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Indian Financial system: At a Glance

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Abstract: ***Financial system occupies an important place in Indian Economy as one of the industries. It outperforms certain essential functions for the economy including managing of payment system, collection & allocation of the savings of society and creation of a variety of stores of wealth to suit the preferences of savers. Finance is the flowing blood in the body of financial system in any country. It bridges gap between the saving & investments by providing the mechanism through which savings of savers are pooled and are put into the hands of those able & willing to invest by financial agencies. Hence, the role of financial system is to promote savings and their channalisation in the economy through financial assets that are more productive than the physical assets. Therefore, the workings of financial system are vital to pace and sustainable growth of the economy. Financial system plays a momentous role in access the rate of economic development, which is to improving general standard of living & higher social welfare in the country.***

Keywords: Financial System, Economy, Wealth, Saving, Assets, Economic

I. INTRODUCTION

The financial sector of India is diversified and expanding rapidly. It consists commercial banks, insurance companies, nonbanking financial companies, cooperatives, pension funds, mutual funds and other smaller financial intermediaries. In our country bank is one of the dominated financial sector and commercial banks account for over 60% of the total assets of the financial system followed by the Insurance companies. Apart from these other bank intermediaries include regional rural banks and cooperative banks that target under serviced rural, sub-urban and urban populations. In finance, the meaning of financial system is the system that allows the movement of money between savers and borrowers. It comprises a set of complex and closely interconnected financial institutions, intermediaries markets, instruments, services, practices, and transactions. Financial systems are essential to the allocation of resources in a dynamic economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions are common to the financial systems of most developed economies. Yet the form of these financial systems varies drastically.

II. FINANCIAL SYSTEM- A REGULATORY FRAMEWORK

The regulation and supervision of the financial system in India is done by several regulatory authorities. The Reserve Bank of India (RBI) regulates and supervises the major part of the financial system in India. The supervisory role of the RBI covers commercial banks, urban cooperative banks (UCBs), Regional Rural Bank, Private Banks, some financial institutions and non-banking finance companies (NBFCs). Some of the financial institutions are regulatee or supervised other institutions in the financial sector, for example, Regional Rural Banks and the Co- perative banks are regulated or supervised by National Bank for Agriculture and Rural Development (NABARD); and housing finance companies by National Housing Bank (NHB). Department of Company Affairs (DCA), Government of India regulates deposit taking activities of corporate, other than NBFCS registered under companies Act, but not those which are under separate statutes. The Registrar of Cooperatives of different states in the case of single state cooperatives and the Central Government in the case of multistate cooperatives are joint regulators, with the RBI for UCBs, and with NABARD for rural cooperatives. Whereas RBI and NABARD are concerned with the banking functions of the cooperatives, management control rests with the State/ Central Government. The capital market, mutual funds, and other capital market intermediaries are regulated by Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) regulates the insurance sector; and the Pension Funds Regulatory and Development Authority (PFRDA) regulates the pension funds in India.

III. FINANCIAL SYSTEM- LEGISLATIVE STRUCTURE

The current background of financial law is not much satisfactory in certain respects. Today, India has over 60 Acts and multiple rules/ regulations that govern the financial sector in the country. Many laws from the 1950s and the 1960s have an emphasis on restricting certain financial activity, rather than on establishing regulatory structure for it. The origins of many of the Acts, rules, regulations that govern the financial sector in India can be traced back more than half a century in some cases. The RBI Act and the Insurance Act were enacted in 1934 and 1938 respectively and the Securities Contracts Regulation Act, which governs securities transactions, was legislated in 1956 when the financial landscape was very different from that seen today. For instance, the banking regulations, they were established before evolution of ATMs, credit cards, internet banking, investment advisory services, private banking, selling mutual funds and debt products, direct selling agents, vehicle loans, derivatives and a whole lot of other new products and services existed. These Acts have been amended time to time and again to keep pace with a changing reality but its legal foundations remained more or less inflexible.

IV. FINANCIAL SYSTEM – AN ECONOMIC REFORMS

The role of the financial system in India, until the early 1990s, was primarily restricted to the function of channeling resources from the surplus to deficit sectors. Whereas the financial system performed this role practically well, its operations came to be marked by some serious deficiencies over the years. The banking sector suffered from lack of competition, low capital, low productivity and high intermediation cost, and high NPAs. After the nationalization of large banks in 1969 and 1980, public ownership dominated the banking sector in the country. The role of technology was minimal and the quality of service was not given enough importance. Banks also did not follow proper risk management system and the prudential standards were weak. All these resulted in poor asset quality and low profitability of the financial sector.

FINANCIAL MARKETS:

Financial markets are an important component of the financial system in India. They are a mechanism for the exchange trading of financial products under a policy framework. The participants in the financial markets are the borrowers i.e. issuers of securities, lenders i.e. buyers of securities, and financial intermediaries. Financial markets comprise two different types of markets;

Money Market:

It is a market for short-term debt instruments which has maturity period less than one year. It is a highly liquid market wherein securities are bought and sold in large denominations to minimise transaction costs. Call money market, certificates of deposit, commercial paper, and treasury bills are the major instruments of the money market. it serves as an equilibrating force that redistributes cash balances in accordance with the liquidity needs of the participants; this forms a basis for the management of liquidity and money in the economy by monetary authorities; and it also provides reasonable access to the users of short-term money for meeting their requirements at realistic prices.

Capital Market:

Capital Market is a market for long-term securities (equity and debt). The purpose of capital market is to mobilise long-term savings to finance long-term investments.
The functions perform by capital market are as follows;

1. It provides risk capital in the form of equity or quasi-equity to entrepreneurs;
2. It encourages broader ownership of productive assets;
3. It provides liquidity with a mechanism enabling the investor to sell financial assets;
4. It lowers the costs of transactions and information; and
5. It also improves the efficiency of capital allocation through a competitive pricing mechanism.

V. FINANCIAL SECTOR-CHALLENGES

Today the Indian financial sector is not free from challenges. It faces several challenges as discuss below;

Lack of expert and qualified personnel:

The financial services sector is fully geared to the taste of “Financial Creativity” However, this sector has to face many challenges, in fact the dearth, of qualifies and trained personnel is an important implement in its growth. Hence, it is very vital that a proper and comprehensive training must be given to the various financial intermidateres.

Lack of awareness among investors:

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The introduction of new financial products and instruments will be of no use unless the investor is aware of the advantages and uses of the new and innovative products & instruments. Hence, the financial intermidateres should educate the prospective users or investors of the advantages of the instruments through literature, seminars, workshops etc.

Lacks of transparency:

The whole financial system is undergoing a phenomenal (change in accordance) with the recruitments of the national and global environments. Hence, this section should opt for better level of transparency.

Lack of specialization:

In the Indian Scenario, each intermediary seems to deal in different financial service lines without specializing in one or two areas only. This helps them to achieve high levels of efficiency and excellence.

Lack of updated market data:

Most of the intermediaries do not spend more on research. It is very vital that one should build up a proper database on the basis of which one could embark upon "Financial creativity". Moreover, a proper database would keep oneself aware of the recent development in other parts of the whole world & above all. It would enable the fund managers to take sound judicial decisions.

VI. Financial System-Economic Outcomes

The financial system of India is multi-dimensional and its segments vary widely in terms of financial depth, access, efficiency, and stability. A vibrant, dynamic, and well- Events at FTKMC functioning financial market leads to a host of improved economic outcomes through various channels, such as mobilization of savings, allocation of assets or capital to productive uses, easy facilitation of transactions, and risk management among others financial instruments. In general, the financial depth defined as the extent to which an economy is making use of financial services and it is associated with higher rates of economic growth of the country.

VII. Conclusion

The Indian financial sector is diversified and expanding rapidly. It is also multi-dimensional and its segments vary widely in terms of financial depth, access, efficiency, and stability. It comprises commercial banks, credit institutions, insurance companies, pension funds and mutual funds. Commercial banks are the largest group, comprising about 60 percent of total financial assets. Financial system plays a momentous role in access the rate of economic development, which is to improving general standard of living & higher social welfare in the country.

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