Regulatory and Development Authority (IRDA) have locked horns over the regulatory rights with regard to ULIPs. Regulation of ULIPs has been the bone of contention between the two regulators. In fact, the Sebi order of April 10 banned 14 insurance companies, including those belonging to the Tatas, SBI, ICICI Bank, HDFC Bank and Reliance Anil Ambani Group, from accumulating funds through ULIPs without its prior approval. However, subsequently, Sebi softened its stand, and on April 14, it came out with a second order that exempted the existing ULIP schemes of these 14 players from the ban. Sebi's stance has been that under Section 11 of the Sebi Act, any firm that runs a collective investment scheme must acquire a prior approval from Sebi. Its logic has been that since ULIPs are a combination of investment and insurance, companies offering ULIPs must seek Sebi's prior approval before investing their corpus into the equity markets, which is governed by Sebi. The ban was, however, lifted after the government brokered a temporary truce between the two warring regulators. Now, the turf war over the jurisdiction of ULIPs will be resolved by courts.

Though Sebi and IRDA have been fighting with each other over the issue of regulating ULIPs, caught between this row are the gullible policyholders. Whatever be the final verdict given by the courts, it is of paramount importance to ensure that the investors' money remains safe. Furthermore, it is expected that such phases of intense regulatory disagreement will only signal the onset of long-awaited financial reforms.

### Sebi's plea

ULIPs—the blockbuster hybrid product of the insurance companies—essentially combine two features: insurance, which is analogous to a term insurance

plan, and investment, which is similar to a mutual fund. Additionally, ULIPs fetch some tax-saving benefits. This unconventional product that provides market-linked returns to the policyholders along with insurance cover has caught the fancy of the investors in recent times. Insurance agents have also sometimes mis-sold ULIPs, lured by its fat commissions. Whatsoever, ULIPs offered by the insurance companies have so far been ubiquitously regulated by the IRDA. And interestingly, Sebi has never interfered in IRDA's territory over the regulation of ULIPs. However, recently, the capital market regulator took a U-turn—Sebi now wants insurers offering ULIPs to get registered with it before going ahead with new ULIP schemes. Sebi's logic in doing so, according to a Sebi notification, is: "The attributes of ULIPs launched by insurers are different from traditional insurance products and they are a combination of insurance and investment. The attributes of the investment component of ULIPs launched by these entities (the 14 companies) are akin to the characteristics of MFs. The investment component of ULIPs is subject to investment risks associated with the securities markets, which are entirely borne by the investors. This establishes conclusively that ULIPs are a product with different combinations and hence the investment component needs to be registered with and regulated by Sebi." Just like currency futures as a hedging instrument are jointly governed both by the Reserve Bank of India (RBI, India's banking regulator that oversees currency matters) and the Sebi (which oversees stock exchanges on which currency futures are traded), Sebi also wants to regulate or part-regulate ULIPs—as they collect money from investors and invest in equity—besides IRDA, the insurance regulator, that now solely regulates ULIPs.

The prevailing commission structure may have induced Sebi to act like this. Since August 2009, Sebi has barred mutual funds from charging investors the standard 2.5% entry load while buying units. Earlier, asset management companies were using this



## INTERVIEW

■ Veer Sardesai\*

■ Kamesh Goyal\*\*

■ Vishal Gandhi\*\*\*

■ Siddharth Shah &amp; Shikhar Kacker\*\*\*\*

**“The government has acted promptly and is trying to resolve the uncertainty. Reforms are required if that is the only way that the regulators will coordinate with each other.”**

Recently, capital market regulator Sebi and insurance watchdog IRDA have been embroiled in a regulatory battle over the jurisdiction of ULIPs. How will this regulatory spat impact the insurance industry?

**Veer Sardesai:** It will certainly have an impact on the sale of new ULIPs. However, other insurance products should not see any impact. In fact, plans such as endowment policies may actually see some of the funds that would have been invested in ULIPs coming their way. But since ULIPs are a large part of the total insurance sold, the total sales will be impacted negatively.

**Kamesh Goyal:** Life insurance industry deals with public money and offers long-term protection, and therefore any confusion among customers is damaging. Currently, we observe that customers are getting anxious and worried about the premium they have paid under various ULIPs from various insurance companies. Agents and sales people are also equally worried about their career and income, and moreover, they are afraid to face customers. The sooner the issue is resolved the better it is for everyone.

**Vishal Gandhi:** It could have an adverse impact on the revenues of the insurance industry, since ULIPs are considered to be one of the most popular products sold by the insurance companies.

**Siddharth Shah and Shikhar Kacker:** The genesis of the dispute can be traced back to June last year, when transparency was brought in by Sebi in respect of the commission paid to mutual fund distributors. Sebi had prohibited entry load for all schemes, existing or new, of a mutual fund scheme. The commission on the subscription of a mutual fund scheme was to be paid directly to the distributor by the investor and the distributor was required to make adequate disclosures for all commissions received by them. This saw distributors preferring to sell ULIPs as against mutual fund schemes. ULIPs are issued by insurance companies, which are regulated by IRDA, and thus fell outside the purview of the Sebi circular imposing restrictions on entry loads on mutual fund schemes.

ULIPs are different from traditional insurance products and offer a combination of insurance and investment, wherein certain components of the premium paid by the policyholders is invested into securities and the maturity sum payable is directly linked to the performance of the underlying securities.

Presumably, taking the steep fall in the sales of mutual funds schemes into account and the distributors' preferring selling ULIPs over mutual fund schemes, Sebi felt that in essence, the ULIPs are akin to a mutual fund scheme and thus to that extent, the offer investment components in their policies should be regulated by Sebi.

The Sebi order dated April 9, 2010 prohibiting raising

money from investors by way of new and/or additional subscription for any product (including ULIPs) having an investment component in the nature of mutual funds till they obtain the requisite certificate of registration from Sebi was partially withdrawn after the intervention of the Ministry of Finance. However, Sebi insisted that launch of new ULIPs would require registration with Sebi.

Presently, the matter is sub judice before the Supreme Court, and the court is likely to decide on the extent of jurisdiction of each regulator. At the same time, one would expect the Supreme Court to recommend disclosures required to be made by distributors to ensure that investors are educated in respect of the product offered to them and transparency is maintained in respect of the allocation of the premium paid by investors.

If the IRDA succeeds in its contention, we may not see the ULIPs following the same distribution model as followed by mutual fund schemes, as the IRDA chairman has preferred the policy premium to include the commission payable to the distributors.

**Sebi has barred 14 insurers from launching any new ULIPs, whereas IRDA has said that it would continue to approve insurance products. Do you think that the Sebi move is justified?**

**Veer Sardesai:** The Sebi move is in line with the Swarup Committee recommendations. This favors lower costs and transparent charges for investment and mutual fund products. Sebi had already taken action to remove entry loads on mutual funds. If similar action was not initiated against ULIP, it is believed that the playing field would not be level and justifiably so.

**Vishal Gandhi:** Sebi's move is justified. Sebi is only acting in the interests of the public at large. The Collective Investment Scheme Regulations exempt insurance products from the supervision of Sebi. However, ULIPs are not mere insurance products; they go beyond insurance, into investing the hard earned monies of various investors into various asset classes which pose risks to the investors. Also, IRDA's powers are subject to other laws such as the Sebi Act.

**Siddharth Shah and Shikhar Kacker:** With Sebi having partially withdrawn its order dated April 9, 2010, permitting acceptance of deposits in respect of the existing ULIPs, and IRDA asking the insurance companies to continue the sale of policies, as the order of the Sebi will bring the insurance industry to a standstill, the legal position remains obscure. The same is likely to be addressed by the Supreme Court. Also, it remains unclear under which specific regulations of Sebi would ULIPs be registered, as both the Sebi (Collective Investment Scheme) Regulations, 1999 and Sebi (Mutual Funds)



Regulations, 1996 in their present form are inadequate to register and regulate products such as ULIPs.

Sebi has contended that being the securities market regulator, it is vested with wide discretionary powers to protect the interest of investors in securities and to promote the development of and to regulate the securities market. While IRDA, refuting the same, has contended that they are vested with the powers to regulate the functioning of the insurance companies.

Interestingly, insurance companies have been asked to seek registration with Sebi only in respect of products where the premium component is invested into securities markets, thus assuming jurisdictions over products that find their way into securities market.

On a strict interpretation, Sebi may not be able to exercise jurisdiction over every investor entering securities markets, for example, banks and pension funds. However, one cannot ignore the fact that Sebi, being the custodian of securities market, has wide discretionary powers to regulate investments into Indian securities market and to protect the interests of investors, which include an investor's right to education in respect of the financial product and transparency in respect of its investments.

**There is a general impression that ULIPs have a high possibility of mis-selling. Do you agree?**

**Veer Sardesai:** There has been mis-selling not only of ULIPs but other products too. However, due to the high upfront commission structure of ULIPs, the seller gains the most by selling a ULIP vis-à-vis any other product. Further, since people incorrectly believe that all 'insurance' products provide greater safety of capital, they are more comfortable investing in ULIPs.

**Kamesh Goyal:** You have raised a very valid point. If we look at the sales of ULIP policies over the past few years, it has exceeded five crores. This means every household would have more than one policy. Can we conclude that all those were wrongly sold? Even if that was true, why would customers buy a ULIP again? If customers had harbored any apprehension, they would have taken recourse to the free-look cancellation facility to get their money back. Yes, there have been some cases, and we need to continuously act against people indulging in mis-selling. But you can paint everyone with the same brush.

**Vishal Gandhi:** Yes, the average purchaser of ULIP probably does not even know the full form of ULIP and can be easily misguided by persuasive sales personnel.

**Siddharth Shah and Shikhar Kacker:** Both ULIPs and mutual fund schemes in their own right offer different benefits. However, given the fact that both the products target retail investors and are marketed by independent distributors, one may see distributors, for their personal gain, preferring to sell a ULIP over a mutual fund scheme, as the commission payable in respect of a ULIP forms part of the premium paid on the policy, which may be as high as 40% of the premium paid on the ULIP. Whereas, in a mutual fund scheme, the commission payable to the distributor is de-linked from

the amount paid on the scheme, giving investors the ability to dictate the commission that it pays to the distributor.

**What could be the implications of this regulatory fight for the policyholders?**

**Veer Sardesai:** I would expect the interests of the existing policyholders to be looked after. Even as things stand today, the existing policyholders are allowed to continue on the original terms and conditions of the ULIP. However, future policyholders are likely to gain if the Sebi diktat is followed. The gain would be in terms of lower costs and transparent charges on ULIPs.

**Kamesh Goyal:** This is really a sad situation for the industry, as life insurance is the only tool for long-term savings, and the industry provides direct employment to over 275,000 and to at least 50-60 lakh people indirectly. Life insurance industry has rescued the stock market when the markets were down. The total investment in private life insurance industry exceeds Rs 19,000 cr. An industry which plays such an important role in the economy and accounts for 4% of the GDP could have been treated fairly.

The profitability of the life insurance industry has been bad for some time now, and there are no immediate signs of its improving. This uncertainty will further impact the life insurance industry a lot. A large number of investors of the companies, which have promoted insurance companies, could lose out severely if things go worse. Life insurance is a highly capital-intensive industry, hence we need to ensure that life insurers have strong capital and balance sheet. This is one of the lessons that we have learned from the recent financial crisis. For life insurers to remain strong, one needs predictable and continuous revenue stream, and this would take a huge hit with 'no loads' structure being currently debated. Direct model sounds very good in theory, but is not practical. The penetration of mutual funds after recent changes and NPS clearly are prime examples. Worldwide this has not been implemented. I am sure we should learn from others. Lastly, 'no loads' structure works well for banks who act as distributors, but does not for individual agents. Will it be beneficial for customers, if only a few banks become the sole distributors of all financial products? What happens to the livelihood of 50 lakh agents?

Secondly, we need to look at things holistically. Life insurance penetration was 1.3% of GDP in 2000, which has now increased to 4%. Nearly, one-fourth of premium and almost 40% of the policies are from rural areas. This type of reach has costs attached to it. While there are deliberations about a high commission of 35-40% in ULIPs, the fact is, hardly 10-12% of the new business would be with commission in this range. I feel that the time has come for life insurance industry to further reduce the cost of ULIPs.

**Vishal Gandhi:** The government has intervened and rightly, so that the policyholders do not suffer due to lack of coordination between regulators. There should not be much of an impact, since the government has already intervened. However, if no clear decision is taken soon, then the policyholder could suffer, because he wouldn't know if his product is a legal or an illegal one. He would then have to fight with the insurance



company and the agents that sold the product to him and try and seek compensation from them.

**Siddharth Shah and Shikhar Kacker:** The Supreme Court, upon a request from Sebi, assumed jurisdiction of the dispute, as several Public Interest Litigations were being filed across different High Courts by investors. Therefore, the Supreme Court is likely to take into account the investors' perspective and the best practices to be followed by the distributors while distributing ULIPs as well as mutual fund schemes. Thus, the ultimate beneficiaries are likely to be the investors, and one can expect transparency, moderation of commission, higher levels of disclosures and investor protection-related provisions with respect to ULIPs.

**How do you see the government's stance? Do you think that financial sector legislative reforms are very much required?**

**Veer Sardesai:** I believe that the government is doing the right thing by not taking sides. Both Sebi and IRDA are independent regulators, and it is for the courts to decide if ULIPs should be regulated by Sebi or IRDA, or both. I do not think any major financial reform is necessary. Following the guidelines laid by the Swarup Committee would make investing more investor-friendly.

**Kamesh Goyal:** I think the way forward for the life insurance industry, irrespective of the decision awaited, is to come out with products which give minimum guarantee with some upside linked with stock indices. No financial instrument other than life insurance can offer these types of products and guarantees. For this, we need to invest in derivatives to hedge our portfolios, which is not permitted now. Today, commission in ULIPs is linked with the term; if the customer continues to pay premium for full term, the cost is lower than mutual funds. The issue is, if people select a longer term but pay premium for, say, 5-10 years, the cost becomes high. I feel the capping of expenses should be modified, i.e., the difference in yield at the end of the 10<sup>th</sup> year cannot be more than, say, 4%. This will ensure that even if the policyholder wants to get out before the term of policy, the cost still will not be high.

**Vishal Gandhi:** The government has acted promptly and is

trying to resolve the uncertainty. Reforms are required if that is the only way that the regulators will coordinate with each other.

**Siddharth Shah and Shikhar Kacker:** Ideally, the dispute should have been decided by the regulators at an administrative level, with the government acting as an umpire. However, given the need to interpret the intent of the legislations empowering Sebi and IRDA, the government considered it prudent to have the judiciary provide a legally binding interpretation.

On several occasions in the past, the need for a super regulator has been discussed and recommended in various committed reports, with the Parliamentary Standing Committee on Finance recommending the immediate constitution of the proposed Financial Stability and Development Council to address inter-regulatory issues in the financial sector. Drawing inference from global practices, the financial crisis has shown that every regulatory regime has its own shortcomings. In the US, AIG went almost unregulated because its supervision fell on two separate agencies. While in the UK, FSA was unable to avert the crisis. Therefore, constituting a super regulator cannot be considered the sole solution and as an end to the conflicts arising between the regulators.

**What happens to the valuations of the insurance industry, as all large corporates in India have stakes in insurance companies?**

**Kamesh Goyal:** The profitability of the insurance industry has been bad in both life and non-life for sometime now. One doesn't see things improving soon. The uncertainty will further impact the life insurance industry a lot. A large number of investors of the companies, which have promoted insurance companies, could lose out severely if things go worse.

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load to pay commission to distributors. However, under the new rule, agents/distributors have to negotiate their commission directly with the investor. Whereas, insurance companies are paying agents as much as 60% of the premium amount as commission towards selling ULIPs. It has been estimated that in the insurance industry, the average commission is around 18%, which would mean that Rs 18,000 out of an investment of Rs 1 lakh goes down as commission to the agents. This, vis-à-vis zero commission structure in an MF, is a huge incentive for insurance agents to aggressively sell/mis-sell ULIPs. So, by bringing ULIPs under its

jurisdiction, Sebi wants to prevent the anomaly in distribution and tackle the issue of mis-selling.

### Blow to the insurers

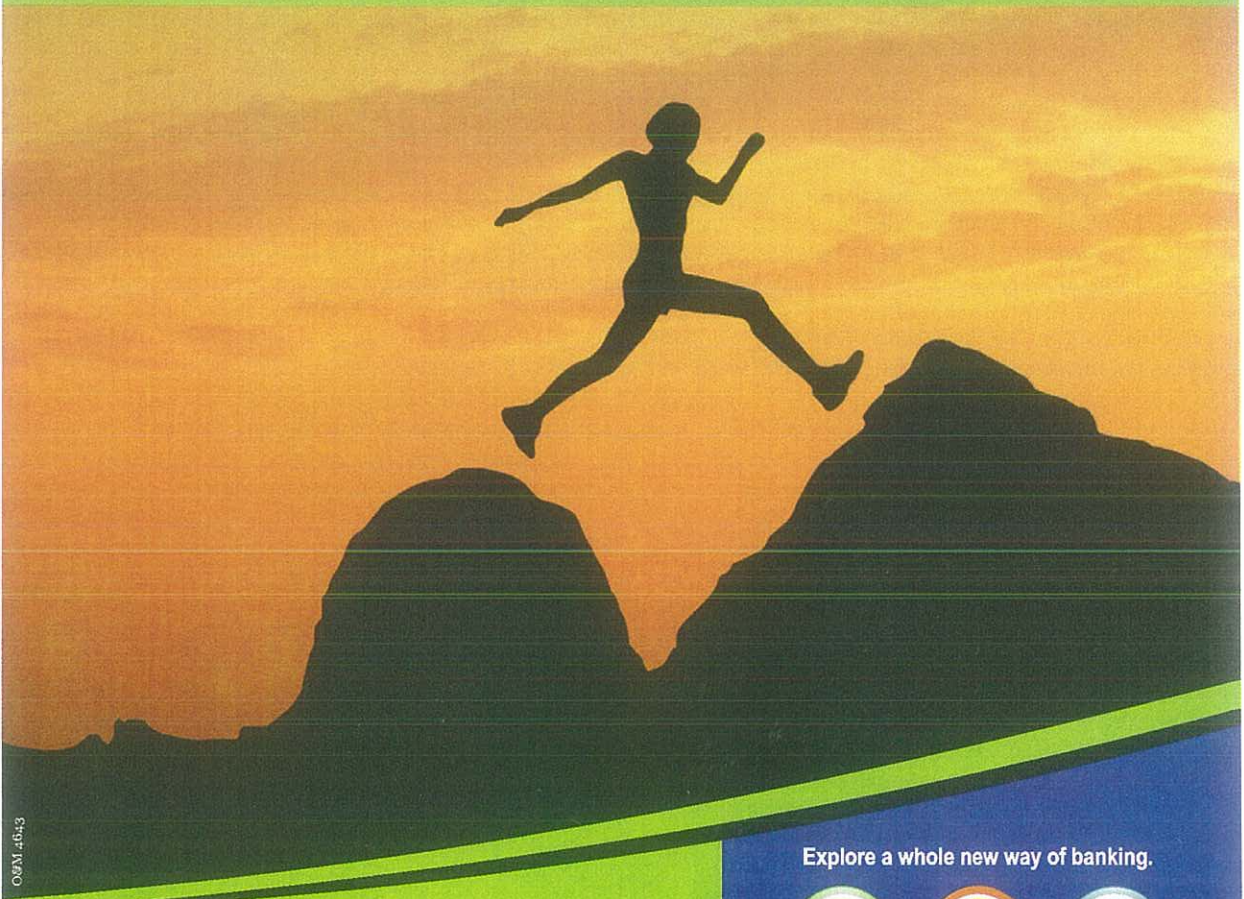
Life insurance industry in India is still at an evolving stage, with the state-owned Life Insurance Corporation of India (LIC) remaining as the dominant player and many private life insurers gradually entering the arena. Though life insurance penetration in India is paltry, it has been increasing—from 1.3% of GDP in 2000 to 4% now. And, importantly, in recent times, ULIPs have been the cash cows for all the insurers alike, private or state-owned. So the ongoing regulatory battle

does not augur well for the expanding insurance industry as a whole. According to the figures furnished by IRDA, in 2008-09, there were 70.3 million ULIPs sold, involving a premium of Rs 90,645 cr. Between April 2009 and February 2010, the insurance industry sold another 1.67 million ULIPs, which brought them a premium of Rs 44,611 cr. The present regulatory row has left the policyholders on the tenterhooks, and it is likely that this battle would definitely have some bearing on the insurance industry—essentially on the sale of new ULIPs.

In fact, this is indeed a sad situation for the industry, as life insurance is a



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## Viewpoint

## Sebi-IRDA Spat

The cornerstone of any efficient financial market is certainly coherence in its regulatory framework. Unfortunately, the turf war between Sebi and IRDA in relation to ULIPs has dispelled the belief that the regulatory system governing India's financial markets is fast becoming sophisticated.

**Controversy**

The whole controversy started when the Sebi issued show cause notices to 14 private life insurance companies early this year and later banned issue of any offer document advertisement, brochure soliciting money from investors or raise money from investors by way of new and/or additional subscription for any product (including ULIPs) having an investment component in the nature of mutual funds, till they obtain the requisite certificate of registration from Sebi. Soon after the ban, the IRDA asked all the 14 companies to continue with their business as usual, notwithstanding the order of Sebi. The Finance Ministry finally stepped in and asked the regulators to maintain the status quo till the matter is resolved by an appropriate court. On April 14, Sebi came out with a second order that exempted the existing ULIP schemes of these 14 players from the ban, while, however, maintaining the ban on issuance of fresh ULIPs. The IRDA, however, asked insurance companies to ignore this directive as well. Recently, the Sebi has independently moved the Supreme Court to get a verdict on this issue.

**Root cause**

The root cause of this controversy seems to be the ban by Sebi, in June 2009, of entry load paid by investors while purchasing mutual fund units. This ban made selling of units of mutual funds unattractive for distributors/agents, as compared to ULIPs, thereby forcing them to shift to selling ULIPs. Apparently, the Mutual Fund industry complained to Sebi about the huge commissions paid to agents in respect of ULIPs, which put them at a disadvantageous position, as agents would push ULIPs rather than MFs, as they got huge commissions from these insurance products.

**Sebi and IRDA's arguments**

The main arguments of Sebi are that the attributes of the ULIPs launched/offered are different from those of the traditional insurance products and they are a combination of insurance and investment. The attributes of the investment component of ULIPs launched are akin to the characteristics of mutual funds which issue units to the investors and provide exit at net asset value of the underlying portfolio. The investment component of ULIPs is subject to investment risks associated with securities markets which are entirely borne by the investors. Further, ULIPs are insurance-

cum-investment products, and out of the total premium paid, only a paltry amount of around 2-3% goes as the insurance component. As against this, the main arguments of the insurance companies are that contracts of insurance under the Insurance Act, 1938 are specifically excluded from the definition of collective investment schemes under the Sebi Act, 1992. Further, unlike mutual fund units, the ULIPs have a mandatory insurance cover which forms a vital and inseparable part of every ULIP. Also, these products were launched after following appropriate procedures and obtaining unique identification number from IRDA, which is the regulator in the case of life insurance products. Thus, there was no need to obtain requisite certificate of registration from the Sebi. It is important to note that ULIPs are very popular and important products for insurance companies, since ULIPs account for the bulk of new business generated (more than 80%) by private life insurance companies.

**Is the Sebi move justified?**

While Sebi has concentrated on the fact that collective investment and subsequent unitization of fund value are a feature of both ULIPs as well as schemes of a mutual fund, there could be an argument that the ULIPs are different from the units of a mutual fund. The benefits under a ULIP in case of the death of a policyholder are typically the higher of the sum assured or the fund value represented by the number of outstanding units as on the date of death; in a mutual fund, in all circumstances, the benefit is linked and limited only to the fund value of the units held by the unit holder and never to the death of the unit holder. Further, the Insurance Act defines the life insurance business to include any contract where the payment of money is assured on the death or on the happening of any contingency dependent upon human life and further includes annuities granted on human life. As is evident from the broad scope of such a definition, the subject matter of an insurance contract could very well be investment, while the contingency on which the sum assured is payable could be the survival of the insured up to a certain age, and not merely the death of the insured. It is interesting to touch upon Delhi High Court's decision in the case of Chanchal Jain & Ors vs. Sebi 95 SCL 31 dated July 24, 2009, wherein the petitioner argued that Article 14 of the Constitution was infringed since the petitioners (mutual fund agents) have been discriminated as compared to LIC agents post the ban on entry load by Sebi. It was submitted that, "LIC agents are entitled to commission, which can go up to 40%". The Court rejected

this submission and held as follows: "The said contention has no merit. Life Insurance policies serve a different purpose and object. Life insurance policies form a separate class and cannot be clubbed with mutual funds. Sebi does not control and regulate life insurance policies." Though, the concept of ULIPs was not discussed in the above decision, the decision should provide some guidance on this matter.

**Impact on insurance industry**

While Sebi has exempted the existing ULIP schemes of these 14 players from the ban, it has maintained the ban on issuance of fresh ULIPs. Now this issue will be decided by the Court. Till the time this matter is decided by the Court, investors would certainly be cautious while deciding to invest in ULIPs, which could mean drying up of revenue flows to the insurance companies. Since Sebi has currently excluded existing ULIPs from obtaining registration, the existing investors should not be too worried, as the case is between two regulators and the matter has been referred to the Court. Hence, this should not have any prejudicial impact on the interest of policyholders. Having said this, certainly this controversy has caused confusion in the minds of investors in ULIPs, which will impact the private life insurance companies.

**Way forward**

While there are genuine concerns regarding the high commission structure for ULIPs, because of which they may be aggressively sold, that only cannot form the policy basis for another regulatory authority like Sebi to exercise jurisdiction, especially given that the IRDA has, in recent times, started taking several steps to ensure that ULIPs are sold in a transparent manner and that the commission costs are reduced. However, there is some merit in Sebi's arguments, which is well recognized by IRDA and reflected in the steps taken by IRDA recently. Though these steps are in the right direction, it is important that the IRDA should continue working on the ULIP products to make sure that these products have features which are unique and different from the mutual fund schemes. It is absolutely critical to avoid such a feud between two regulators. Hence, the suggestion is that the regulators should work in tandem as far as possible. One wonders whether this makes a case for having a super regulator in the financial sector to promote financial stability, as there are products having features which fall within the purview of two or more regulators. In that case, the super regulator can decide the jurisdiction of regulators in an unbiased manner.

— Punit Shah

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reliable vehicle for long-term savings and the industry provides direct employment to over 275,000 and to at least 50-60 lakh people indirectly. Life insurance industry deals with public money and offers long-term protection, and therefore any confusion among customers is damaging. Agents and sales people are worried about their career and income, and moreover, they are afraid to face customers. The sooner the issue is resolved the better it is for everyone.

### Revamp financial regulations

Sebi's action has irritated the IRDA, which is firm on regulating both the insurance as well as the investment parts of ULIPs. J Hari Narayan, the chairman of IRDA has commented, "ULIPs are solely regulated by IRDA, which has clear guidelines on its distribution and investment. ULIPs have been around for almost a decade now. Why has Sebi suddenly woken up to claim regulation over ULIPs?" Whatsoever, the Finance Ministry has

brokered a temporary truce between the capital market watchdog and the insurance regulator. After long discussions between the Ministry, Sebi and IRDA, Finance Minister Pranab Mukherjee said that Sebi would set aside its order targeting 14 insurers who have issued ULIPs, and it has been agreed that the

**The recent regulatory battle has highlighted the pitfalls in financial regulations and underlined the need for financial sector legislative reforms.**

case will be resolved in the courts.

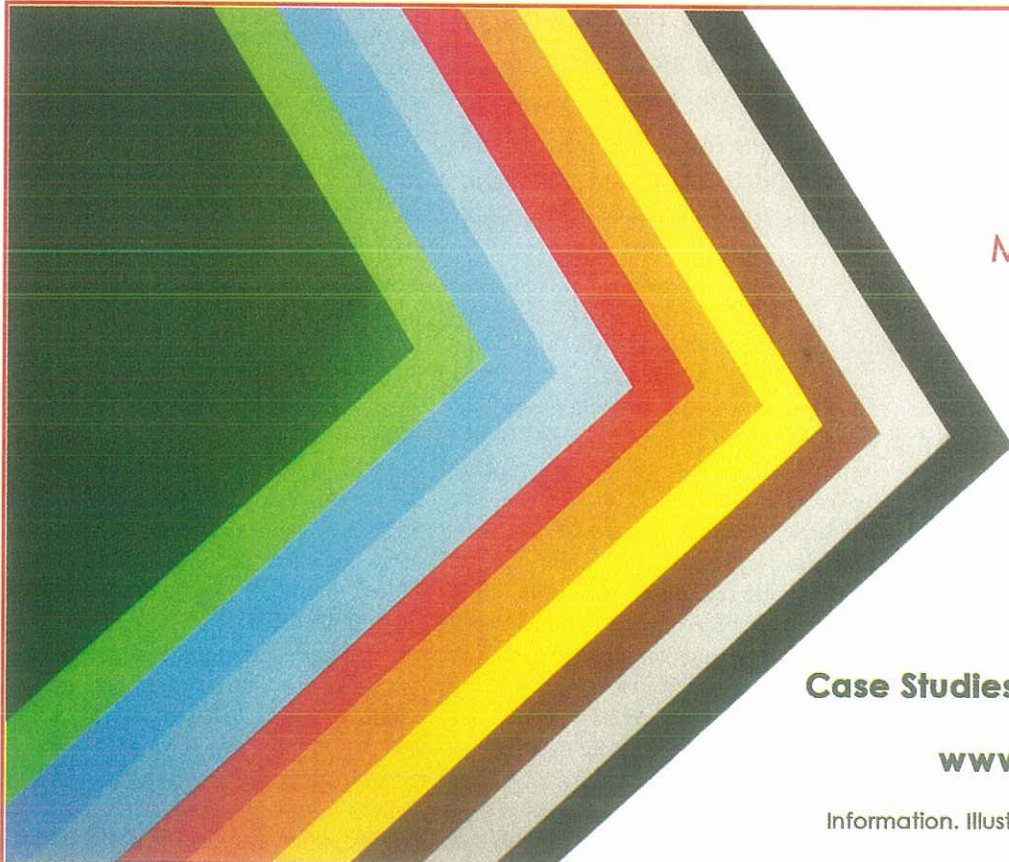
Whatever be the outcome of the court's ruling, the recent regulatory battle has highlighted the pitfalls in financial regulations and underlined the need for financial sector legislative reforms. Finance Minister Pranab Mukherjee has proposed setting up of a financial sector legislative reforms commission to clean up the regulatory mess. He has also suggested establishing a financial stability and development coun-

cil to address conflicting issues between regulators. Whatsoever, the way forward is progressive inter-regulatory cooperation and coordination in the greater interest of financial stability. What is essential is more emphasis on training, practice and knowledge-gathering in the hitherto-neglected field of fi-

financial economics. We need emphasis on interdisciplinary thought and action in the emerging areas of finance, regulation and the design of incentives—the underlying idea is to bring about more informed policy-making and regulatory initiatives. It is quite likely that this regulatory battle between Sebi and IRDA will fast-track the financial legislative reform process. ■

—Y Bala Bharathi and Sanjoy De

Reference # 01M-2010-06-06-01



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