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Shilpa Goyal

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RESEARCH ARTICLE

INDIAN FINANCIAL SYSTEM

Shilpa Goyal

Commerce at Swami Ganga Giri Janta Girls College , Raikot

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ABSTRACT

Growth and development of a country depends on its successful sector and finance is the basic need for efficient and smooth running of a business. Finance is required to meet its regular operations as well as for long term security. So financial system of a country should be strong. A sound financial system ensures the financial stability in the country. This paper of mine throws light on the structure of Indian Financial System.

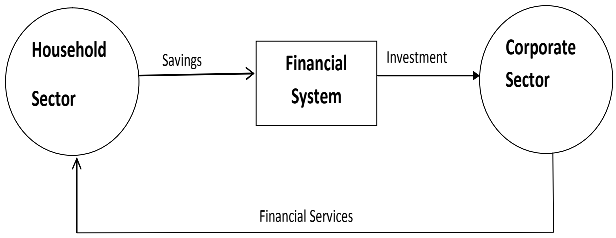
INTRODUCTION

Financial environment plays an important role in functioning and growth of an economy.A sound and fair financial environment is mandatory for the growth and success of business and industry of an economy.Finance bridges the gap between present and future. Financial system is a set of complex and closely related institutions that mobilise savings from the savers and transforms them into investments. A sound financial system is an important element to achieve national objectives.

Financial System

Financial system is well-knit structure of integrated, organised and regulated financial institutions, financial markets, financial instruments, financial services, practices and procedures. Financial system fulfils the short term and long term needs of household sector as well as corporate sector. It provides a mechanism that mobilise surplus funds from the savers and allocate them in productive activities. The financial system deals with all types of finance- agriculture, industrial and finance for government sector. It is concerned with borrowing and lending of funds of all the individuals, institutions, companies and the government. It provides all the relevant information to all the players of market. Government of India has been taking several regulatory measures to improve the financial system in the country and to insure operational autonomy.

Corresponding author: **Shilpa Goyal**
Commerce at Swami Ganga Giri Janta Girls College , Raikot



Research Methodology: The data has been collected from secondary sources.

Objective of the study

1. To have knowledge about the components of Indian FINANCIAL System.
2. To have knowledge about the reforms in Indian Financial Sector.

LITERATURE REVIEW

McKinsey Global Institute

MGI found that Indian banks amounted to just 61 per cent of deposits, a much smaller fraction than banks in other countries, suggesting that they could play a far greater role in driving growth. McKinsey Global Institute found India's financial system today attracts fewer saving from households than it could. Indian households save 28% of their disposable income, a very high rate by global standards. But they invest only half their savings in financial assets.

***IMF's recent quarterly bulletin on* Growth & Structural reforms:**

As the recovery from the financial crisis firms up, many country authorities will turn their focus from short-term stabilization policies to more structural policies to spur long-term potential growth.

Minister of State for Finance Jayant Sinha (Feb 27, 2015)

"Our aim is to bring 21st century financial system to every household in the country. For this we have taken a number of steps that includes granting licence to small banks, appointing banking mitre etc."

IMF chief Christine Lagarde (*May 6, 2015)*

Nearly two billion people globally do not have bank accounts including those in the US ruing that financial systems around the world despite being sizable exclude many individuals from financial services.

Components of Financial System

Financial system is concerned with borrowings and lending of funds it maintains balance between demand for and supply of funds. The constituents of financial system are

1. Financial Markets
2. Financial Institutions
3. Financial Instruments
4. Financial Services

Organised and unorganised financial markets deal in trade of financial securities and commodities. Financial institution performs s an intermediary between the borrowers the lenders. Financial instruments are the documents having monetary value that binds the two parties. The services that are provided by the financial institutions are the financial services.

Financial Market

It refers to the markets where borrowing and lending happens. People who trade here deal in securities including stock and bonds and precious metals too. The financial market consists of:

Capital Market- (a) Primary Market (b) Secondary Market
Money Market- (a) Organised Market (b) Unorganised Market
Foreign Exchange Market: (a) RBI (b) Authorised Dealers (c) Money Changers (d) Foreign Banks (e) Importers and Exporters
Government Securities: (a) Treasury Bills (b) Bonds

Capital Market

It deals in for borrowing and lending of long term securities. It makes finance available to the companies for their growth. It bridges the gap between savers and investors. The securities that are dealt here are of long term nature. Long term securities are those securities which has maturity period of more than five years. The capital market is classified into primary and secondary market.

Primary Market: Primary market is that market where purchase and sale of new issue securities is done. New securities are issued by companies to raise funds. Funds can be raised by issue of equity shares, debentures and bonds.

Secondary Market: Secondary market is that market where second hand securities are dealt with. Securities that are issued in primary market come to secondary market for further sale and purchase. It performs the function of transfer of securities.

Money Market

Money Market provides a platform to the lenders and borrowers to deal in lending and borrowing of short term monetary funds and securities. Short term securities are those securities which have maturity period of not more than one year for example treasury bills, commercial bills, certificate of deposits, commercial papers etc. Indian Money Market can be divided in two parts organised sector and unorganised sector. Reserve Bank of India, Commercial Banks, Public Sector Banks, and Private Sector Banks are the part of organised sector. These banks provide loan to individuals, other banks, corporate sector and to government. Unorganised sector consists of indigenous bankers, money lenders, chit funds, shahukars etc., In India in villages unorganised sectors is the main source of finance.

Foreign Exchange Markets

Foreign Exchange market is the market where currencies of different countries are traded. It consists Reserve Bank of India, authorised dealers, money changers etc. Foreign Exchange market is the most liquid market in the world.

Government Securities Market

Government securities are traded in this market. These are safe, secure and risk free securities. This market is also called Gilt-edged market. This market deals in long term securities while short term securities are traded in money market. Long term securities are those securities which have maturity period of more than five years like government bonds, having maturity period of ten years.

Financial Institutions

Financial Institutions act as middleman between borrower and lender. They mobilise surplus funds through financial instruments. They are the backbone of the Indian financial system. Needy avails finance from the financial institutions. These institutions also act as an advisory body for its customers. Various kinds of banking and non-banking financial companies mobilize funds for saving. RBI, Commercial Banks, Cooperative Banks, Development Banks, Agriculture Banks, Merchant Banks are the components of the banking institution.

Bank is an institution that accepts deposits from the public and lends it to the borrowers. RBI is the central bank of India. It regulates the whole banking system. This is also known as Bankers' Bank. Commercial banks perform the function of deposit and lending money. People deposit their money with bank from safety point of view and banks invest it in productive activities. Bank also act as an agent of its customers by performing agency functions on behalf of its customers. Besides it development banks (IDBI, IFCI etc.), agriculture banks, merchant banks also plays an important role to strengthen the financial system of India. A large number of non-banking financial companies are also operating in India. Chit Funds, Mutual Funds, Factoring Companies are the example of NBFCs. They are privately owned companies performing the function of accepting public deposits and making loans. But they provide an unsecured loan on high rate of interest. RBI supervises and regulates NBFCs.

Financial Instruments

Financial Instruments are the real or virtual documents that create contract between two parties. For example: when a seller sells goods to other party he issues a document- called receivable-the other party accepts to pay after a stipulated time generally of three monthsbecomes bills payable for him. This creates a legal binding on the payer party. Financial Instruments are the important component of the financial system. An another example when a company raises finance by issuing shares it becomes the borrower and the party that buys the equity shares becomes the investor. The financial instrument equity share becomes the financial asset for the other party. There are various kinds of financial instruments are available in India. Bonds, debentures, equity shares, derivatives, advance borrowings etc. are the financial instruments in Indian financial market.

Financial Services

Financial institution in the financial market provides various types of services to its customers like Mutual Funds, Venture Capital Funds, Factoring, Forfaiting, credit rating, Leasing etc. according to SEBI(Mutual Funds) Regulations, 1996 "mutual fund" means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments or real estate assets. In the 'Venture Capital' capital is invested in highly risky projects but opportunities of growth are very high.

In 'Factoring' financial institutions play the function of credit and collection on behalf of its customers. 'Forfaiting' is the recent origin in India. It is concerned with managing export receivables. 'Credit Rating' means to provide a rank to an institution to determine the credit attached to its investors. 'Leasing' means to transfer the right of use to another party for agreed period of time on rent basis.

Recent Reforms in Financial Sector

The Regional Rural Banks (Amendment) Bill, 2014: Rajya Sabha by voice vote on Apr 28, 2015, seeks to help Regional Rural Banks (RRBs) raise their authorised capital and will enable them to mop up funds from capital market to help strengthen them. A bill to amend the Regional Rural Banks Act was passed by Parliament, with government saying it was necessary to empower such financial institutions which are the "jewel in the crown" of the country's financial system.

Minister of State for Finance Jayant Sinha (Feb 27, 2015**):** "Our aim is to bring 21st century financial system to every household in the country. For this we have taken a number of steps that includes granting licence to small banks, appointing banking mitre etc."

CONCLUSION

After independence the Indian government is taking various reforms to improve the financial market of India as the sound financial market is essential for the growth of an economy. India's growth rate has changed from 6% to 7.5% in post-independence period. No doubt India is growing fast, but it will grow at faster speed with a strong financial system.

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