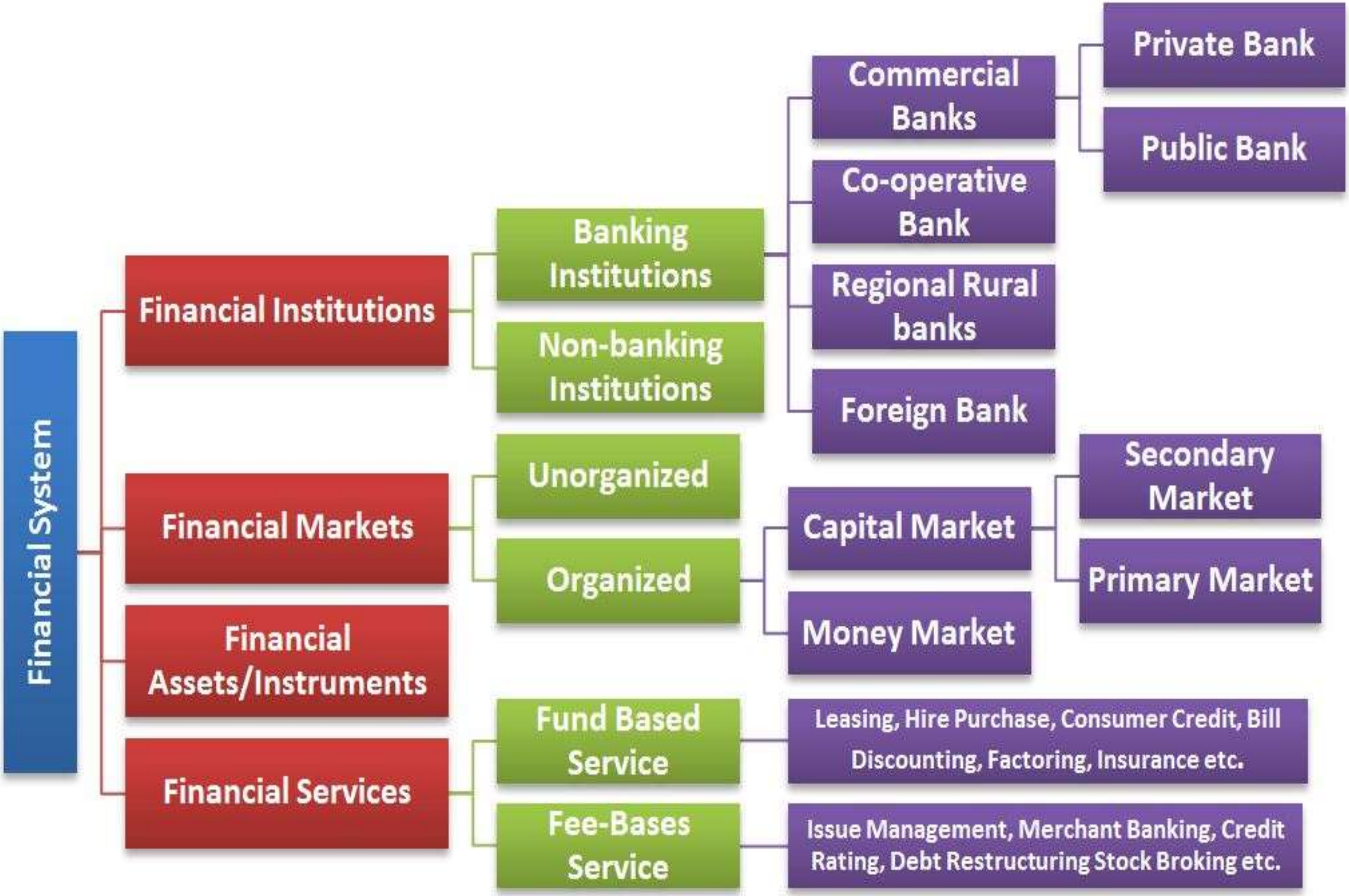
Structure of Indian Financial System


Financial System
Financial Institutions
Financial Markets
Financial Assets/Instruments
Financial Services
Banking Institutions
Non-banking Institutions
Unorganized
Organized
Fund Based Service
Fee-Bases Service
Commercial Banks
Co-operative Bank
Regional Rural banks
Foreign Bank
Private Bank
Public Bank
Capital Market
Money Market
Secondary Market
Primary Market
Leasing, Hire Purchase, Consumer Credit, Bill Discounting, Factoring, Insurance etc.
Issue Management, Merchant Banking, Credit Rating, Debt Restructuring Stock Broking etc.

- The Indian Financial System is one of the most important aspects of the economic development of our country.
- This system manages the flow of funds between the people (household savings) of the country and the ones who may invest it wisely (investors/businessmen) for the betterment of both the parties.
- A financial system refers to a system which enables the transfer of money between investors and borrowers. A financial system could be defined at an international, regional or organizational level. The term "system" in "Financial System" indicates a group of complex and closely linked institutions, agents, procedures, markets, transactions, claims and liabilities within an economy.

Features of the Indian Financial system:

- It plays a vital role in the economic development of the country as it encourages both savings and investment
- It helps in mobilizing and allocating one's savings
- It facilitates the expansion of financial institutions and markets
- Plays a key role in capital formation
- It helps forms a link between the investor and the one saving
- It is also concerned with the Provision of funds
- The financial system of a country mainly aims at managing and governing the mechanism of production, distribution, exchange and holding of financial assets or instruments of all kinds.

There are five components of the Indian Financial System :

1. Financial Institutions:

- It ensures smooth working of the financial system by making investors and borrowers meet.
- They mobilize the savings of investors either directly or indirectly via financial markets by making use of different financial instruments as well as in the process using the services of numerous financial services providers.
- They could be categorized into Regulatory, Intermediaries, Non-intermediaries and Others.
- They offer services to organizations looking for advises on different problems including restructuring to diversification strategies.
- They offer complete series of services to the organizations who want to raise funds from the markets and take care of financial assets, for example deposits, securities, loans, etc.

2. Financial Markets:

- A Financial Market can be defined as the market in which financial assets are created or transferred.
- As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset.
- Financial Assets or Financial Instruments represent a claim to the payment of a sum of money sometime in the future and /or periodic payment in the form of interest or dividend.
- There are four components of financial market are given below:

I. **Money Market:** The money market is a wholesale debt market for low-risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

II. **Capital Market:** The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year.

III. **Foreign Exchange Market**: The Foreign Exchange market deals with the multicurrency requirements which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated markets across the globe.

IV. **Credit Market**- Credit market is a place where banks, Financial Institutions (FIs) and Non Bank Financial Institutions (NBFCs) purvey short, medium and long-term loans to corporate and individuals.

3. Financial Instruments:

- This is an important component of financial system. The products which are traded in a financial market are financial assets, securities or other types of financial instruments.
- There are a wide range of securities in the markets since the needs of investors and credit seekers are different.
- They indicate a claim on the settlement of principal down the road or payment of a regular amount by means of interest or dividend.
- Equity shares, debentures, bonds, etc. are some examples.

4. Financial Services:

- It consists of services provided by Asset Management and Liability Management Companies.
- They help to get the required funds and also make sure that they are efficiently invested. They assist to determine the financing combination and extend their professional services up to the stage of servicing of lenders.
- They help with borrowing, selling and purchasing securities, lending and investing, making and allowing payments and settlements and taking care of risk exposures in financial markets.
- These range from the leasing companies, mutual fund houses, merchant bankers, portfolio managers, bill discounting and acceptance houses.
- The financial services sector offers a number of professional services like credit rating, venture capital financing, mutual funds, merchant banking, depository services, book building, etc.

Thank You