



OVERVIEW AND STRUCTURE OF INDIAN FINANCIAL SYSTEM



TOP 10 BEST COMPANIES TO WORK IN INDIA 20



SO



ect
COMMUNITY

| | | | |
|-----------|----------|----------|--|
| +181.83 | 1,768.26 | 1,546.82 | |
| | (+43.13) | (-12.83) | |
| 643.20 | 771.95 | 749.08 | |
| (+48.80) | (+20.02) | (-2.88) | |
| 630.52 | 276.69 | 325.98 | |
| (+110.20) | (-47.85) | (+17.81) | |
| 889.96 | 1,014.30 | 1,224.84 | |
| (+12.80) | (+13.97) | (-20.74) | |
| | 1,263.40 | 918.50 | |



Introduction :-

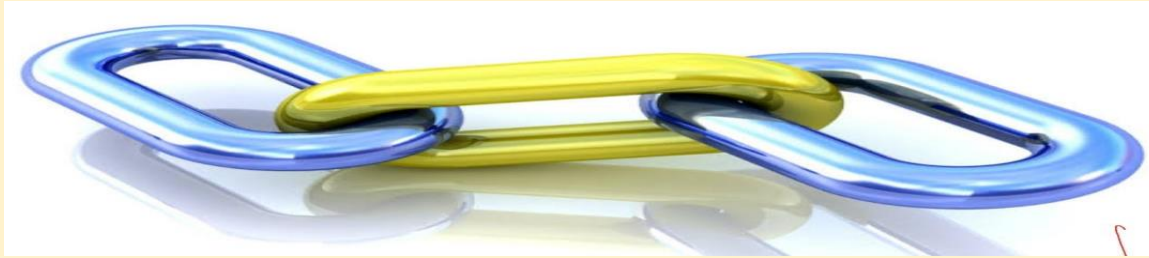


- The financial system is a set of complex and closely connected or intermixed institutions, agents, practises, markets, transactions, claims and liabilities in the economy.
- It consists of specialised and non-specialized institutions.



- Financial institutions mobilise funds from suppliers & provide these funds to those who demand them.
- In short, financial system is a mechanism by which savings are transformed into investments.

Features of financial system :-



- It links the servers and investors.
- It helps in mobilizing and allocating the savings efficiently and effectively.
- It plays a crucial role in economic development through saving-investment process.
- It helps to monitor corporate performance.



- It provides a mechanism for the transfer of resources across geographical boundaries.
- It provides a mechanism for managing uncertainty and controlling risk.
- It promotes the process of capital formation.

INDIAN FINANCIAL SYSTEM :-



- From financial Neutrality to Financial Activism.

Neutral

No Effect

Activism

Change in economy

- From Financial Volatility to Financial Stability.

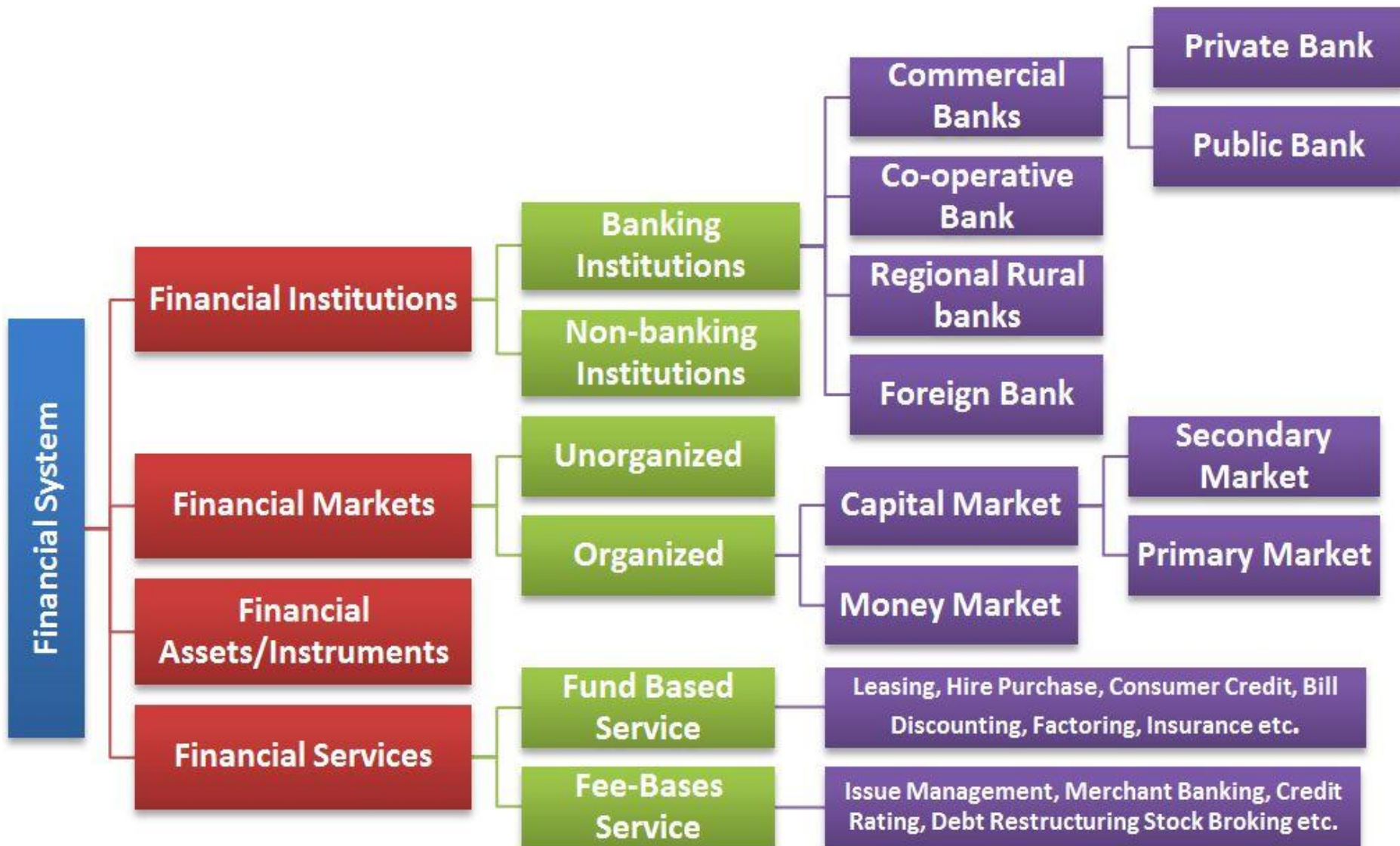
Volatility

Movement/ momentum

Financial Stability.

**Stability: centre stage
in economic policy**

Structure of Indian Financial System :-



Structure of Indian Financial System :-



- Organisational structure of financial system includes components i.e., Financial Markets, Financial Instruments & Market Participants.
- Financial market provide channels for allocation of savings to investment.
- The financial market have two major components; the money market & capital market.
- The main participants in the call money market are commercial banks, cooperative banks & primary dealers.

Functions of Financial System :-



- **Savings Function** : Financial intermediaries encourage savings. Providing profit for the public savings
- **Wealth Function** : Array of financial instruments. Providing a means to store purchasing power until a final usage.
- **Liquidity Function** : Financial markets and intermediaries provide trading systems for making financial assets more liquid.

Functions of Financial System :-



- Transferring resources across time and space
- Economic Development
- Payment function : providing a mechanism for making payments to purchase goods and services
- Risk Function : The financial system provides risk sharing by giving savers and borrowers ways to reduce the uncertainty to which they are exposed.

Role of government in development of financial system:-



- In 1947 there was no financial institutional mechanism in the country.
- After independence, the government adopted mixed economic system.
- The government started creating new financial institutions to supply finance both for agricultural and industrial development.
- Nationalisation of Financial Institutions

Establishment of Development Banks:-



1. Industrial Finance Corporation of India (IFCI) 1948
2. State Finance Corporations (SFCs) 1951
3. Industrial Development Bank of India (IDBI) 1964
4. Industrial Credit and Investment Corporation of India (ICICI) 1955
5. Unit Trust of India (UTI)
6. Industrial Reconstruction Bank of India (IRBI)/ Industrial Investment Bank of India (IIBI) (1973 -1997)
7. Export-Import (EXIM) Bank of India 1982

Constituents of Indian Financial System:-



- Financial Markets
- Financial Institutions
- Financial Instruments
- Financial assets
- Financial Services

Characteristics of Financial Services:-



- Intangibility
- Customer Orientation
- Inseparability
- Perishability
- Dynamism

Types of Financial Services:-



- Banks
- Insurance
- Mutual Funds
- Merchant Banking
- Venture Capital
- Factoring
- Forfeiting

Scope of Financial Services:-



- Fund based services.:-

This Services are related to the fund transfer from one place to another place & one person to another person.

- Non-fund services (or fee-based services) :-

Financial service companies or financial intermediaries provide services on the basis of Non-fund activities also.

Fund Based Services:-



- Equipment leasing /lease financing
- Hire purchase
- Bill discounting
- Venture capital
- Housing finance
- Insurance services
- Factoring
- Forfaiting
- Mutual Fund

Non-Fund Based financial services:-



- Merchant Banking
- Credit Rating
- Stock broking
- Custodial services
- Loan syndication
- Securitization [of debt]

Financial Innovation:-



- Financial Innovation
- Types of financial innovation
 - ❖ financial system
 - ❖ Process innovations
 - ❖ Product innovations

Challenges faced by financial sector:-



- Issue of consolidation
- Issue of Import
- Reducing the cost of funds
- Issue of credit
- Issue of management of NPA
- Issue of Management of Risk

Challenges in payment and settlement systems:-



- Governance issues
- Corporate Debt Market
- Long-term Financing/ Infrastructure Financing
- Venture Capital