29

Role of Financial Institutions in India

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Introduction

A financial system consists of financial institution, financial market and financial instrument. The mix of financial institutions, financial market financial instrument called it financial structure. Commercial Bank, Development financial institutions, Mutual funds, Insurance company, Investment companies, and Stock exchange s are part of the formal financial system, which is India regulated by the securities and exchange board of India and the Reserve bank of India. Commercial Bank, which is also include foreign bank and private bank are the predominant segment. Co-operative banks, which are organized on the UNIT banking principle, are mainly rural based although there are urban co-operative banks also operative in urban areas. Additionally NBIFS, government owned post office also mobilizes deposits, but they do not undertake landing activity. Besides, there is an extensive network of all India and state development banks catering to agriculture, industry, housing and exports. Also there exicts several financial institutions like UTI, LIC, GIC and its subsidiaries mutual fund, investment and loan companies and equipment leasing and hire purchase companies, that are engaged in mobilizing resources and providing financial services in medium as well as long term investment. The National Bank for Agriculture and Rural Development (NABARD), the Industrial Bank of India (IDBI), Export-Import Bank (EXIM) and the National Housing Bank (NHB) has been established to serve as apex banks in their specific area of responsibilities and concern. The four important term-lending institution namely IDBI (Which was converted in to commercial bank) ICICI (which was merge with ICICI Bank) IFCI (which has ceased operation) and IRBI dominate the term –landing market and provide medium and long term – financial assistance to corporate sector. In this paper I focus importance and needs of financial institution and market, Role of financial Institution and Financial Market.

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Importance and Needs of Financial Institutions in India

Indian Financial System is dynamic system. It is important to consider its role in the economic development of the country, has received very good momentum. By mid-2008, when it was shut down of banks in countries, such as the US considered when pursuing global streak. Today has seen increased several times day by day co-operative banks, private banks, and public sector bank is a sign of progress in financial system. Compare with develop countries, our country industrial sector, trade commercial sector and agriculture sector, which manage the financial native in India. Much progress has given rise to a variety of industrial organization such as a financial institutions like IDBI ,IFCI, ICICI , IRBI, STCI, LIC, GIC, SCICI, HUDCO, NHB, as well as state level institution work. R.R.B., Land Development Bank, NABARD, Co-operative Bank is also working constantly to have the path of progress.

The financial system is a barometer of economic development, its sophistication being adjusted by the number of financial institutions, the depth of the various financial instruments, the degree of freedom accorded to market participants, the type of financial services, their availability, their quality and cost. Countries with stable well developed economics. They are characterized by not just a strong banking system but an equally vigorous non-banking system. The innovativeness of financial system is judged by financial engineering a process that generates new product and new service that re-price risk. It is no wonder then that the financial system is so important to the efficient functioning of an economy.

Some important points are follows:

- It accelerates the rate and volume of saving provision of various financial instruments.
- It helps economic development and raising the standard of living the people.
- It helps to promote the development of weaker section of the society through rural development banks and co-operative societies.
- It protects the interest of investors and ensures smooth financial transaction through regularity bodies such as RBI, SEBI etc.
- It helps corporate customer to make better financial decision by providing effective financial as well as advisory service.

Types of Financial Institutions and Its Role

Financial institution is those organizations that are involved in providing various types of financial services to their customers. The financial institutions are controlled and supervised by the rules and regulations delineated by the government authorities. The financial institutions of India play a major role in the economy of the country. Financial institution in India has been incorporated for a definite purpose. These institutions include the Reserve Bank of India, Commercial bank, Investment Bank, Insurance Companies, Management Investment companies, IDBI, IFCI, SIDBI, NABARD, ICICI. A financial institution is an establishment that conducts financial transaction such as an investments loan and deposits. Almost everyone deals with financial institutions on a regular basis. Everything from depositing money to taking out loans and exchanging currencies must be done through financial institutions.

Reserve Bank of India

The Reserve bank of India is the nerve centre of the monetary system of the country. It is the central bank of the country and it started operating since 1st April 1935, subsequent to the RBI Act in 1934 under private shareholders institutions. The Reserve Bank of India is empowered to control, regulate guide and supervise the financial system of the country through its monetary and credit policy. The RBI has served function of perform. Traditionally, it is the banker's bank and banker to state and central governments. It is also a banker to the commercial bank , state co-operative bank and financial institutions of the country. It is the only bank engaged in the issue of legal tender currency. The RBI has also played a role in the country agriculture sector. It is conducted and All India Rural Credit Review in1968 to study the problems of rural credit. It provides agriculture credit through state Co-operative banks to Co-operative banks for short-term purpose for marketing of crops.

Commercial Banks

Commercial bank accepts deposit and provides security and convenience to their customers. Part of the original purpose of banks was to offer customer safe keeping for their money. By keeping physical cash at home or in a wallet, there are risks of loss due to theft and accident, not to mention the loss of possible income from interest. With banks, consumers no longer need to keep large amounts of currency on hand; transaction can be handled with checks, debits cards on credit cards, instead. Commercial banks also make loans that individuals and business use to buy goods or expand business operation, which in turn leads to more deposited funds that make their way to banks. If banks can lend money at a higher interest rate than they have to pay for funds and operating costs, they make money.

Investment Banks

An investment banks typically a private company that provides various financial related and other services to individuals. Corporation and government, such as raising financial capital by underwriting or acting as the client's agent in the issuance of securities. An investment bank may also ass its companies involved in mergers and acquisitions and provide ancillary service such as a market making, trading of derivatives and equity securities and FICC service. (Fixed income instrument, currency and commodities). The two main line of business in investment banking are called the sell side and buy side. The sell side trading securities for cash or for the other securities. The buy side involved the provision of advice to institutions that buy investment service.

Insurance Companies

The insurance company offer protection against losses. They deal in life insurance, marine insurance, and vehicle insurance and so on. The insurance company collects the little saving of the investors and then reinvests those saving in the market. The insurance companies foreign insurance companies after the liberalization process. This step has been incorporated to expand the Indian insurance market and make it competitive.

Industrial Bank of India

IDBI was established in 1964. IDBI was a wholly owned subsidiary of RBI up to February 1976 and was made on autonomous corporation fully owned by the government of India. The IDBI is the apex institutions and providing financial assistance on consortium basis the major function co-ordination between the various institutions is looked after by the bank. It also provides refinance facility to the eligible financial institutions including term loans. IDBI finance new project / expansions/ diversification/ modernization of project. It provides refinance facility to the primary lending institutions i.e. SFC/SIICS/ SIDC/ Commercial bank etc.

Small Industrial Development Bank of India

SIDBI has been set by the government of india with his headquarters in Lucknow. Utter Pradesh. As the principle financial institutions for promotion, financing and development of industries in the small scale sector and to coordinate function of the institutions engaged in similar activities.

Industrial Finance Corporation of India

IFCI was established 1stJuly 1948, as the first financial institution in country to cater to the long term finance need of the industrial sector. The newly established DFI was provided access to low – cost funds through the centre bank SLR which is turn enable to provide loan and advance to corporate borrowers at concessional rates. IFCI remain solely responsible for implementation of the government industrial policy initiatives. It contributes to the modernization of Indian industry, export promotion, import substitution, entrepreneurship development.

National Bank for Agriculture & Development Bank of India

NABARD is established as a development Bank, in term of the Preamble of the act for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicraft and other rural craft and other allied economy activities in rural areas with a a view to promoting integrating rural development and securing prosperity of rural areas fund for matters connected therewith or incidental there to.

ICICI Bank

ICICI Bank was originally promoted in 1994 by ICICI Limited, an financial institution, and was it wholly owned subsidiary. ICICI Banks in India second largest bank. ICICI bank offer a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized and affiliates in the areas of investment banking., life and non-life insurance, venture capital ,assets management and information technology.

Role of Financial Market in India

Financial markets play important role financial resources for long and short term investment through financial intermediation. The existence of money market facilitate trading in short- term debt instrument to meet short-term needs of large users of fund such as a government, banks and such similar institutions. Financial markets well functioning in very crucial for the promotion of global financial integration. A financial market is a broad term describing any markets place where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial Markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees, and market forces determining the prices of securities that trade. Financial markets can be found in nearly every nation in the world.

Capital Markets

A capital Market is one in which individual's institutions trade financial securities. Organizations and institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. Thus, this type of market is composed of both the primary and secondary markets. Any government or corporation requires capital (funds) to finance its operations and to engage in its own long term investment. To do this, a company raises money through the sale securities stocks and bonds in the company's name. These are bought and sold in the capital markets.

Stock Market

Stock markets allow investors to buy and sell shares in publicly traded companies. They are one of the most vital areas of a markets economy as they provide companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance. This market can be split into two main sections: the primary market and the secondary market. The primary market is where new issues are first offered, with any subsequent trading going on in the secondary market.

Money Market

The money market is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year, Money market securities consist of negotiable certificates of deposit (CDs), banker's acceptances, U.S. Treasury bills, commercial paper, municipal notes, Eurodollars, federal funds and repurchase agreements (repos). Money market investments are also called case investment because of their short maturities.

Derivatives Markets

The derivative is named so for a reason: its value is derived from its underlying asset or assets. A derivative is a contract, but in this case the contract price is determined by the market price of the core asset. If that sounds complicated, it's because it is. The derivatives market adds yet another layer of complexity and is therefore not ideal for inexperienced traders looking to speculate. However, it can be used quite effectively as part of a risk management program. Examples of common derivatives are forwards, futures, options, swaps and contracts – for – difference (CFDs). Not only are these instruments complex but so too are the strategies deployed by this market's participants.

Primary Markets

A primary markets issues new securities on a exchange. Companies, governments and other groups obtain financing through debt or equity based securities. Primary markets, also known as "new issue markets" are facilitated by underwriting groups, which consist of investment banks that will set a beginning price range for a given security and then oversee its sale directly to investors.

Secondary Markets

The secondary market is where bulk of exchange trading occurs each day. Primary markets can see increased volatility over secondary markets because it is difficult to accurately gauge investor demand for a new security until several days of trading have occurred. In the primary market, prices are often set beforehand, whereas in the secondary market only basic forces like supply and demand determine the price of the security.

Forex and the Interbank Market

The interbank market is the financial system and trading of currencies among banks and financial institutions, excluding retail investors and smaller trading parties. While some interbank trading is performed by banks on behalf of large customers, most interbank trading takes place from the bank's own accounts. The forex market is where currencies are traded. The forex market is the largest, most liquid market in the world with an average traded value that exceeds $1.9 trillion per day and includes all of the currencies in the world.

Conclusion

Today has seen increased several times day by day co-operative banks, private banks, and public sector bank is a sign of progress in financial system. Compare with develop countries, our country industrial sector, trade commercial sector and agriculture sector, which manage the financial native in India. Much progress has given rise to a variety of industrial organization such as a financial institutions like IDBI, IFCI, ICICI, IRBI, STCI, LIC, GIC, SCICI, HUDCO, NHB, as well as state level institution work. R.R.B., Land Development Bank, NABARD, Co-operative Bank is also working constantly to have the path of progress. The innovativeness of financial system is judged by financial engineering a process that generates new product and new service that re-price risk. It is no wonder then that the financial system is so important to the efficient functioning of an economy.

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