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Financial Frauds and Market Crashes: Casino Capitalism Indian-style

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When India's Finance Minister Yashwant Sinha presented the Union Budget on February 28, 2001, there was an overwhelming positive response from the financial markets. Lauded as a "dream budget" by foreign investors and big business lobbies because it favored their interests, the Sensex (the index of Bombay Stock Exchange), also popularly known as the barometer of the Indian economy, jumped 177 points. The next day too, the Sensex rose 24 points. However, the very next day (March 2, 2001), the Sensex crashed 176 points. Thereafter, the Sensex continued its southward journey because of heavy panic selling. Within a week, the Sensex lost over 700 points and more than 500 of the 1364 actively traded shares touched 52-week lows. In the entire month of March 2001, a total wealth of nearly Rs.1460000 million (approximately US$32 billion) was wiped out in market capitalization, more than Rs.45000 million a day.

The immediate fallout of market crash in Bombay was so widespread that shock waves were also felt in Calcutta and other financial centers. The payment crisis broke out in the Calcutta Stock Exchange (CSE) with nearly 100 brokers unable to meet payment obligations. Later, all broker-directors of the CSE governing board resigned. At one point, the suggestion to shut down the CSE was also considered. Further, Anand Rathi, President of the Bombay Stock Exchange (BSE) had to resign following serious allegations that he misused his position to access sensitive information about the market exposure of certain big players.

The market meltdown also took toll of the banking sector when Ahmedabad-based cooperative bank, Madhavpura Mercantile Cooperative Bank (MMCB), faced a run on its deposits because of heavy exposure to the stock markets. The bank is now on the verge of liquidation. The nexus

of this bank with the big bull, Ketan Parekh, is yet to be unraveled completely, but recent disclosures suggest that MMCB had a big exposure to stock market through Ketan Parekh. The bank, in collusion with Ketan Parekh, issued pay orders (an order, backed by cash or deposit, issued by a bank to pay any third party on behalf of a client), without the backing of sufficient funds. Ketan Parekh, in turn, used this money to rig up the prices of shares. This nexus went unnoticed for almost a year but was broken when MCCB failed to honor the pay orders that it had issued. It has been estimated that Parekh and his front companies siphoned off nearly Rs.8000 million from the bank. The immediate fallout of this fraud has been on the leading commercial banks such as Bank of India, State Bank of India and Punjab National Bank which have suffered huge losses on account of pay order fraud. Besides, over 300 cooperative banks in the state of Gujarat have also burnt their fingers in overnight exposure to the MCCB. According to recent estimates of India's central bank, the Reserve Bank of India (RBI), the total banking sector's loss in the entire fraud would be closer to Rs. 12000 million.

Perhaps the most horrific impact of the roller coaster was on small investors and sub-brokers who committed suicide after suffering huge losses in the crash. The crash has so far claimed more than eight lives. Not only the supporters of market-friendly budget, even the critics had never expected that the "dream budget" (which was expected to do wonders for the economy) would turn into a "nightmare" on financial markets within a span of two days. A number of market analysts have rightly called this turmoil the first "Black Friday" of the millennium.

Why did the financial markets crash?

One cannot blame the political instability or weakening of economic fundamentals for this market crash because there was no marked developments on these fronts in two days. Even the Armsgate scandal *a la* Tehelka.com expose broke after ten days of financial crash. To understand this sudden market crash, let me briefly explain the two main forces that operate and dominate Indian financial markets. This will be helpful to those readers who are not familiar with the jargons and workings of financial markets. Popularly known as bulls and bears, these two sets of operators, often form a cartel, manipulate the prices of the shares and influence the movements of indices in the financial markets.

Bulls increase prices by buying selective shares aggressively in order to sell them at higher prices on a later date. The bears usually consist of fewer players (as compared to bull which are usually very large in numbers) and therefore, can better act in tandem. The bear cartel operates on "short selling," which simply means that they sell borrowed shares (without owning them) in the expectation that their prices will further fall before these shares are purchased and returned. Therefore, their profits are dependent on fall in the markets and erosion of share values. To engineer the fall in the financial markets, a number of strategies (including rumors) are used to

create panic in the markets and to erode investors' confidence.

The market turmoil was the handiwork of an international bear cartel, (in collusion with a few domestic big players) which successfully rigged share prices with impunity. Some of the members of this bear cartel are leading foreign institutional investors (FIIs) and domestic big players such as JM Morgan Stanley, Credit Suisse First Boston, First Global, C Makertich, Nirmal Bang and R Damani. The price rigging by international bear cartel was carried out with the full connivance of senior officials of the BSE, including its President. As mentioned above, Anand Rathi, the then President of the BSE, misused his official position to obtain sensitive information about the market exposure of bulls, in particular Ketan Parekh and his cronies, and passed it on to the bear cartel. Taking undue advantage of lack of liquidity in the markets, the international bear cartel resorted to heavy short selling.

The rise and rise of a Big Bull

Any understanding of the current market turmoil would remain incomplete without analyzing the sudden rise of a big bull, Ketan Parekh, in the financial markets. Popularly known as "New Economy Superman" and "ICE Superman," (ICE stands for Information, Communication and Entertainment sectors), Ketan Parekh was the major player behind the recent boom in the "new economy" stocks. Although Ketan Parekh came to public notice only in early 1999, his overarching influence on the financial markets could be gauged from the fact that his favorite stocks were known as "KP Stocks" and market players had more faith in the "KP Index" rather than the Sensex.

Parekh used to operate through a strong network of over 50 brokers and his average daily turnover was estimated to be Rs. 4000 million, almost equivalent to the entire turnover of Ahmedabad Stock Exchange, one of the leading stock exchanges in the country. It would not be an exaggeration to state that the financial markets danced to the tune of Ketan Parekh, who is still in his thirties. Herds of investors and fund managers (both domestic and foreign) blindly aped the bull run spearheaded by Parekh. Even a rumor linking Parekh's involvement in a particular company led to steep hike in the share prices of that company.

Rather than making investments by rational choice and analysis (such as price/earnings ratio, fundamentals of the company, profitability, cash flows, etc.), investors blindly followed the investment strategies of Parekh. For instance, if Parekh bought 1000 shares of a company, others bought 10000 shares of the same company in the expectation of making a killing. This is despite the fact that investors were aware that the share prices were unrealistic. A perfect example of herd behavior, an endemic problem facing the financial markets.

The market had such a blind faith in the "genius" of Parekh that his role in several fraudulent

The Story of Two Scams

- The story is quite similar. Only the starcast has changed. In the 1992 scam, it was Harshad Mehta, now it's Ketan Parekh.
- Both are big Bulls.
- Both Bulls used to buy stocks at rock-bottom prices and then push it up.
- Although both are of Gujarati origin, Ketan Parekh belong to a family where his father and grandfather were also traders in the stock market, but Harshad Mehta had no such background.
- Harshad Mehta was very much media savvy while KP kept away from media publicity despite his big investments in media companies including Amitabh Bachchan Corporation, Mukta Arts, Tips Industries, Pritish Nandy Communications, Mid-Day, Zee Telefilms, Crest Communication, PentaMedia Graphics and TV 18 India.
- In both these scams, banks were involved.
- In the Harshad Mehta scam, the controversy was related to bankers' receipts, while it was pay order in the Ketan Parekh scam.
- In both these scams, promoters of companies and certain close cronies were involved. Harshad operated through a close network of brokers while Ketan had a wider network of brokers, even those located in Calcutta.
- In the Hashad Mehta scam, foreign banks including Citibank, Standard Chartered and ANZ Grindlays were involved. In the Ketan Parekh scam, foreign institutional investors including Credit Suisse First Boston and JM Morgan Stanley are involved.
- Both these scams occurred in spite of presence of SEBI.
- In the case of Harshad Mehta scam, the State Bank of India suffered the loss of Rs. 660 crore while Ketan Parekh owes around Rs 130 crore to the Bank of India.
- Favorite stocks of Harshad Mehta were "Old Economy" stocks such as ACC, Apollo Tyres, Reliance and Tisco. While Ketan Parekh was playing with "New Economy" stocks such as HFCL, Aftek Infosys, Global Trust Bank and Pentasoft.
- After the scam, Harshad Mehta was not legally allowed to trade but he carried out trading through his front companies. One does not know yet the fate of Ketan Parekh.
- A JPC probe was ordered into Harshad Mehta scam by the then government. Now another JPC will probe into KP scam. The JPC report on Harshad Mehta scam is gathering dust, one does not know the fate of this JPC report.

deals was overlooked. Very often, he would collude with the top management of companies (e.g., Himachal Futuristic Communications Limited) to drive up share prices to unrealistic levels. The latest controversy is related to his seminal role in the rigging of share prices of a private bank, Global Trust Bank (GTB). It has been alleged that Ketan Parekh and his cronies rigged the share prices of the GTB prior to its merger with the UTI Bank, in order to improve the swap ratio in favor of GTB. With Parekh and his cronies being the major traders, the share price of GTB rose from Rs.70 in October 2000 to Rs.117 within three weeks. It is only now when the bank merger had already been announced that investigations have been launched to look into Ketan Parekh's role in insider trading. The interim investigations carried out by India's regulatory authority, Securities and Exchange Board of India (SEBI) found "evidence of a nexus" between Ketan Parekh and Ramesh Gelli, promoter of GTB.

The games bulls and bears play

Due to various factors including the bursting of "New Economy" bubble and the subsequent downward trend in NASDAQ, Ketan Parekh and his cronies started borrowing heavily. The only option before Ketan Parekh and other members of the bull cartel was to recklessly rig the prices of shares upwards and then sell them. Initially, he and his cronies borrowed heavily from the banks but later switched to unofficial markets in Calcutta. Over 90 per cent of transactions in Calcutta are estimated to be unofficial, outside the exchange with no records and margin money. The financiers at Calcutta were too happy to lend huge amount of money to Parekh and his cartel at rates as high as 100 per cent.

Because of liquidity crunch, Parekh and his cronies were finding it extremely difficult to further push the prices of stocks upwards. Taking advantage of this situation, the international bear cartel got together and started massive selling of "KP Stocks" in the hope of buying them dirt-cheap at a later stage. The short selling was carried out with the active connivance of Anand Rathi and other broker-directors of the BSE who provided sensitive information to the bear cartel about market exposure of Parekh and his cronies. The sudden selling of shares created a panic-like situation in the markets. Sensing a major meltdown, the big market players not associated with the bear cartel also started heavy selling of "KP Stocks." Even the Madhavpura Co-operative Bank started offloading the shares it held as collateral from Parekh, fearing his inability to pay back the borrowed funds. All these factors further contributed towards the steep decline of the prices of "KP Stocks."

Some of "KP Stocks" lost nearly 90 per cent of their value since their peaks early last year. For instance, the share of Zee dropped from its peak of Rs.2330 to Rs.127 while the share of Himachal Futuristic Communications Limited was traded at Rs.194 on March 14, 2001, many times lower than its peak of Rs.2553. The share price of DSQ, which Parekh jacked up to Rs.2820 only a few

months ago, came down to Rs.127 on March 14. Because of tough hammering of "KP Stocks" by the international bear cartel, several associates of Parekh, particularly those located in Calcutta, defaulted on payment obligations estimated to be more than Rs.10000 million. Taking advantage of the low prices of shares, several TNCs turned this crisis into an opportunity. TNCs such as Sandvik Asia, Cabot India, Hoganas India and Centak Chemicals enhanced their stakes by buying their own shares at dirt-cheap prices.

The official response: bolting the stable doors after the horses have fled

Smelling deliberate price rigging, the Ministry of Finance asked the SEBI to launch investigations into the matter. The SEBI is investigating the books of some 20 big players to find out whether unwarranted deals were carried out. As the news of higher exposure of private banks and cooperative banks to stock markets came to light, the RBI also initiated parallel investigations.

After the market crash, the SEBI has launched a series of measures to halt the decline in the financial markets. Some of the measures are listed below.

1. All brokers acting as directors and other office bearers of the Bombay Stock Exchange have been suspended for alleged insider trading. In order to prevent misuse of sensitive information by broker-directors, stock markets will be corporatized soon.

2. To contain volatility, SEBI has imposed an additional 10 per cent volatility margins on all the A Group shares and additional margins on stocks in Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending of Securities Scheme (BLESS).

3. The SEBI has also imposed volatility margins on net outstanding sale positions of FIIs, financial institutions, banks and mutual funds.

4. On March 8, 2001, the SEBI banned naked short sales. In simple words, it means that all short sales have to be covered by an equal amount of long purchases.

5. Cutting gross exposure limit for brokers to 10 times the base capital in the case of National Stock Exchange (NSE) and to 15 times in case of other stock exchanges.

6. Rolling settlements (which ensures that the settlement takes place five days after trading) will now be compulsory.

7. In order to increase liquidity, SEBI has allowed banks to offer collateralized lending only through BSE and NSE.

8. Launching of trade guarantee fund to guarantee all transactions.

Never ending stories of financial frauds and market crashes in India

One welcomes some of the new measures announced by the SEBI to arrest the abnormal fall in the financial markets, but this is not the first time that unscrupulous traders and cartels have manipulated the Indian markets in their favor. Since the liberalization and globalization of Indian economy commenced in 1991, the country has witnessed at least a dozen major white-collar crimes and frauds in the financial sector. Despite the establishment of regulatory authorities such as the SEBI, financial frauds are recurring at regular intervals. On an average, India has witnessed major financial frauds every year throughout the nineties.

There is a whole history of frauds in the financial markets starting from the famous securities scam of 1992. Handiwork of the then big bull Harshad Mehta, this scam unearthed the systemic problems facing Indian financial markets. When the scam was exposed, Sensex suffered a decline of 570 points on April 28, 1992. This was the steepest decline in the recent history of Indian financial markets. Then came the Preferential Allotment fraud in 1993, in which many transnational corporations (TNCs) allotted shares to themselves at prices way below the prevailing market ones. It has been estimated that these TNCs profited to the tune of Rs.50000 million. The credit for allowing this fraud should go to the then Finance Minister, Manmohan Singh. Eager to quickly deregulate and liberalize the Indian economy, Singh abolished with one stroke the Controller of Capital Issues (the official body which used to regulate capital issues and pricing) in June 1992. When the media exposed the disastrous consequences of removing these controls, SEBI had to re-regulate the preferential pricing norms. But by the time SEBI took action, TNCs had already made a killing by issuing shares to themselves at throwaway prices.

Between 1992 and 1996, the country witnessed the Primary Market fraud, also popularly known as Vanishing Companies fraud. In the absence of strict guidelines and regulations, fly-by-night operators floated as many as 4069 public issues and collected over Rs.450000 million from the public on fictitious grounds. After raising the money, these operators vanished with the money. It was well after two years that SEBI took notice of this fraud. Still, several vanished companies are yet to be identified and prosecuted.

In the mid-1990s, the country also witnessed the Plantation Companies fraud when dubious investment companies raised nearly Rs.500000 million from the public for plantation schemes. After convincing the investors that money grows on trees, promoters vanished with the money. Then came the Non-Banking Financial Companies fraud, in which small investors were duped by fly-by-night finance companies after promising higher returns on fixed deposits. In this

case, by the time the regulatory authority got into action belatedly, unscrupulous operators had already fled.

In 1998, Indian financial markets were rocked by massive share price rigging fraud involving reputed industrial groups such as BPL, Sterlite and Videocon. No punitive action has been taken so far by SEBI against the main offenders, which include Harshad Mehta and the top officials of these companies. On October 5, 1998, the Sensex recorded a sizeable fall of 224 points when an international institutional investor, Morgan Stanley, in tandem with an international bear cartel, resorted to heavy short selling. The attack by the bear cartel was unleashed on those stocks in which the government owned Unit Trust of India had made substantial investments. This day is also known as "Black Monday" in the Indian financial markets. Although SEBI had promised to investigate the crash, still no one has any clue regarding the actions taken against Morgan Stanley and the bear cartel.

In 1999, the country was under the grip of information technology mania. In order to dupe ordinary investors, a large number of private companies overnight changed their names to dotcom. For instance, Oriental Papers Limited changed its name to Oriental Software Limited and Aftek Business Machines changed its name to Aftek Infosys. After jacking up the price of shares of their companies, the promoters vanished. The latest fraud is linked to Cyberspace Infosys Limited. For instance, after changing the name of Century Finance to Cyberspace Infosys Limited and thereby manipulating the price of the shares, the "politically well-connected" promoter, Arvind Johri, vanished from the country along with the money leaving behind dozens of anguished employees and hordes of innocent small investors.

Likewise, the financial markets were in a serious panic on April 3, 2000, when the Sensex lost 361 points following the income tax notices served on several FIIs operating in Indian financial markets. As a result, nearly Rs.600000 million (approximately US$13 billion) were lost in this bloodbath. This was the second biggest single-day market crash. These FIIs were routing their investments through Mauritius in order to benefit from the Indo-Mauritius Double Taxation Treaty. After accusing the fly-by-night operators for this crash and declaring that India is not a "Banana Republic," the Finance Minister buckled down the very next day and cancelled the income tax notices issued to the FIIs. It is also an open secret that several Mauritius based corporate entities with huge amount of money operate sub-accounts of FIIs working in India. These corporate entities use FIIs to re-route illegal Indian money back to the country. Many of these sub-accounts are actively involved in price rigging by bulls and bears.

Regulation: too little and too late

All the above mentioned instances of frauds and manipulations reveal the weak regulatory and supervisory framework in India. It also points out the lax attitude of the regulatory authorities

to prevent such frauds. The surveillance system of regulatory authorities is in such a bad state that they had absolutely no clue while the frauds were being committed.

Unfortunately, in most of the instances, the response of the regulatory agencies has been reactive rather than proactive. Like popular Indian movies, the regulatory agencies came into the picture when the damage had already been done. This is despite the fact that regulatory authorities have an armory of instruments at their disposal to prevent such frauds. According to L C Gupta, former member of SEBI Board, even when actions are taken, they are generally ad hoc in nature. Because of these reasons, there is a growing feeling that the regulatory authorities, particularly the SEBI, tend to protect the interests of big players rather than small investors.

It is common knowledge that there are not only bear cartels but also bull cartels playing their games in the Indian financial markets. Why SEBI has not taken any action against such cartels in the past? What about insider trading, which is so rampant in the Indian markets? What about circular trading (a group of brokers buy and sell shares to generate volumes in specific stocks basically to lure other investors) so prevalent in the Indian markets? Why the proposal for uniform settlement cycle across different exchanges has not been implemented for the past five years? Why didn't SEBI take early action to prevent the nexus of the brokers and directors running the stock exchanges? Why SEBI has not taken any action regarding the Indian money routed through the FIIs? Why the SEBI turned a blind eye to the illegal business transactions in Calcutta Stock Exchange? These are some of the questions SEBI has so far not answered.

These questions not only expose the incompetence of SEBI but also the lack of political will among our policy makers. Although our policy makers are keen to adopt the Anglo-Saxon system of running the domestic financial sector, they have ignored the fact that such financial frauds would have attracted tough punitive measures even in the so-called "free market" economies such as the US and Hong Kong. In these countries, insider trading and short selling are serious offences. Further, there is a speedy investigation mechanism in place and the culprits are quickly booked. Not long ago, the junk bond trader Michael Milken spent several years in jail besides paying nearly $1 billion in penalties. Further, he was debarred from entering stock markets for the whole life. The notorious manipulator, Ivan Boesky, was also jailed for his involvement in insider trading. Likewise, two financial journalists were jailed in the US for 18 years on the charge of insider trading.

On the contrary, the situation in India is completely different. Scamsters and fraudsters are well-respected public figures in India, whose advice is frequently sought by financial markets and the media. Instead of spending their lifetime in jail, scamsters lead a lavish lifestyle and write newspaper columns. The cases against Harshad Mehta and his associates in the securities scam of 1992 are still pending in the court. Almost ten years have passed, still no one has any

clue when these culprits will finally be punished.

What ails Indian financial markets?

Despite the growing integration of Indian financial markets with the global markets along with the introduction of sophisticated investment instruments and electronic trading, the financial markets in India are highly inefficient and are frequently manipulated by a handful of rogue traders. A nexus consisting of big institutional investor-businessman-banker-official-politician is powerful enough to manipulate the financial markets to its advantage. While the small retail investor is always a loser in market manipulations. The retail investor only enters the financial markets when the share prices are either at peak or the bull run is over. Before the retail investor could understand the games played by big bulls and bears, big operators move out and the prices collapse. Unfortunately, the small investor ends up as the only long player in the Indian financial markets. Various attempts by the government to encourage small investors to return to financial markets are not going to yield positive results until and unless the Indian authorities ensure that savings of small investors will not be held to ransom by a handful of unscrupulous big operators and manipulators.

Due to frequent market manipulations and frauds, the retail market has almost been wiped out in India thereby providing more leeway to big operators and institutional fund managers. Except a few big operators and domestic institutional investors such as the UTI, the Indian financial markets are dominated by the FIIs. Although there are over 500 FIIs registered in India, only top 5 FIIs contribute over 40 per cent of the total portfolio investments. Instead of taming such volatile and speculative investments, the successive governments in India have been continuously relaxing controls and regulations in order to increase their hold over the Indian markets. The latest "dream budget" also offers several new incentives to FIIs such as cuts in dividend tax and capital gains tax besides allowing FIIs to acquire up to 49 per cent of equity of any Indian company. Instead of learning lessons from the Mexican and the Southeast Asian financial crisis, and consequently adopting policy measures to avert a similar crisis in the country, the successive governments in India in the nineties have been recklessly liberalizing existing regulations on such volatile private capital flows.

In fact, over 90 per cent of total volume of trading in stock market is accounted by hardly 50 shares in India. A year back, when the information technology boom was in full swing, the market capitalization of two Indian software companies, Wipro and Infosys, was more than the entire GDP of Pakistan, estimated to be $55 billion. At that time, the total market capitalization of the BSE alone was nearly 62 per cent of India's GDP.

Some time ago, US Federal Reserve Bank Chairman, Alan Greenspan, used the phrase "irrational exuberance" to explain the excesses of Wall Street. It appears that Indian financial markets

may also qualify for the same, as they have become extremely speculative, volatile and irrational. According to calculations done by L. C. Gupta, the speculative trading in the Indian financial markets is one of the highest in the world. The ratio of trading volume to market capitalization in India is about three times the ratio in the US and UK. The irrational behavior of financial markets can be gauged from the fact that on February 14, 2000, there were no sellers of shares of well-known software company, Infosys, in the entire Indian markets, while the next day, there were no buyers of it. Is there any better term other than "schizophrenia" to explain such irrational behavior?

These facts bring out the sordid state of affairs in the Indian financial markets. There is a serious crisis of confidence in the credibility and competence of SEBI to regulate Indian markets. There is no denying that SEBI needs to be given more powers in terms of search, seizure and imposition of penalties to ensure that fraudsters don't dare to commit frauds. Several proposals to further empower SEBI have been made in the past, but the Ministry of Finance is sitting on these proposals. Apart from adding on to the powers of SEBI, its staff should be entrained in special skills to ensure better market intelligence and surveillance. This becomes much more important in the present context when sophisticated investment tools such as financial derivatives are being introduced in the Indian financial markets.

Besides strengthening the stock markets, policy makers will have to give equal attention to strengthen the banking sector. One of the main reasons behind increased volatility in the financial markets is the private bank lending to traders against shares. Although the public sector banks have very little or no exposure, it is the private sector banks such as Global Trust Bank, Standard Chartered and Citibank that have been lending huge money to big operators in the stock markets. In an event of massive stock crash, banks with heavy exposure in the stock markets would also be in deep trouble. Therefore, the central bank should further strengthen prudential norms and regulations related to bank lending. Furthermore, with the breaking down of traditional walls between the stock markets and the banking sector, a collapse in stock market can have a devastating effect on the banking sector. Therefore, there should be more coordination between the central bank and SEBI to regularly monitor the developments in the financial markets and banking sector.

Even the small cooperative banks must come under close scrutiny of the regulatory authorities. By and large, the authorities have adopted a complacent attitude that cooperative banks are too small to be regulated. The prudential norms enforced in commercial banks in the early 1990s were implemented in cooperative banks only in 1999-2000. Cooperative banks were established in the country to serve such poor people and small businesses whose needs were ignored by both public sector banks and big private commercial banks. Recent experience, however, shows that some of these banks have gone beyond their original mandate and have diverted money to

speculative businesses including stock markets, bullion trade and money markets. The run on the Madhavpura Mercantile Cooperative Bank, followed up by frauds at Classic Cooperative Bank and City Union Bank, reveal the systemic weaknesses in the entire cooperative banking sector. With a total deposit of Rs. 15000 million, the MMCB was the second largest cooperative bank in the state of Gujarat. By offering higher interest rates, this bank was able to raise deposits amounting to Rs. 5000 million from small cooperative banks in the state. In order to prevent the spill over effect of the default on the entire payments system, the central bank quickly took over the MMCB. Since the problems are more systemic, the regulation of the entire cooperative banking sector needs to be strengthened by the central bank.

Concluding Remarks

To conclude, the need of the hour is complete overhauling of the entire financial system, which resembles a casino in which assets are traded primarily for speculative profit rather than for the benefit of the real economy. Rather than serving the interests of people at large, the financial casino serves the interests of a handful of speculators, financiers and manipulators. The financial casino is worse than an ordinary casino in the sense that the players in an ordinary casino follow certain rules. It is the financial casino that perpetuates market crashes thereby adversely affecting millions of ordinary investors who have put their savings and assets at its disposal. Even those who are not part of financial casino (such as workers, farmers and small traders) and who would not like their savings to be put into this casino, are involuntarily being made to play in this casino because it affects savings, investments, exchange rates and interest rates.

Unfortunately, the successive governments in India have been promoting the financial casino as part of financial sector reforms prescribed by the IMF. Whereas, India's financial system has been predominantly bank-based and more suited to local conditions. The banks have played a major role in the industrial and agricultural development of the country. Despite the fact that the banks have been the largest mobilizers of household savings, Indian authorities are determined to transform the entire financial system into a financial markets-based one. Various fiscal incentives and concessions are being offered to savers to divert their savings away from the banks to the financial markets. Efforts to promote financial markets at the cost of banks would prove counterproductive to the entire financial sector as well as the real economy.

Since the government has promised to make public the investigation reports of SEBI and RBI on the current market meltdown, these reports are eagerly awaited. But the moot question is: what would be the fate of these reports? Would these reports also gather dust like the previous reports? Would time-bound punitive actions be initiated against greedy manipulators and rogue traders who are bent upon destroying not only the financial markets but also the entire macro economy?