A Study of the Financial Services and Intermediary in Indian Economy

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ABSTRACT

The savings and investment system in economy is controlled by economic intermediation, and make them an important of financial process. Financial intermediaries are firms that borrow from savers and lend to it for investment. Financial intermediaries with financial instruments and financial markets play a significant role during a financial set-up. The event of financial intermediaries implies the evolution of financial systems, which ends up in financial process by mobilizing and channeling savings to investments and boost up the effective use of capital. Policy implications propose financial ease to abolish limits and financial oppression on financial intermediaries and promote economic development.

Keywords: Credit, Financial Intermediaries, Financial Set-Up, Economic Development

INTRODUCTION

Post-independence, the financial system in India has built up a network of financial markets and is dominated by the banking sector. The nationalization of banks in 1969 noticed the opening of India's financial reforms. Quantitative targets were set for nationalized banks to expand their services in rural areas to provide credit to priority sectors. They played a positive role in increasing financial savings. The performance was satisfactory in resource mobilization but it was unsatisfactory in regards to credit allocation in rural sector. Financial intermediaries perform the vital role of bringing together those with surplus funds who want to lend, with those having shortage of funds who want to borrow. In doing this, they offer the major benefits of maturity and risk transformation.

MEANING OF FINANCIAL INTERMEDIARY

A financial intermediary is an organization or individual that serves as a middleman among varied parties in order to help financial dealings. The types include commercial banks, investment banks, stockbrokers, pooled investment funds, and stock exchanges. Financial intermediaries re-allocate non-invested funds to productive enterprises through a variety of debt, equity, or hybrid stake holding structures. Through the process of financial intermediation, certain assets or liabilities are transformed into different assets or liabilities. Financial intermediaries channel funds from people who have surplus capital savers to those who require liquid funds to carry out desired activity. A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment bank, mutual fund, or pension fund. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and economics of scale involved in banking and asset management.

TYPES OF FINANCIAL INTERMEDIARY

➢ BANK

A bank is a financial institution that accepts deposits from the public and creates a demand deposit while simultaneously making loans. Lending activities can be performed either

Banks' activities can be divided into-

- Retail banking, dealing directly with individuals and small businesses;
- Business banking, providing services to mid-market business;
- Corporate banking, directed at large business entities;
- Private banking, providing wealth management services to high-net-worth individuals and families;

- **CREDIT UNION**

A credit union is a member-owned financial cooperative, controlled by its members and operated on the principle of people helping people, providing its members credit at competitive rates as well as other financial services. Worldwide, credit union systems vary significantly in terms of total assets and average institution asset size, ranging from volunteer operations with a handful of members to institutions with assets worth several billion U.S. dollars and hundreds of thousands of members. In 2018 the number of members in credit unions worldwide was 274 million, with nearly 40 million members being added since 2016. In the context of financial inclusion, credit unions claim to provide a broader range of loan and savings products at a much cheaper cost to their members than do most microfinance institutions.

- **FINANCIAL ADVISER**

A financial adviser is a professional who provides financial services to clients based on their financial situation. In many countries, financial advisors must complete specific training and be registered with a regulatory body in order to provide advice. Financial advisers typically provide financial products and services, depending on the qualification examinations they hold and the training they have. Financial advisers are registered, they are not licensed. A financial adviser is generally compensated through fees, commissions, or a combination of both.

- **INSURANCE**

Insurance is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss. An entity which provides insurance is known as an insurer, insurance company, insurance carrier or underwriter. A person or entity who buys insurance is known as an insured or as a policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and usually involves something in which the insured has an insurable interest established by ownership, possession, or pre-existing relationship.

- **Pension fund**

A pension fund, also known as a superannuation fund in some countries, is any plan, fund, or scheme which provides retirement income. Pension funds typically have large amounts of money to invest and are the major investors in listed and private companies. They are especially important to the stock market where large institutional investors dominate.

- **Non-Banking Financial Company (NBFC)**

A non-banking institution which is a company and has principal business of receiving deposits under any scheme of arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

Within this broad categorization the different types of NBFCs are as follows:

a. Asset Finance Company (AFC): An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total assets and total income respectively.

b. Investment Company (IC) : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,

c. Loan Company (LC): LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

d. Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.

e. Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

f. Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

g. Micro Finance Institution MFI): MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

h. Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

i. Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs 100 crore.

j. NBFC-Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

- **CAPITAL MARKET**

Capital markets, more commonly referred to as the stock markets have been in existence for centuries. The British East India Company was the first company to invite the public to buy shares in the company. Since then, over the years, markets have gone through tremendous changes. The way the market works, the asset classes, the framework of the exchanges and everything has been evolving over time. The changes have been brought in gradually according to the convenience of the investors and market participants. Also in order to prevent market participants to take undue advantage of information in order to gain monetary benefits, the Securities Regulatory bodies over the world have surveillance methods for mitigation of such acts.

MUTUAL FUND

A Mutual Fund is a professionally managed firm of collective investments. A group of investors (retail or institutional in nature) jointly invest in stocks, bonds, short-term investments, or other securities. This group investment is managed by a fund manager who determines the fund's investments and maintains a profit and loss account. Mutual fund-

i. Helps in arranging the money for investment purposes in the economy.

ii. Mobilizes the small savings of the public through investment.

iii. Help in capital accumulation which is crucial for the development of a developing country like India.

iv. Discourages the idle hoarding of the money in the house.

v. Helps in creating an environment of investment in the country.

vi. Helpful in employment generation.

INVESTMENT BANKING

An investment bank is a financial services company or corporate division that engages in advisory-based financial transactions on behalf of individuals, corporations, and governments. Traditionally associated with corporate finance, such a bank might assist in raising financial capital by underwriting or acting as the client's agent in the issuance of securities. An investment bank may also assist companies involved in mergers and acquisitions (M&A) and provide ancillary services such as market making, trading of derivatives and equity securities, and FICC services (fixed income instruments, currencies and commodities). Most investment banks maintain prime brokerage and asset management departments in conjunction with their investment research businesses.

- **ESCROW COMPANY**

An escrow company, with the help of an escrow agent, provides an important service during the home buying and selling process. As the homebuyer and seller sign contracts and negotiate details, the escrow company holds all pending documentation and money between the two groups. The agent working for the company is often an attorney, but does not have to be under all state laws. The agent maintains a fiduciary responsibility to all parties involved in the transaction.

CONCLUSIONS

The Indian financial intermediation has significantly evolved over the last decades. Banks and other financial intermediaries have moved from the traditional functions to more sophisticated financial intermediation in the financial market. A strong financial intermediary provides reliable and accessible information with lower transaction cost which boost resource allocation and economic growth.

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