Indian Financial System

Country's economy cannot develop without banks. we can find aspect of the banking in our everyday life. Banking system of the country is lifeline of the economy of the country
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.

Indian Financial System – An Overview

The services that are provided to a person by the various Financial Institutions like 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 forms a link between the investor and the one saving
- It is also concerned with the Provision of funds

The financial system of a country mainly aims at managing and governing the mechanism of production, distribution, exchange and holding of financial assets or instruments of all kinds.

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

1. Financial Institutions

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

The main functions of the Financial Institutions are as follows:

- A short term liability can be converted into a long term investment
- It helps in conversion of a risky investment into a risk-free investment
- It Also acts as a medium of convenience denomination, which means, it can match a small deposit with large loans and a large deposit which small loans

The best example of a Financial Institution is Bank. People with surplus amounts of money make savings in their accounts and people in there need of money take loans. The bank acts as an intermediate between the two.

The financial institutions can further be divided into two types:

- **Banking Institutions or Depository Institutions –** This includes banks and other credit unions which collect money from the public against interest provided on the deposits made and lend that money to the ones in need
- **Non Banking Institutions or Non Depository Institutions –** Insurance, mutual funds and brokerage companies fall under this category. They cannot ask for monetary deposits but sell financial products to their customers.

Further, Financial Institutions can be classified into three categories:

- **Regulatory –** Institutes that regulate the financial markets like RBI, IRDA-insurance Regulatory and Development Authority, SEBI- Securities and Exchange Board of India, etc.
- **Intermediates –** Commercial banks which provide loans and other financial assistance such as SBI, BOB, PNB, etc.
- **Non Intermediates –** Institutions that provide financial aid to corporate customers. It includes NABARD, SIBDI, etc.

2. Financial Assets

The products which are traded in the Financial Markets are called the Financial Assets. Based on the different requirements and needs of the credit seeker, the securities in the market also differ from each other.
Some important Financial Assets have been discussed briefly below:

Call Money – When a loan is granted for one day and is repaid on the second day, it is called call money. No collateral securities are required for this kind of transaction.

Notice Money – When a loan is granted for more than a day and for less than 14 days, it is called notice money. No collateral securities are required for this kind of transaction.

Term Money – When the maturity period of a deposit is beyond 14 days, it is called term money.

Treasury Bills – Also known as T-Bills, These are Government bonds or debt securities with maturity of less than a year. Buying a T-Bill means lending money to the Government.
Certificate of Deposits – It is a dematerialised form (Electronically generated) for funds deposited in the bank for a specific period of time.

Commercial Paper – It is an unsecured short-term debt instrument issued by corporations

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.
The financial services in India include:

Banking Services – Any small or big service provided by banks like granting loan, depositing money, issuing debit/credit cards, opening accounts, etc.

Insurance Services – Services like issuing of insurance, selling policies, insurance undertaking and brokerages, etc. are all a part of the Insurance services

Investment Services – It mostly includes asset management

Foreign Exchange Services – Exchange of currency, foreign exchange, etc. are a part of the Foreign exchange services

The main aim of the financial services is to assist a person with selling, borrowing or purchasing securities, allowing payments and settlements and lending and investing.

4. Financial Markets

The marketplace where buyers and sellers interact with each other and participate in trading of money, bonds, shares and other assets is called a financial market.
The financial market can be further divided into four types:

Capital Market – Designed to finance the long term investment, the Capital market deals with transactions which are taking place in the market for over an year. The capital market can further be divided into three types:

(a) Corporate Securities Market
(b) Government Securities Market
(c) Long Term Loan Market

Money Market – Mostly dominated by Government, Banks and other Large Institutions, the type of market is authorised for small term investments only. It is a wholesale debt market which works on low-risk and highly liquid instruments. The money market can further be divided into two types:

(a) Organised Money Market
(b) Unorganised Money Market

Foreign exchange Market – One of the most developed markets across the world, the Foreign exchange market, deals with the requirements related to multi currency. The transfer of funds in this market takes place based on the foreign currency rate.

Credit Market – A market where short-term and long-term loans are granted to individuals or Organisations by various banks and Financial & Non-Financial Institutions is called Credit Market