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Market Development towards Indian Financial Institution

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ABSTRACT: The financial system plays an important role in the economic development of a country. A wealth of economic literature shows that a well-functioning financial system improves economic efficiency, investment, and growth. This paper utilizes various proxies of financial development to provide a snapshot of the evolution of the Indian financial system and its progress and performance. It also attempts to explore the relationship between financial development and growth in the Indian context. On the one hand, financial market developments have enhanced resilience and improved domestic financial stability by providing new tools for funding and risk management. On the other hand, external vulnerabilities are increasing due to the high participation rate of foreigners in the local currency government bond market, the increase in foreign currency denominated debt of the private sector, and the growing role of non-bank financial institutions.

KEYWORDS: Financial Market Development, Financial Stability Risks, Capital Markets.

I. INTRODUCTION

The economic development of any Country depends upon the existence of a well-organized financial system. When the system functions properly, it channelizes funds from savers to investors. By increasing productivity, the financial system helps super economic growth and raise the standard of living. The financial system is possibly the most important institutional and functional vehicle for economic transformation.

Finance is a bridge between the present and the future and whether it is mobilization of savings or their efficient, effective and equitable allocation for investment, it is the success with which the financial system performs its functions that sets the pace for the achievement of broader national objectives [1]. Financial system is a concept derived from the wide concept of finance. The financial system is a system that allows the transfer of money between savers and investors. It plays an important role in global, national, regional, institutional and individual areas. This states the healthy and soundness of financial status from global to individual.

Financial market development (FMD) has improved overall financial resilience in emerging market economies (EMEs) over the last two decades, according to many of the central bank contributions for this meeting. But FMD has also meant a greater role for market dynamics, bringing “new” risks to the fore, in particular as EMEs become increasingly integrated into the global financial system [2].

As markets have developed, the private non-financial sector has become more indebted. Corporate borrowing has been rising rapidly. And total credit to EME households has almost doubled over the past decade. In several Asian EMEs, household credit relative to GDP has now reached levels similar to, or even higher than, those in the United States and some other advanced economies (AEs).

Cross-border capital flows have long been a major driver of financial stability risks in EMEs. FMD over the past two decades has changed the currency composition of EMEs’ assets and liabilities as well as the investor universe. These changes have important implications for EMEs’ external vulnerabilities.

The following are the functions performed by the financial system of a nation. These are the aggregate functions performed by the sub classes of financial system viz. financial markets, financial institutions and financial services.

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1. Provision of Liquidity: The provision of liquidity is one of the primary functions of financial system. It states the ability of meeting the obligations as and when they are required. In other words, it states the ability of converting the assets into liquid cash without any loss.
2. Mobilization of savings: Savings are done by millions of people. But amount saved are of no use unless they are mobilized into financial assets, whether currency, bank deposits, post office savings deposits, life insurance policies, mutual funds bonds or equity shares. It is the function of financial institutions, a sub division of financial system to mobilize the savings from the saver or investment group.
3. Small Savings to big investment: Financial system acts as an intermediary in transforming the mobilized fund of savings to the big investments. It channelizes small savings fund received from the savings group to the industries to investments [3].
4. Maturity Transformation function: It is also one of the intermediary functions of financial system. The financial institutions receive the saving fund from the depositors for a particular tenure and lend the same fund to the required people on term basis.
5. Risk Transformation function: The financial system also does a function of risk transformation. The small savers are usually risk averse, who doesn't want to invest their small saving fund in the risky ventures. Hence the financial institutions take the responsibility of transforming their risk in investing their funds in profitable and safe venture by bearing the risk.
6. Payment function: The financial system offers a very convenient mode of payment for goods and services. The cheque system and credit card system are the easiest methods of payment in the economy. The cost and time of transactions are considerably reduced. The payment mechanism is now being increasingly made through electronic means [4].
7. Pooling of funds: A financial system provides a mechanism for pooling of funds to invest in large scale enterprises.
8. Monitor Corporate performance: A financial system not only helps in selecting the projects to be funded but also motivates the various stakeholders of the financial system to monitor the performance of the investment.
9. Provide price related information: Financial markets provide information which enables the investors to make an informed decision about whether to buy, sell or hold a financial asset. This information dissemination facilitates valuation of financial assets.
10. Information function: Financial markets disseminate information for enabling participants to develop informed opinion about investment, disinvestment, reinvestment or holding a particular asset.
11. Transfer function: A financial system provides a mechanism for the transfer of resources across geographic boundaries.
12. Reformatory function: A financial system, undertakes the functions of developing, introducing innovative financial assets/instruments. Services and practices and restructuring the existing assets, services etc., to cater to the emerging needs of borrowers and investors. I.e. financial engineering and reengineering.
13. Other functions: It assists in the selection of projects to be financed and also reviews performance of such projects periodically. It also promotes the process of capital formation by bringing together the supply of savings and the demand for investible funds [5].

II. SECTORS, STATES AND PURPOSES COVERED BY THE INDIAN FINANCIAL MARKET

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.

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The financial sector is a segment of the economy composed of companies and institutions that provide commercial and retail customers with financial services. A large portion of this sector produces mortgage and loan income, which increases the value as interest rates decline.

The economy's health is mainly dependent upon the efficiency of its financial sector. The better the economy is, the safer it is for the country. A weak financial sector typically means a declining economy.

The financial sector is equated with Dalal Street by many people and the exchanges that operate on it. However, the financial sector is one of the essential components of many developed economies. It's made up of brokers, financial institutions, and money markets—all of which provide the necessary services to help keep the Main Street going every day.

For an economy to remain stable, a healthy financial sector is required. This sector is advancing loans for businesses so they can expand, grant homeowners mortgages, and issue insurance policies to protect individuals, businesses, and their assets. It also helps to build up retirement savings, which supports millions of people.

The financial sector generates a good portion of its lending and mortgage income in a setting where interest rates go down. When the rates are low, the economic conditions open the doors for more spending and capital projects. If that happens, the financial sector gains, which means more economic growth.

The services that are provided to a person by the various Financial Institutions including banks, insurance companies, pensions, funds, etc. constitute the financial system.

Given below are the 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 form a link between the investor and the one saving
- It is also concerned with the Provision of funds

Banks are financial intermediaries who provide lenders with capital to generate revenue and accept deposits. They are strictly regulated as they provide market stability and consumer protection.

Banks include:

- Public banks
- Commercial banks
- Central banks
- Cooperative banks
- State-managed cooperative banks
- State-managed land development banks

Non-banking financial institutions are financial institutions, not banks, that facilitate financial services, such as investment, risk pooling, and market brokering. They generally don't have full banking licenses.

- Finance and loan companies
- Insurance companies
- Mutual funds
- Commodity traders

India has a variegated financial sector which is experiencing rapid expansion, both in terms of the healthy growth of existing financial services firms and new market entry entities. The industry comprises commercial banks, insurance companies, financial non-banks, cooperatives, pension funds, mutual funds, and other smaller financial institutions.

However, India's financial sector is predominantly a banking sector with commercial banks accounting for over 64 per cent of the financial system's total assets. India's government has introduced several reforms to liberalize, regulate, and enhance that industry.

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III. ORGANIZATIONAL SET-UP OF INDIAN FINANCIAL MARKET

Indian Financial System is a combination of financial institutions, financial markets, financial instruments and financial services to facilitate the transfer of funds. Financial system provides a payment mechanism for the exchange of goods and services. It is a link between saver and investor.

Components of Indian Financial System

There are four main components of the Indian Financial System. This includes:

- Financial Institutions
- Financial Assets
- Financial Services
- Financial Markets

Let's discuss each component of the system in detail.

1. Financial Institutions

The Financial Institutions act as a mediator between the investor and the borrower. The investor's savings are mobilised either directly or indirectly via the Financial Markets.

2. Financial Assets

The products which are traded in the Financial Markets are called Financial Assets. Based on the different requirements and needs of the credit seeker, the securities in the market also differ from each other.

3. Financial Services

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.

4. Financial Markets

The marketplace where buyers and sellers interact with each other and participate in the trading of money, bonds, shares and other assets is called a financial market.

IV. INDIAN CAPITAL MARKET

Capital markets provide support to capitalism in a country. The two regulators of capital markets in India are the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI). As the Indian economy is growing and it has a good share of the world economy, Indian capital markets are of interest to investors from around the globe.

Capital markets are of two types, namely – primary capital market and secondary capital market. In the primary capital markets, governments, or public sector organizations can raise funds through the issue of bonds. Corporate sector firms can raise funds through an initial public offering (IPO) in primary markets. Therefore, in a primary market, shares are directly bought by parties. The process of selling new shares is called underwriting.

The bonds, securities, and shares are bought and sold in the secondary capital markets. Examples of secondary markets include the Bombay Stock Exchange (BSE), and National Stock Exchange (NSE). In these markets, using real-time technology, the shares, bonds, etc., are sold and bought by parties or people.

Funds Raisers

The companies that raise funds from both public and private resources (both foreign and domestic) are called fund raisers.

Fund Providers

Fund Providers invest funds in the capital markets. These entities can be classified as domestic and foreign investors and institutional and retail investors. The list of fund providers includes subscribers to primary market issues, the institutional and individual investors who buy shares and other securities in the secondary market, traders, FIIs/ sub-accounts, speculators, mutual funds, ADR/GDR investors, venture capital funds, NRIs, etc.

Intermediaries

Intermediaries provide various services in the market.

The list of intermediaries includes -

- stock brokers
- sub-brokers
- merchant bankers
- financiers
- underwriters
- registrar and transfer agents
- depository participants
- FIIs/ sub-accounts
- venture capital funds
- mutual funds
- portfolio managers
- Custodians, etc.

Organizations

Organizations that participate in capital markets include various entities such as MCX-SX, BSE, NSE, other regional stock exchanges, etc.

Apart from these the two depositories, Central Securities Depository Limited (CSDL) and National Securities Depository Limited (NSDL) are also organizations related to capital markets.

Market Regulators

Market Regulators include the Department of Company Affairs (DCA), the Securities and Exchange Board of India (SEBI), and the Reserve Bank of India (RBI).

V.CONCLUSION

This paper has examined context between India's financial sector and economic growth. It highlights the important role of financial sector on growth outcomes. The financial system is the main part of running the economy smoothly. Financial system provides the flow of finance in the economy. Which leads to the development of the country financial system show the strength of the country.

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