

Indian School of Business

ADVANCED MANAGEMENT PROGRAMME IN PUBLIC POLICY (AMPPP)

Financial Policy and Regulation in India

Academic Year: 2023-24	Residency: II
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A. Course Description:

This course is designed for participants with minimal prior exposure to public economics or regulation. The course revisits the Indian financial policy and regulation in the last 20 years, covering themes related to banking, the rise of non-banking financiers, international banking regulations, and ends on a forward-looking note with a discussion on the emerging challenges and opportunities due to Fintech companies and the concept of open banking.

The key factors influencing the financial sector regulations in India in the last 20-odd years include the global financial crisis (GFC), global integration of Indian firms and households as well as capital inflows from foreign investors, the non-performing assets problem that plagued the banking industry, high rates of inflation after the GFC, among others. As we cover the various financial policies enacted during this period, we will read contemporaneous sources to understand the thought process involved.

Making any policy in India is difficult, but that has not stopped successive regimes from enacting a plethora of laws, regulations, and schemes, most of which do not stand the test of time. The course shall begin with a discussion on chapters 2 and 3 from a recent book by Prof. Karthik Muralidharan (see below). The students are responsible to read these chapters in advance and should be able to lay out their opinions in class.

B. Learning Goals:

Build capabilities for evidence-based research in public policy, and, in particular, the ‘regulatory’ domain, using India as the laboratory.

Learning Objectives

1. Is the Indian state overburdened? Understand the context and the scope of the Indian government’s operations.
2. Get a strong understanding of the events that shape the current landscape of financial regulation in India.
3. Understand the promises of the future technologies and the regulatory challenges associated with them.

Students should be able to understand and explain the current State of regulation in the Indian

financial sector and outcomes and thus be able to plan, design and implement regulatory reform in this and other sectors. In addition to the course objectives listed above, students should expect to develop Critical and Integrative Thinking by the end of the course. Each student shall be able to articulate key concerns related to regulatory reform. Each student shall also demonstrate an ability to work effectively in a team, exhibiting behavior that reflects an understanding of the importance of individual roles and tasks, and the ability to manage conflict and compromise, so that team goals are achieved. This will be assessed through forum discussions, a group essay on evaluation of a self-chosen financial regulation issue, and policy evaluation.

C. Learning Methodology:

The course will rely primarily on interactive and participatory lectures. There will be a number of live Indian examples which will be discussed as part of the lectures. Some of these could become case studies for discussion in smaller groups. You are expected to do a moderate amount of reading during the programme.

The first reading in every list is the recommended compulsory reading and the rest are desirable readings. The reading will be in the form of book chapters and recommended articles. You are strongly encouraged to keep abreast of the developments in this exciting, continuously evolving and headline grabbing sector by tracking current events and engaging in critical thinking about contemporary debates. In this course of the programme, you may be requested to analyze and comment on live policy questions.

I am unlikely to call anybody to speak up as I expect there will be a high degree of voluntary participation.

D. RECOMMENDED BOOKS/READING MATERIAL

I. Pre-reads:

1. “Accelerating India's development: a state-led roadmap for effective governance” by Karthik Muralidharan, Penguin Random House India Private Limited, 2024, ISBN: 9357087656. Chapters 2 and 3.
2. “Why nations fail: the origins of power, prosperity and poverty” by Daron Acemoglu and James Robinson, Profile Books, 2013. ISBN: 9781846684302. Chapter 2.

E. Session Plan (At-a-Glance):

Session 1: General policymaking landscape in India, overview of the financial sector

Topics Covered:

- The overburdened Indian state. Is the Indian government trying to do too much?
- When should the state intervene? Market failures and the role of coordination.
- Overview of the Indian financial sector and the context in which they operate.

Readings

Required

- 1 Chapters 2 and 3 “Accelerating India’s Development” (same as the course pre-read)

Optional

2. Chapter 2, “Why Nations Fail”
3. Shah, Ajay, [*Become a public policy thinker in three easy steps*](#), Ajay Shah’s blog, February 25, 2015.
4. Chapter 1, “Indian Financial System, Markets, Institutions & Services” by 6th Edition, by Bharti

- Pathak, 2024.
- Shah, Ajay, [Solving market failures through information interventions](#), Ajay Shah's blog, April 17, 2015.

Session 2: The Indian banking sector (1)

Topics Covered:

- (a) The events that shape India's banking industry
 - The dominance of banks as a supplier of credit
 - Nationalization and liberalization of the banking sector
 - Global financial crisis and Indian banks
 - Inflation and monetary policy

Readings:

Required

1. [Just five commercial banks hold 50% of all deposits in India](#)

Optional

2. Sections 1 and 2, [How the financial sector was reformed](#), by Susan Thomas
3. [Why India choked when Lehman broke](#) by Ila Patnaik and Ajay Shah, January 2010
4. [Looking back at late 2008](#) by Ajay Shah
5. Shah, Ajay, [New issues in Indian macro policy](#), 2008.

Session 3: The Indian banking sector (2)

Topics Covered:

- The rise of NPAs and the methods to resolve them
- Privatization (by stealth) of the banking sector
- The current state of the Indian banking industry

Readings:

Required

1. Chapters 1-4, "Pandemonium: The Great Indian Banking Tragedy" by Tamal Bandyopadhyay, 2020.

Optional

2. Chapters 10, 14, and 18 "Bad Money: Inside the NPA Mess and How It Threatens the Indian Banking System" by Vivek Kaul, 2020.
3. [Is RBI's commitment to inflation forecasting credible?](#)

Session 4: International banking

Topics Covered:

- Currency crisis
- Foreign Exchange Management Act, 1999
- Rupee convertibility
- Internationalization of Rupee

Readings:

Required

1. Balance of payments accounting, Chapter 5.1, “Macroeconomics” 8th edition by Abel, Bernanke, and Croushore.

Optional

2. [“What caused the east-Asian currency crisis”](#), Federal Reserve Bank of San Francisco Letters, 1998
3. [“Internationalisation of the rupee: Baby steps taken, a long road ahead”](#)
4. [“India’s tumble on Rupee trading holds a lesson on globalization”](#)
5. [“HSBC Joins China Payments System as Nation Pushes for Yuan Usage”](#)
6. [“UPI is expanding to more countries for cross-border payments”](#)
7. [“Bilateral payment networks may not be game changers”](#)

Session 5: Non-Banking Financial Companies**Topics Covered:**

- Banking regulations and the rise of non-banks globally
- Recent regulatory actions regarding NBFCs and FinTechs in India

Readings:**Required**

1. [What is driving the growth of shadow banking](#)
2. Chapter 1, Section 1.3, [India Finance Report](#), CAFRAL, 2023

Optional

3. [Effect of ILFS default on NBFCs](#)
4. [How ILFS was fixed by Uday Kotak](#)
5. [Recent trends in regulatory crackdowns on NBFCs](#)
6. [Rising risks in NBFC funding from banks](#)
7. [Regulatory actions are pushing up NBFC funding costs](#)
8. [India is home to 26 FinTech unicorns!](#)
9. [The threat of criminal activities through FinTech](#)
10. [A recent regulatory action wiped out some FinTech business models overnight](#)

Session 6: Emerging trends in financial sector regulation**Topics Covered:**

- Open banking
- Climate risks and banking
- Digital currencies

Readings:**Required**

1. [“Why the Reserve Bank of India wants to have its own digital currency”](#), Livemint, 2021.
2. Chapter 11, “Open banking”, edited by Linda Jeng.

Optional

3. [“America must lead on crypto regulation”](#), Dante Alighieri Disparte, 2024.

4. [“Stablecoins can defend the dollar’s global status”](#), Paul Ryan, 2024.
5. [The reality of climate financial risk](#), Karl Schmedders and Rick Van Der Ploeg, 2021
6. [The fallacy of climate financial risk](#), John Cochrane, 2021

F. Course Pack Distribution to students

Course material will be made available to students in class or on LMS.

G. Evaluation Components

Grading Component	Description	Weight
Reflections on pre-read (Forum Discussion)	Participation in the Discussion Forum on LMS. Each student is expected to make at-least one substantial comment (150 words) on any 3 of the 4 posted questions (Pre-Residency)	20
Individual Assignment - 1	Essay on an instructor-allotted topic (see below). The essay must derive insights from personal or professional experiences. Word Limit: 1250 words (Max.) (During Residency)	20
Individual Assignment - 2	Essay on a self-chosen topic related to financial sector regulation. The essay must derive insights from personal or professional experiences. Word Limit: 1250 words (Max.) (Post Residency)	30
Group Assignment	Policy analysis of one recent policy/regulation by one of the 4 financial sector regulators (RBI, SEBI, IBBI, IRDAI) in India. Word Limit: 1500 words (Max.) (During Residency)	30

H. Assignment Schedule

Name of Component	Date of Submission/Deadline	Take-Home or in-class	Group works (Y/N)	Instructions	Relevant Honour Code
Reflection on pre-reads	Before Residency. To be submitted before 1 st session of Residency (21 February 2025)	Take Home	N	Topics will be based on assigned readings. See below.	2N-c
Group Assignment	During Residency after the 4 th session of Residency (26 February 2025).	Take Home	Y	See Below	0N
Individual Assignment - 1	During Residency after 2 nd session of Residency (24 February 2025)	In Class	N	See Below	2N-c
Individual Assignment - 2	Post Residency (28 February 2025)	Take Home	N	See Below	2N-c

I. Assignment Instructions:

I. Reflection on pre-reads

Instructions: Students are expected to participate in the Discussion Forum on LMS. After completing the pre-read readings, each student has to make at least one substantial comment (150 words) on any 3 of the 4 topics posted below. Examples drawing from personal experiences related to the financial sector may be discussed in class.

Required Reading: Pre-reading for the course, see Section D above.

Questions for Discussion Forum

- 1) The book “Accelerating India’s Development” poses three predicaments of an Indian politician. Pick one of these predicaments and write up 150 words drawing on your own personal experiences.
- 2) The book “Accelerating India’s Development”, chapter 2, section 3 (page 56-67), the author provides a host of methods to improve India’s state capacity. Do you think any of them will work? Which of them is your favourite? Use personal experiences to make your arguments.
- 3) The book “Accelerating India’s Development”, chapter 3, provides a mixed picture of how efficient Indian bureaucracy is. It can perform excellently on mission mode (running elections, vaccination campaigns etc.), but do very poorly on the delivery of the very basic and day-to-day public services. What is your experience of dealing with the Indian bureaucracy, whether as an insider yourself (if applicable to you) or as a general citizen?
- 4) The book “Why Nations Fail”, Chapter 2, develops a narrative that factors such as culture in ultimately do not drive development. We do, however, hear on a daily basis that culture is a big factor. Think about statements like “public spaces in India are not clean because it is not in our culture to keep them clean” or “we have many financial scams because it is in the culture to cheat”. What do you think? Deliberate on this, take a position, and make your case using your experiences.

II. Individual Assignment - 1: Essay – During Residency

Word Limit: 1250 words (maximum)

Mode of Submission: soft copy submission on LMS in word format.

Students are expected to write on the topic “The role of the financial sector in India’s growth going forward”. The students may choose their own sub-heading (see below). This is a broad topic that encourages students to connect the financial sector with India’s growth.

The students must do the following:

1. Elaborate on the role of the financial sector as of now
2. Elaborate on a single line of argument, possibly on the bottlenecks in the financial sector, the opportunities due to the emerging technologies, regulatory challenges, etc.
3. The sub-heading can be suitably chosen to reflect the line of argument chosen by the student.

The importance of focusing on a single topic is to ensure that the student can develop depth in that argument. Focusing on multiple issues can hamper the development of depth given that the total number of words is limited to 1250.

III. Individual Assignment - 2: Essay – Post Residency

Word Limit: 1250 words (maximum)

Mode of Submission: soft copy submission on LMS in word format.

Students are expected to pick a topic related to financial sector and analyze the same drawing on personal or professional experiences. For example, topics can include issues related to specific

banking sector NPAs, the growth of a particular NBFC or a FinTech, among other such topics. Once the issue is identified, students must do the following:

1. Elaborate on the topic and provide context
2. Show understanding of the issue/problem
3. Present a balanced approach that highlights the positives and negatives (the author may take a one-sided view if they choose)
4. Present regulatory approaches to tackle issues, if any

The students may choose to get the topic checked by the professor, but that is not mandatory.

IV. Group Assignment: Policy Analysis – During Residency

Word Limit: 1500 words

Instruction: There are four financial sector regulators (RBI, SEBI, IBBI, IRDAI) in India. Your group must select one of the four regulators. Once the regulator is chosen, the group must choose a recent policy/regulation introduced recently by the regulator. The websites of the regulators are a useful tool to track the latest regulations and policies. Student groups must then analyze the policy and evaluate it based on the learnings from Session 1-4.

Ethics: Quoting without attribution is plagiarism, even if the source is listed in the references. Full sentences taken verbatim from external sources should be avoided as much as possible, even if fully referenced. We will run a standard plagiarism check on each submitted memo, and any instance of a plagiarism score of more than 50% will be investigated. Serious cases of plagiarism will be reported for violation of the honor code.

Coding scheme for ALL course work (for Honour Code Adherence)	What kinds of collaborative activities are allowed		What materials can be referred to?	
	References/Coding Scheme number	Can I discuss general concepts and ideas relevant to the assignment with other?	Can I discuss specific issues associated with the assignment with others?	Can I refer to external material?
4N	N	N	N	N
3N-a	Y	N	N	N
3N-b	N	N	Y	N
2N-a	Y	Y	N	N
2N-b	Y	N	Y	N
2N-c	N	N	Y	Y
1N	Y	Y	Y	N
0N	Y	Y	Y	Y

As a general rule, students are responsible for submitting original work that reflects their own effort and interpretation. Remember that any submission should be your own work and should not be copied in part or verbatim from any other source whether external or internal. An honour code violation is an honour code violation. A violation under coding scheme 0N is not less severe than others. A 0N coding scheme submission is judged against a 0N coding scheme, and a 4N coding scheme submission is judged against a 4N coding scheme; therefore, any honour code violation is

equally severe irrespective of the coding scheme of the submission.

Students can discuss cases and assignments with the course instructor and the Academic Associate for the course. All submissions will be subjected to *turn-it-in* or any other academic plagiarism checker technology. When in doubt, the student should contact the Academic Associate for clarifications.

J. ATTENDANCE & PUNCTUALITY

Learning is an interactive process. AMPPP students are admitted partly based on the experiences they bring to the learning community and what they can add to class discussions. I expect you to attend all classes. Absence is only appropriate in cases of extreme personal illness, injury, or close family bereavement.

Late arrival is disruptive to the learning environment; you should strive to be in class before the scheduled start time.

Attendance Policy

Other than Medical Reason (on proof) or bereavement, the following rules apply for attendance:

Up to 20% (1 class) absence in a course: no penalty

40% (2 classes) absence: two grade drops

50% (3 classes or more) absence: 'Not Pass' grade

Note: for half-credit courses, 30% absence is not possible and hence one-grade dock is not a valid outcome. Accordingly, we will have 2 grade docks for people who will miss more than 2 classes