Lecture-8

## Scope of financial services

Financial services consist of wide range of activities which are broadly classified into 2:

1. Traditional Activities.
2. Modern Activities.

### 1.Traditional Activities

Financial intermediaries have been offering a large range of services traditionally related to capital and money market activities. These services are classified into 2 groups: – ***Fund based activities and Non-fund based activities*.**

- **Asset based/Fund Based Services.**

Fund based activities comprises of activities which are concerned with acquiring funds and assets for clients. Different services covered under fund based activities are: Primary and secondary market activities, dealing in money market instruments, foreign exchange market activities and involving in hire purchase, venture capital, equipment leasing etc.

The asset/ fund based services provided by banking and non – banking financial institutions as discussed below briefly.

**1. Equipment Leasing/ Lease Financing**

Leasing is a arrangement that provides a firm with the use and control over assets without buying and owning the same. It is a form of renting assets. However, in making an investment, the firm need not own the asset. It is basically interested in acquiring the use of the asset. Thus, the firm may consider leasing of the asset rather than buying it.
In comparing leasing with buying, the cost of leasing the asset should be compared with the cost of financing the asset through normal sources of financing, i. e. debt and equity. Since payment of lease rentals is similar to payment of interest on borrowings and lease financing is equivalent to debt.

**2.Hire Purchase and Consumer Credit**

Hire purchase means a transaction where goods are purchased and sold on the terms that (i) payment will be made itinstallments, (ii) the possession of the goods is given to the buyer immediately, (iii) the property ownership) in the goods remains with the vendor till the last installment is paid,(iv) the seller can repossess the goods in case of default in payment of any instalment, and (v) each instalment is treated as hire charges till the last instalment is paid.
Consumer credit includes all asset based financing plans offered to individuals to help them acquire durable consumer goods. In a consumer credit transaction the individual/ consumer/ buyer pays a part of the cash

purchase price at the time of the delivery of the asset and pays the balance with interest over a specified period of time.

**3.Venture Capital**

In the real sense, venture capital financing is one of the most recent entrants in the Indian capital market. There is a significant scope for venture capital companies in our country because of increasing emergence of technocrat entrepreneurs who lack capital to be risked. These venture capital companies provide the necessary risk capital to the entrepreneurs so as to meet the promoters contribution as required by the financial institutions. In addition to providing capital, these VCFS (venture capital firms) take an active interest in guiding the assisted firms.

**3.Insurance Services**

Insurance is a contract where by the insurer e. insurance company agrees/ undertakes, in consideration of a sum of money (premium) to make good the loss suffered by the insured (policy holder) against a specified risk such as fire or compensate the beneficiaries (insured) on the happening of a specified event such as accident or death. The document containing the terms of contract, in black and white, between the insurer and the insured is called policy. The property which is insured is the subject matter of insurance. The interest which the insured has in the subject matter of insurance is known as insurable interest. Depending upon the subject matter, insurance services are divided into (i) life (ii) general.

**6.Factoring**

Factoring, as a fund based financial service provides resources to finance receivables as well as it facilitates the collection of receivables. It is another method of raising short - term finance through account receivable credit offered by commercial banks and factors.
A commercial bank may provide finance by discounting the bills or invoices of its customers. Thus, a firm gets immediate payment for sales made on credit.
A factor is a financial institution which offers services relating to management and financing of debts arising out of credit sales.

- **Fess Based/Non-fund based/advisoryServices.**

These services are provided by financial intermediaries on non-fund basis and are called *fees-based* services. Non-fund bases activities are specialized services offered by financial institutions to customers in exchange for fees, commission, dividend and brokerage. This comprises of services such as Portfolio management, issue management, stock broking, merchant banking, credit rating, debt and capital reconstructing, bank guarantee etc.

**FEE BASED ADVISORY SERVICES**

- **Merchant Banking**

Fee based advisory services includes all these financial services rendered by Merchant Bankers. Merchant bankers play an important role in the financial services Sector. The Industrial Credit and Investment Corporation of India (ICICI) was the first development finance institution to initiate such service in 1974. After mid - seventies, tremendous growth in the number of merchant bankingorganisations les taken place. These include banks financial institutions, non - banking financial companies (NBFCS), brokers and so on. financial Services provided by these organisations include loan syndication portfolio management, corporate counselling project counselling debenture trusteeship, mergers acquisitions.

- **Credit Rating**

Credit rating is the opinion of the rating agency on the relative ability and willingness of the issuer of debt instrument to meet the debt service obligations as and when they arise. As a fee based financial advisory service, credit rating useful to investors, corporates (borrowers), banks and financial institutions. For the investors, it is an indicator expressing the underlying credit quality of a (debt) issue programme. The investor is fully formed about the company as any effect of changes in business/ economic conditions on the agency company is evaluated and published regularly by the rating agency.

- **Stock – Broking**

Prior to the setting up of SEBI, stock exchanges were being supervised by the Ministry of Finance under the Securities Contracts Regulation Act (SCRA) and were operating more or less self-regulatory organisations.
The need to reform stock exchanges was felt, when malpractices crept into Trading and in order to protect investor's interests, SEBI was set up to ensure that stock exchange perform their self - regulatory role properly. Since then, stock broking has emerged as a professional advisory service Stockbroker is a member of a recognised stock exchange who buys, sells or deals in shares/ securities. It is mandatory for each stockbroker to get him/ herself registered with SEBI order to act as a broker. SEBI is empowered to impose conditions while granting the certificate of registration

**2.Modern Activities**

Financial intermediaries beside the traditional services offers a wide range of financial services at present. These activities are mostly in the category of non-fund based activities.

**Few of the modern activities are listed below: –**

- Merger and acquisition planning and helping with their smooth carry out.
- Providing guidance in capital reconstructing to corporate customers.
- Assisting in rehabilitation and reconstruction of sick companies.

- Portfolio management of large public sector corporations.
- Providing recommendations in management style and structure for attaining better results.
- Acting as trustees to the debentures-holders.
- Providing project advisory services ranging from project preparation to capital raising.