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INDIA

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Introduction

In 1993, GDP in India was estimated in INR 7.5 trn. (ECU[1] 212 bn.). with a real growth rate of 5.5% . India had a population of 878 mn, this represented a GDP per capita of 8,600 INR (ECU 243).

CREDIT INSTITUTIONS

Overview

Despite recent modifications of the system, heavy government intervention in the financial sector is still apparent. The Reserve Bank of India (RBI) regulates the entry of foreign banks and all banking activities under the Banking Regulations Act of 1949 (and amending instruments), and the Foreign Exchange Regulation Act of 1973 .

The banking system has seen significant chance since 1992. The government now allows state owned banks to approach the capital market in order to sell equity to the public. In November 1993, the largest of the scheduled commercial banks, the State Bank of India offered equity to the general public, which reduced government ownership in the bank to 70%. It is anticipated that other nationalised banks are to reduce their share of public ownership.

Table 1 - Banking sector indicators. Banks number - 1993

	Number	Branches
State Bank of India (SBI)	1	8676
Associate Banks of SBI	7	3834
Nationalised Banks	20	30133
Private Banks	24	3887
Non-scheduled Banks	3	48
Regional Rural Banks	196	14529
Foreign Banks of which	23	141
. EU foreign banks	10	94
TOTAL	274	61248

Source : RBI Annual Report

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1 Exchange rates:
At 1993 year end 1 ECU = 35.28 INR
Annual average 1 ECU = 35.707 INR

Table 2 - Banking sector indicators. Financial assets March 1992

	Assets (bn INR)
Total banks of which	272
. Scheduled commercial banks	260
. Non-scheduled commercial banks	0.08
. State co-operative banks	12
Financial institutions of which	158
. Term-lending institutions	65
. State level institutions	11
. Investment institutions	79
. Other institutions	2

Source : RBI Annual report

Presence and market share of foreign banks

New banks in India must provide paid-up capital of Rs 1 billion, and foreign firms can only hold up to 20% equity and for non-resident Indians 40% in new banks. Despite this, figures of March 1994 show that the RBI has approved nine applications for new private sector banks. In April 1994, the first of bank to begin operations was the Unit Trust of India Bank Ltd.

The banking sector is still dominated by 22 state owned-banks, which account for around 88% of deposits and loans. Regional private banks, and foreign banks located in metropolitan areas concentrating on overseas transactions account for the remaining 5 and 8% respectively.

There are only 141 branches of foreign banks operating in India accounting for 8.2% of total deposits and 6-7% of total bank credits of all scheduled commercial banks . The foreign banks have diversified into merchant banking, mobilising special deposits by non-resident Indians, security operations and management consultancy services. In March 1993 there were also 24 foreign banks maintaining representative offices in India, compared to 23 in 1992.

Table 3 - EU Banks in India - March 1993		
	Nr branches	Deposits (bn INR)
ANZ Gindlays Bank	56	44.6
Standard Chartered	24	23.2
British Bank of the Middle East	1	6.6
Deutsche Bank AG	2	5.0
ABN-Amro Bank NV	4	3.0
Crédit Lyonnaise	1	3.0
Banque Nationale de Paris	3	2.9
Banque Indosuez	1	1.9
Société Générale	1	1.9
Barclays Bank	1	0.5
Hong Kong Bank	21	18.7
Total	115	111.3

MARKET ACCESS PROBLEMS FACED BY EU CREDIT INSTITUTIONS

Establishment

Foreign banks are not allowed to establish subsidiaries in India. Although they may branch, the extent thereof is subject to reciprocity. This is affecting the expansion of EU banks already established in India.

Endowment capital of US $ 10 mn each is required for the first two branches. An additional US $ 5 mn is required for a third branch. Subsequent branches do not require additional endowment capital.

A number of new private sector banks have been licensed since 1991. Foreign companies can hold up to 20% equity and non-resident Indians 40% in new banks.

Activities

Foreign banks generally receive national treatment. In some respect they are even advantaged in that for instance they are not required to open branches in rural areas or to make loans to the agricultural sector.

The Banking Regulation Act (RBI) requires all banks to maintain in India an amount equivalent to 20% of the total annual profits from Indian operations. The RBI requires that these holdings be in rupees. The RBI does not allow banks to hedge these required rupee holdings, which limits the ability to guard against rupee depreciation.

INSURANCE

Overview

The insurance business was entirely nationalised in 1972, and is still mostly covered by the state monopoly. The "Malhotra " report of January 1994 recommended moving towards privatisation in the insurance sector, proposing to encourage foreign companies to invest through joint ventures with domestic partners. The insurance sector can be classified into two groups:

a. General (Non-life) Insurance: This business is executed by General Insurance Corporation of India (GIC), and its four subsidiaries. GIC acts a s a holding company charged with the responsibilities of aiding and advising the four operating companies. The only direct insurance business transacted by GIC itself is Aviation Insurance.

b. Life Insurance: All life insurance business is controlled by the Life Insurance Corporation of India (LIC), established in 1956 by amalgamating the business of 245 both Indian and foreign insurance companies.

Table 4 - Indicators of Insurance Business - Year 1992

	Life	Non-life	Total
Premiums (in bn INR)	80.0	38.0	118.0
Premiums as % GDP	1.1	0.5	1.6
Premiums per capita	92.0	44.0	136.0

Source : SIGMA

MARKET ACCESS PROBLEMS FACED BY EU INSURANCE FIRMS

Establishment

Establishment in all forms is either severely restrictive (representative offices of overseas brokers are allowed) or not allowed at all. National treatment remains unbound throughout all sectors in their GATS offer.

Activities

Not applicable, due to the sector being closed to foreign companies.

SECURITIES

Overview

The number of stock exchanges in India have increased from nineteen in 1990, to twenty three in 1994, serving an estimated 25 million investors. The stock exchanges are managed by their own governing boards, executive directors, which establish their operating rules, subject to regulation by the Ministry of Finance and the Securities and Exchange Board of India (SEBI). Market capitalisation at India's largest stock exchange, Bombay at June 30, 1994, was Rs 4.45 trillion, 50% of GDP. A national stock exchange was launched in April 1994. It is scripless and totally screen-based and although still small, is attracting increasing business.

Foreign institutions buying in the secondary market in 1993/94 contributed to pushing the RBI index of equity prices up to 1434.6 on February 12, 1994, from 1024.6 the previous year. The 1994/95 budget reduced the holding period for determining long-term capital gains on mutual funds, including the government-owned Unit Trust of India (UTI), from 36 months to 12 months for domestic residents.

National treatment is guaranteed as regards operations in the security market. In January 1994, five foreign stockbroking firms - after four in 1993 - have been given permission to deal in Indian markets on behalf of foreign investors.

Table 5 - Securities Market Indicators Bombay Stock Market Year 1992	
. Turnover in equity shares (bn INR)	573.0
. Turnover as % of GDP	8.1
. Capitalisation equity shares (bn INR)	1868.0
. Number of companies with shares listed	2781.0

Source : FIBV

MARKET ACCESS PROBLEMS FACED BY EU SECURITIES FIRMS

Establishment

The SEBI is responsible for the development and regulation of India's capital markets, investor protection, and advising the government. Private banks are prohibited from establishing a subsidiary or a mutual fund for at least three years after the bank's establishment.

Foreign institutions can invest in domestic Indian securities. However, as a group they can not hold more than 24% of the issued capital in any firm, and any single firm is limited to a 5% ceiling. Foreign firms have a concessional tax rate of 10% on long-term capital gains over twelve months, and 30% on short-term capital gains of under twelve months. Indian firms are charged 30 and 40 % respectively. Foreign institutions have established joint ventures with Indian financial institutions for merchant banking, investment banking, asset management, and consumer finance, underwriting offshore issues by Indian companies, and in managing and marketing mutual funds.

In significant areas of merchant banking, establishment of foreign companies is guaranteed in the form of branches and acquisition of equity shareholding not exceeding 51%.

There are six securities custodians, three of which are European - Hong Kong Bank, Standard Chartered Bank, and Deutsche Bank.

Activities

Under the Securities Contracts (Regulations) Act 1956, foreign firms must go through registered brokers to execute stock exchange transactions, as they are not permitted to operate on the Indian stock exchange. The RBI permits the opening of representative offices, subject to the conditions that no income is earned by the office, and all expenses are paid by remittances from abroad.

Foreign institutions are not permitted to make portfolio investments in corporate firms, and are subject to registration requirements and certain investor ceilings concerning portfolio investments in local stock exchanges. Foreign investors are concerned by inadequate custodial facilities, the lack of transparancy in trading operations, and the weak clearance and settlement system. Indian residents are not permitted to invest in foreign securities, but the Indian corporate sector may raise funds overseas through issues of GDRs, ADRs, and convertable bonds.