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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.Com. Hons.

SUBJECT: INDIAN FINANCIAL SYSTEM

SUBJECT CODE: BCH405

LECTURE: 1-10

NAME OF FACULTY: Ms. ISHRAT NAAZ

AN INTRODUCTION ON INDIAN FINANCIAL SYSTEM

Meaning and Definition

- **Financial System** is a complex, well-integrated set of sub-systems of Financial institution, Markets, Instruments, and Services which facilitates the transfer and allocation of funds, efficiently and effectively.

- An institutional framework existing in a country to enable financial transactions.

- Financial system is a set of institutions instruments and markets which fosters saving and channels them to their most efficient use.

- A financial system is a complex, well integrated set of sub system of financial market, financial institution and financial services that facilitates effective allocation and mobilization of available resources

FORMAL AND INFORMAL FINANCIAL SYSTEM

- **Formal Financial Sector** is characterized by presence of an organized, institutional and regulated system which caters the financial needs of the modern spheres of the economy.

- **Informal Financial Sector** is an unorganized, non-institutional and non-regularized system dealing with the traditional and rural spheres of the economy.

IMPORTANCE/ROLES OF FINANCIAL SYSTEM

1. It links the savers & investors

2. It helps to monitor corporate performance.

3. It provides a mechanism for managing uncertainty and controlling risk.

4. It provides a mechanism for the transfer of resources across geographical

boundaries

5. It offers portfolio adjustment facilities

6. It helps in lowering the transaction costs and increase returns.

7. It promotes the process of capital formation.

8. It helps in promoting the process of financial deepening and broadening.

FUNCTIONS OF A FINANCIAL SYSTEM

- Mobilize and allocate savings;
- Monitor corporate performance;
- Provide payment and settlement system;
- Optimum allocation of risk bearing and reduction;
- Disseminate price related information;
- Offer portfolio adjustment facility;
- Lower the cost of transactions;
- Promote the process of financial deepening or broadening.

COMPONENTS OF FINANCIAL SYSTEM

1. FINANCIAL MARKET

- Capital market
- Money market
- Foreign Exchange market
- Credit market

2. FINANCIAL INSTITUTION

- Banking institution
- Non-Banking institution

3. FINANCIAL INSTRUMENTS

- Long term – share, debentures
- Short term – promissory notes, bills of exchange

4. FINANCIAL SERVICES

- Banking services – commercial banks,

development banks

- Non-banking services – LIC, GIC
- Other services – ATM, Debit cards, credit cards

FINANCIAL INSTITUTIONS

- Term finance institutions: IFCI (1948), IDBI (1964), ICICI (1955), SIDBI (1989), IIBI (1997).
- Specialized services institutions: EXIM (1982), TFCI(1994), ICICI VENTURE;
- Sectoral financial institutions: NABARD(1982), NHB(1988).
- Investment institutions: UTI(1964), LIC(1955), GIC(1972) and its subsidiaries;
- State-level financial institutions: SIDC(1955), SFC(1951).

FINANCIAL MARKET

- Financial markets are the mechanism enabling participants to deal in financial claims.
- Literally, financial markets also provide a facility in which their demands and requirements interact to set a price for such claims. (D=S).

TYPES OF FINANCIAL MARKETS

1. Money Market: a market for short-term securities or securities with a maturity of less than one year;

2. Capital market: A market for long-term securities or securities with a maturity period of one or more year.

- Primary market;
- Secondary market.

1. Primary market: it refers to the market:

  - Where securities are created/issued;
  - where the securities are traded for very first time;

2. Secondary market: it refers to the market where those securities traded which have already been issued in the primary market:

  - Over the counter;
  - Trade through stock exchanges;

- Over the counter: trade thorough the direct counters of the company or on the immediate basis;
- Trade through stock exchanges: approach to BSE, NSE or any other stock exchange through stock brokers or agents of registered broking companies.
- Stock brokers or agents of registered broking companies: these are the individuals, companies or the institutions registered with SEBI (1992) and are authorised to sale and purchase of securities or the financial assets.
- Share khan, Religare and Unicorn etc.

FINANCIAL INSTRUMENTS

- Financial asset or the financial instrument is the claim of money, against a particular person or institution, at a future date, for a specific amount;

- A financial asset may also include the claim of periodic payment in form of interest or dividend, Implies Debentures, shares, bonds and notes;

  1. Primary securities: Equity, Debentures;

  2. Secondary securities: Bank deposits, Insurance policies and Mutual funds.

FINANCIAL SERVICES

Financial Services facilitate the ease of:

1. Borrowing and funding;
2. Lending and investing;
3. Buying and selling;
4. Making and enabling payments and settlements;
5. Managing risk and exposures;

CATEGORIES OF FINANCIAL SERVICES

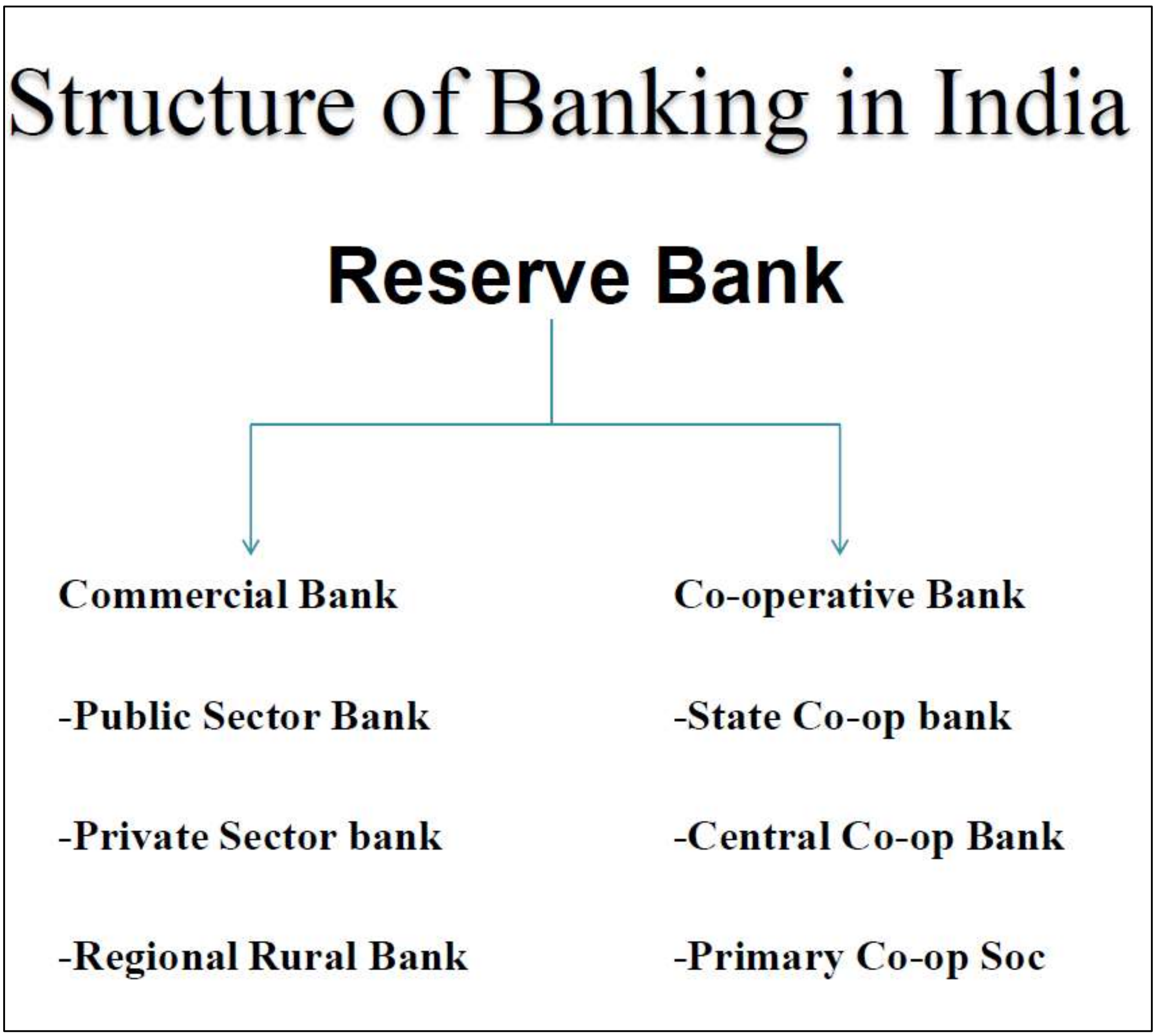
1. Fund intermediation:
2. Liquidity facility:
3. Payment mechanism:
4. Risk management:

5. Financial engineering is the application of mathematical methods to the solution of problems in finance. It is also known as financial mathematics, mathematical finance, and computational finance.

RESEARVE BANK OF INDIA

- The Reserve Bank of India (RBI) is India's central bank and regulatory body under the jurisdiction of Ministry of Finance, Government of India.
- It is responsible for the issue and supply of the Indian rupee and the regulation of the Indian banking system. It also manages the country's main payment systems and works to promote its economic development.
- Until the Monetary Policy Committee was established in 2016, it also had full control monetary policy in India. It commenced its operations on 1 April 1935 in accordance with the Reserve Bank of

India Act, 1934. The original share capital was divided into shares of 100 each fully paid. Following India's independence on 15 August 1947, the RBI was nationalized on 1 January 1949.



Organizational Structure

Governor

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Deputy Governor

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Executive Directors

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Principal Chief General Manager

↓

Chief General Managers

↓

General Managers

↓

Deputy General Managers

↓

Asstt. General Managers

↓

Managers

↓

Asstt Managers

↓

Support staff

BRIEF HISTORY - RBI

- It was set up on the recommendations of the HILTON YOUNG COMMISSION
- It was started as Share-Holders Bank with a paid-up capital of 5 Crs
- It was established on 1st of April 1935
- Initially it was located in Kolkata
- It moved to Mumbai in the year 1937
- Initially it was privately owned
- It was the 1st bank to be Nationalized in 1949
- It has 22 regional offices, most of them in state capitals
- Since nationalization in 1949, the Reserve Bank is fully owned by the Government of India

- Its First governor was Sir Osborne A.Smith(1st April 1935 to 30th June 1937)
- The First Indian Governor was “Sir Chintaman D.Deshmukh”(11th August 1943 to 30th June 1949)
- On 27th June 2006, the Union Government of India reconstituted the Central Board of Directors of the Reserve Bank of India(RBI) with 13 Members, including Azim Premji and Kumar Mangalam Birla

THE KEY ROLES OF THE RBI

ARE…

- Regulator and supervisor of the financial system
- Manager of Exchange control
- Issuer of currency

- Banker to the Government
- Bank to banks: maintains banking accounts of the scheduled banks