INDIAN FINANCIAL SYSTEM

Unit 1 – FINANCIAL SYSTEM

Financial System: It is a set of all financial institution which facilitates financial transactions in financial markets. It brings under its fold the financial markets and the financial institution which support the system.

Functions of Financial System

The financial system of a country performs certain valuable functions for the economic growth of that country. The main functions of a financial system may be briefly discussed as below:

1. **Saving function:** An important function of a financial system is to mobilise savings and channelize them into productive activities. It is through financial system the savings are transformed into investments.

2. **Liquidity function**: The most important function of a financial system is to provide money and monetary assets for the production of goods and services. Monetary assets are those assets which can be converted into cash or money easily without loss of value. All activities in a financial system are related to liquidity-either provision of liquidity or trading in liquidity.

3. **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.

4. **Risk function**: The financial markets provide protection against life, health and income risks. These guarantees are accomplished through the sale of life,

Health insurance and property insurance policies.

5. **Information function:** A financial system makes available price-related information. This is a valuable help to those who need to take economic and financial decisions. Financial markets disseminate information for enabling participants to develop an informed opinion about investment, disinvestment, reinvestment or holding a particular asset.

6. **Transfer function:** A financial system provides a mechanism for the transfer of the resources across geographic boundaries.

7. **Reformatory functions:** A financial system undertaking the functions of developing, introducing innovative financial assets/instruments services and practices and restructuring the existing assts, services etc, to cater the emerging needs of borrowers and investors (financial engineering and re engineering).

8. 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.

Role and Importance of Financial System in Economic Development

1. It links the savers and investors. It helps in mobilizing and allocating the savings efficiently and effectively. It plays a crucial role in economic development through saving-investment process. This savings investment process is called capital formation.

2. It helps to monitor corporate performance.

3. It provides a mechanism for managing uncertainty and controlling risk.

4. It provides a mechanism for the transfer of resources across geographical boundaries.

5. It offers portfolio adjustment facilities (provided by financial markets and financial intermediaries).

6. It helps in lowering the transaction costs and increase returns. This will motivate people to save more.

7. It promotes the process of capital formation.

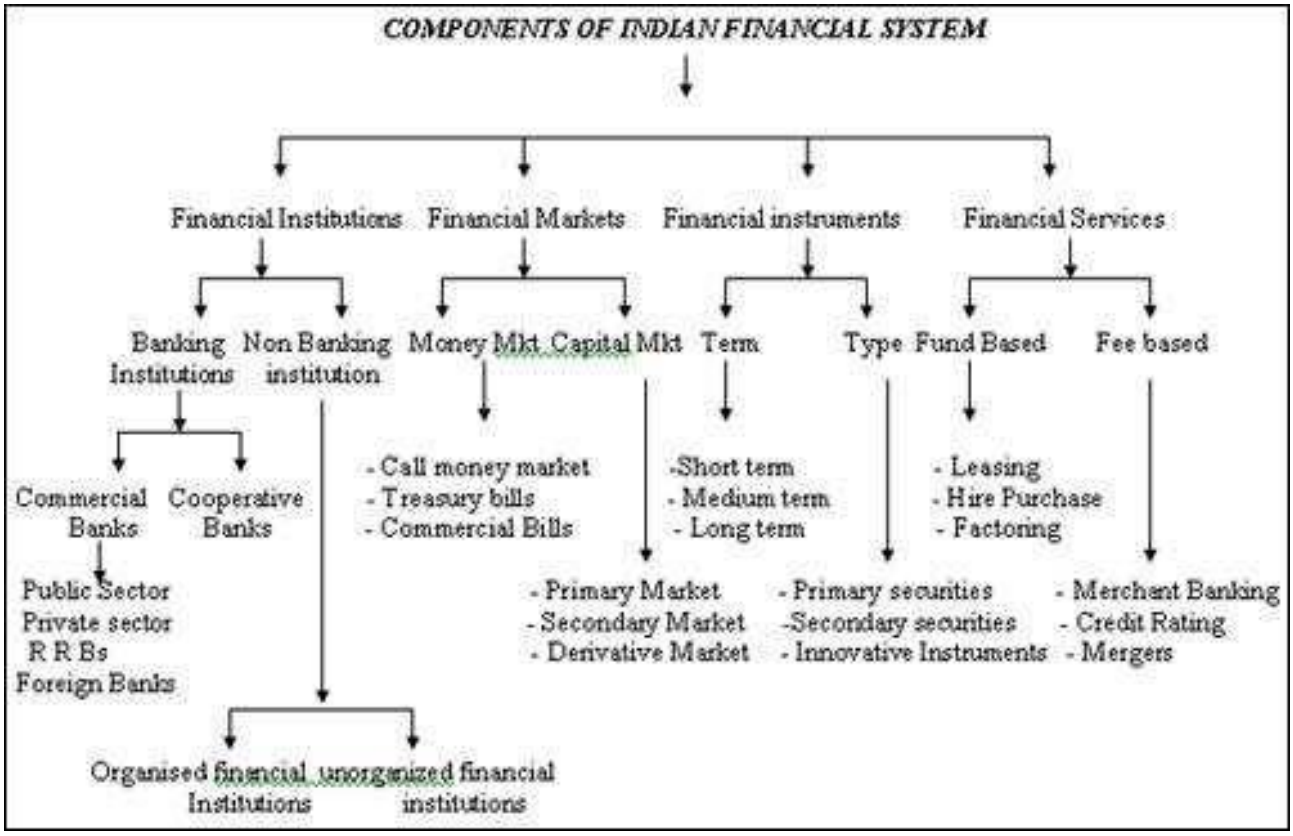
8. It helps in promoting the process of financial deepening and broadening. Financial deepening means increasing financial assets as a percentage of GDP and financial broadening means building an increasing number and variety of participants and instruments.

In short, a financial system contributes to the acceleration of economic development. It contributes to growth through technical progress.

Structure of Indian Financial System

Financial structure refers to shape, components and their order in the financial system. The Indian financial system can be broadly classified into formal (organised) financial system and the informal (unorganised) financial system. The formal financial system comprises of Ministry of Finance, RBI, SEBI and other regulatory bodies. The informal financial system consists of individual money lenders, groups of persons operating as funds or associations, partnership firms consisting of local brokers, pawn brokers, and non-banking financial intermediaries such as finance, investment and chit fund companies.

The formal financial system comprises financial institutions, financial markets, financial instruments and financial services. These constituents or components of Indian financial system may be briefly discussed as below:



Financial Institutions

Financial institutions are the participants in a financial market. They are business organizations dealing in financial resources. They collect resources by accepting deposits from individuals and institutions and lend them to trade, industry and others. They buy and sell financial instruments. They generate financial instruments as well. They deal in financial assets. They accept deposits, grant loans and invest in securities.

Financial institutions are the business organizations that act as mobilises of savings and as purveyors of credit or finance. This means financial institutions mobilise the savings of savers and give credit or finance to the investors. They also provide various financial services to the community. They deal in financial assets such as deposits, loans, securities and so on.

On the basis of the nature of activities, financial institutions may be classified as: (a) Regulatory and promotional institutions, (b) Banking institutions, and (c) Non-banking institutions.

1. Regulatory and Promotional Institutions:

Financial institutions, financial markets, financial instruments and financial services are all regulated by regulators like Ministry of Finance, the Company Law Board, RBI, SEBI, IRDA, Dept. of Economic Affairs, Department of Company Affairs etc. The two major Regulatory and Promotional Institutions in India are Reserve Bank of India (RBI) and Securities Exchange Board of India (SEBI). Both RBI and SEBI administer, legislate, supervise, monitor, control and discipline the entire financial system. RBI is the apex of all financial institutions in India. All financial institutions are under the control of RBI. The financial markets are under the control of SEBI. Both RBI and SEBI have laid down several policies, procedures and guidelines. These policies, procedures and guidelines are changed from time to time so as to set the financial system in the right direction.

2. Banking Institutions:

Banking institutions mobilise the savings of the people. They provide a mechanism for the smooth exchange of goods and services. They extend credit while lending money. They not only supply credit but also create credit. There are three basic categories of banking institutions. They are commercial banks, co-operative banks and developmental banks.

3. Non-banking Institutions:

The non-banking financial institutions also mobilize financial resources directly or indirectly from the people. They lend the financial resources mobilized. They lend funds but do not create credit. Companies like LIC, GIC, UTI, Development Financial Institutions, Organisation of Pension and Provident Funds etc. fall in this category. Non-banking financial institutions can be categorized as investment companies, housing companies, leasing companies, hire purchase companies, specialized financial institutions (EXIM Bank etc.) investment institutions, state level institutions etc. Financial institutions are financial intermediaries. They intermediate
between savers and investors.

II. Financial Markets

Financial markets are another part or component of financial system. Efficient financial markets are essential for speedy economic development. The vibrant financial market enhances the efficiency of capital formation.

Functions of Financial Markets:

The main functions of financial markets are outlined as below:

1. To facilitate creation and allocation of credit and liquidity.
2. To serve as intermediaries for mobilisation of savings.
3. To help in the process of balanced economic growth.
4. To provide financial convenience.
5. To provide information and facilitate transactions at low cost.
6. To cater to the various credits needs of the business organisations.

Financial Markets : Financial markets can be referred to those centers arrangements which facilitate buying and selling of financial assets, claims and services. Organized Market consists of:

1. **Capital market**
2. **Money market**

Capital Market: is a market for financial assets which have long or indefinite maturity, it generally deals with securities which have maturity period above a year. It is divided into 3 categories:

1. Industrial securities
2. Government securities
3. Long term securities

1. Industrial Securities: It is market for industrial securities namely equity shares, pref shares, debentures or bonds. It is a market where industries raise capital or debt by issuing appropriate instruments; it is divided into 2 types:

I. Primary or New issue Market
II. Secondary or Stock exchange1

I. Securities which are issued to the public for first time. In this market borrowers exchange or offer new financial securities for a long term funds, hence it is capital formation.

a) Public issue: Raising capital by new companies is through sale of securities to the public.

b) Rights issue: It is raised by existing co for additional capital to existing shareholders. c) Pvt Placements: It is a way of selling securities privately to a small group of investors.

1. Secondary market: It is a market for secondary sale of securities, such shares quoted in the stock exchange market. It provides continuous and regular market for buying and selling. It is also called as stock market.

Functions of Primary Market

1. Transfer of resources
2. Investigative services /Origination provide information based on market analysis.
3. Advisory services
4. Guarantee/Underwriting
5. Distribution
6. Aids in expansion/diversification/modernisation of existing units
7. Major players of primary market are merchant bankers, underwriting, brokers, advt agencies etc

Significance of Primary Markets

1. Provides Avenue for investment
2. Mobilization of savings
3. Channelizes savings for productive use
4. Source of large supply of funds
5. Enables rapid industrial growth
6. Source for expansions and up gradation.

Functions of Secondary market

1. Liquidity of securities as securities can be converted into cash readily
2. Marketability of securities as it facilitates buying and selling of securities.
3. Safety of funds belonging to investors

4. Availability of long term funds
5. Flow of funds to profitable projects.
6. Motivation for improved performance by companies to get competitive edge.
7. Promotion of investment opportunities.

8. Availability of business information.
9. Reflection of business cycle.
10. Promotes marketing of new issues by companies.

2. Govt. securities market: It is a market where Govt securities are traded. Govt securities have both long and short term securities. Long term is traded in stock exchange and short term in Money market. Securities are issued by central, State and Semi Govt Organization such as city corporation, Port trusts, State electricity board etc., they also carry the benefit of Tax exemption.
3. Long term Loans Market: Commercial banks and Development Banks play a significant role by supplying long term loans to corporate.
   a) Term loan
   market b)
   Mortgage Market
   c) Financial guarantee Market

Money Market: It is a market for dealing financial assets and securities which have a maturity period of up to one year. It is a market for short term funds.

a) Call money Market: it is a market for extremely short period of time like one day to fourteen days, it is highly liquid. They are associated with stock exchange and interest rates vary from day to day and even hour to hour.
b) Commercial Bills Market: It is a market for bills of exchange arising out of genuine trade transaction Where commercial bill is a draft accompanied by a bill of lading and which is drawn by a seller in one country against a buyer in another on account of goods sold by the latter, It is customary for the drawer of a commercial bill to make it payable to himself.
c) Treasury bill Market: It is a market for Treasury bill which has short term maturity.
   It is a promissory note or a finance bill issued by Government. It is highly liquid as its repayment is guaranteed.
d) Short term loan market: Short term loans are given to corporate customers.

Difference between Money market and Capital Market.

Money market	**Capital Market**
1) It is for period less than a year	Its period exceed s one year
2) It supplies funds for current requirement Business operations, working Capital requirements	It finances fixed capital of Trade and commerce
3) The instruments used in Money instruments Market are bills of exchange, Treasury Bills	This market deals with like shares, bonds etc

4) Each single Money Market is of Large amount e.g. TB of 1 lakh	Each single instrument is of a smaller value e.g., one equity share – Rs 10
5) Central and commercial banks are The major players in this market	Development banks and insurance cos are major players in this market

6) Money Market instruments do not Have secondary markets — Capital market instruments generally have secondary market

7) Transaction happens without broker — Transaction happens only through an Authorized dealer

Importance of Capital Markets

1. Productive use of economy's savings
2. Provides incentives for saving
3. Facilitates capital formation
4. Increases production and productivity
5. Stabilizes value of securities
6. Enables technological up gradation

Importance of Money Market

1. Development of Trade and Industry
2. Development of Capital market
3. Enables smooth functioning of commercial banks
4. Effective functioning of central bank
5. Formulation of suitable monetary policy
6. Non inflammatory source of Finance to government.

III. Financial Instruments (Securities)

Financial instruments are the financial assets, securities and claims. They may be viewed as financial assets and financial liabilities. *Financial assets represent claims for the payment of a sum of money sometime in the future (repayment of principal) and/or a periodic payment in the form of interest or dividend.* Financial liabilities are the counterparts of financial assets. They represent promise to pay some portion of prospective income and wealth to

others. Financial assets and liabilities arise from the basic process of financing. Some of the financial instruments are tradable/ transferable. Others are non tradable/non-transferable. Financial assets like deposits with banks, companies and post offices, insurance policies, NSCs, provident funds and pension funds are not tradable. Securities (included in financial assets) like equity shares and debentures, or government securities and bonds are tradable. Hence they are transferable. In short, financial instruments are instruments through which a company raises finance.

The financial instruments may be capital market instruments or money market instruments or hybrid instruments. The financial instruments that are used for raising capital through the capital market are known as capital market instruments. These include equity shares, preference shares, warrants, debentures and bonds. These securities have a maturity period of more than one year.

The financial instruments that are used for raising and supplying money in a short period not exceeding one year through money market are called money market instruments. Examples are treasury bills, commercial paper, call money, short notice money, certificates of deposits, commercial bills, money market mutual funds.

Hybrid instruments are those instruments which have both the features of equity and debenture. Examples are convertible debentures, warrants etc.

Financial instruments may also be classified as cash instruments and derivative instruments. Cash instruments are financial instruments whose value is determined directly by markets. Derivative instruments are financial instruments which derive their value from some other financial instrument or variable.

Financial instruments can also be classified into primary instruments and secondary instruments. Primary instruments are instruments that are directly issued by the ultimate investors to the ultimate savers. For example, shares and debentures directly issued to the public. Secondary instruments are issued by the financial intermediaries to the ultimate savers. For example, UTI and mutual funds issue securities in the form of units to the public.

Characteristics of Financial Instruments

The important characteristics of financial instruments may be outlined as below:

1. Liquidity: Financial instruments provide liquidity. These can be easily and quickly converted into cash.

2. Marketing: Financial instruments facilitate easy trading on the market. They have a ready market.

3. Collateral value: Financial instruments can be pledged for getting loans.

4. Transferability: Financial instruments can be easily transferred from person to person.

5. Maturity period: The maturity period of financial instruments may be short term, medium term or long term.

6. Transaction cost: Financial instruments involve buying and selling cost. The buying and selling costs are called transaction costs. These are lower.

7. Risk: Financial instruments carry risk. This is because there is uncertainty with regard to payment of principal or interest or dividend as the case may be.

8. Future trading: Financial instruments facilitate future trading so as to cover risks due to price fluctuations, interest rate fluctuations etc.

IV. Financial Services

The development of a sophisticated and matured financial system in the country, especially after the early nineties, led to the emergence of a new sector. This new sector is known as financial services sector. Its objective is to intermediate and facilitate financial transactions of individuals and institutional investors. The financial institutions and financial markets help the financial system through financial instruments. The financial services include all activities connected with the transformation of savings into investment. Important financial services include lease financing, hire purchase, instalment payment systems, merchant banking, factoring, forfaiting etc.

Growth and Development of Indian Financial System

At the time of independence in 1947, there was no strong financial institutional mechanism in the country. The industrial sector had no access to the savings of the community. The capital market was primitive and shy. The private and unorganised sector played an important role in the provision of liquidity. On the whole, there were chaos and confusions in the financial system.

After independence, the government adopted mixed economic system. A scheme of planned economic development was evolved in 1951 with a view to achieve the broad economic and social objective. The government started creating new financial institutions to supply finance both for agricultural and industrial development. It also progressively started nationalizing some important financial institutions so that the flow of finance might be in the right direction. The following developments took place in the Indian financial system:

1. Nationalisation of financial institutions: RBI, the leader of the financial system, was established as a private institution in 1935. It was nationalized in 1949. This was followed by the nationalisation of the Imperial bank of India. One of the important mile stone in the economic growth of India was the nationalisation of 245 life insurance Corporation in 1956. As a result, Life Insurance Corporation of India came into existence on 1st September, 1956. Another important development was the nationalisation of 14 major commercial banks in 1969. In 1980, 6 more banks were nationalized. Another landmark was the nationalisation of general insurance business and setting up of General Insurance Corporation in 1972.

2. **Establishment of Development Banks:** Another landmark in the history of development of Indian financial system is the establishment of new financial institutions to supply institutional credit to industries. In 1949, RBI undertook a detailed study to find out the need for specialized institutions. The first development bank was established in 1948. That was Industrial Finance Corporation of India (IFCI). In 1951, Parliament passed State Financial Corporation Act. Under this Act, State Governments could establish financial corporation s for their respective regions. The Industrial Credit and Investment Corporation of India (ICICI) were set up in 1955. It was supported by Government of India, World Bank etc. The UTI was established in 1964 as a public sector institution to collect the savings of the people and make them available for productive ventures. The Industrial Development Bank of India (IDBI) was established on 1st July 1964 as a wholly owned subsidiary of the RBI. On February 16, 1976, the IDBI was delinked from RBI. It became an independent financial institution. It co-ordinates the activities of all other financial institutions. In 1971, the IDBI and LIC jointly set up the Industrial Reconstruction Corporation of India with the main objective of reconstruction and rehabilitation of sick industrial undertakings. The IRCI was converted into a statutory corporation in March 1985 and renamed as Industrial Reconstruction Bank of India. Now its new name is Industrial Investment Bank of India (IIBI). In 1982, the Export-Import Bank of India (EXIM Bank) was set up to provide financial assistance to exporters and importers. On April 2, 1990 the Small Industries Development Bank of India (SIDBI) was set up as a wholly owned subsidiary of IDBI. The SIDBI has taken over the responsibility of administrating the Small Industries Development Fund and the National Equity Fund.

. **Establishment of Institution for Agricultural Development**: In 1963, the RBI set up the Agricultural Refinance and Development Corporation (ARDC) to provide refinance support to banks to finance major development projects, minor irrigation, farm mechanization, land development etc. In order to meet credit needs of agriculture and rural sector, National Bank for Agriculture and Rural Development (NABARD) was set up in 1982. The main objective of the establishment of NABARD is to extend short term, medium term and long term finance to agriculture and allied activities.

4. **Establishment of institution for housing finance**: The National Housing Bank (NHB) has been set up in July 1988 as an apex institution to mobilise resources for the housing sector and to promote housing finance institutions.

5. **Establishment of Stock Holding Corporation of India (SHCIL)**: In 1987, another institution, namely, Stock Holding Corporation of India Ltd. was set up to strengthen the stock and capital markets in India. Its main objective is to provide quick share transfer facilities, clearing services, support services etc. to investors.

6. **Establishment of mutual funds and venture capital institutions**: Mutual funds refer to the funds raised by financial service companies by pooling the savings of the public and investing them in a diversified portfolio. They provide investment avenues for small investors who cannot participate in the equities of big companies.

Venture capital is a long term risk capital to finance high technology projects. The IDBI venture capital fund was set up in 1986. The ICICI and the UTI have jointly set up the Technology Development and Information Company of India Ltd. in 1988 to provide venture capital.

7. **New Economic Policy of 1991:** Indian financial system has undergone massive changes since the announcement of new economic policy in 1991. Liberalisation, Privatisation and Globalisation has transformed Indian economy from closed to open economy. The corporate industrial sector also has undergone changes due to delicensing of industries, financial sector reforms, capital markets reforms, disinvestment in public sector undertakings etc.

Since 1990s, Government control over financial institutions has diluted in a phased manner. Public or development financial institutions have been converted into companies, allowing them to issue equity/bonds to the public. Government has allowed private sector to enter into banking and insurance sector. Foreign companies were also allowed to enter into insurance sector in India.

Weaknesses of Indian Financial System

Even though Indian financial system is more developed today, it suffers from certain weaknesses. These may be briefly stated below:

1. **Lack of co-ordination among financial institutions:** There are a large number of financial intermediaries. Most of the financial institutions are owned by the government. At the same time, the government is also the controlling authority of these institutions. As there is multiplicity of institutions in the Indian financial system, there is lack of co-ordination in the working of these institutions.

2. **Dominance of development banks in industrial finance**: The industrial financing in India today is largely through the financial institutions set up by the government. They get most of their funds from their sponsors. They act as distributive agencies only. Hence, they fail to mobilise the savings of the public. This stands in the way of growth of an efficient financial system in the country.

3. **Inactive and erratic capital market:** In India, the corporate customers are able to raise finance through development banks. So, they need not go to capital market. Moreover, they do not resort to capital market because it is erratic and inactive. Investors too prefer investments in physical assets to investments in financial assets.

4. **Unhealthy financial practices**: The dominance of development banks has developed unhealthy financial practices among corporate customers. The development banks provide most of the funds in the form of term loans. So there is a predominance of debt in the financial structure of corporate enterprises. This predominance of debt capital has made the capital structure of the borrowing enterprises uneven and lopsided. When these enterprises face financial crisis, the financial institutions permit a greater use of debt than is warranted. This will make matters worse.

5. **Monopolistic market structures**: In India some financial institutions are so large that they have created a monopolistic market structures in the financial system. For instance, the entire life insurance business is in the hands of LIC. The weakness of this large structure is that it could lead to inefficiency in their working or mismanagement. Ultimately, it would retard the development of the financial system of the country itself.

6. **Other factors:** Apart from the above, there are some other factors which put obstacles to the growth of Indian financial system. Examples are:

a. Banks and Financial Institutions have high level of NPA.

b. Government burdened with high level of domestic debt.

c. Cooperative banks are labelled with scams.

d. Investors confidence reduced in the public sector undertaking etc.,

e. Financial illiteracy.

CHAPTER-2 FINANCIAL INSTITUTIONS

FINANCIAL INSTITUTIONS

Financial Institutions are an important component of financial system. Financial institutions are also known as financial intermediaries. This is because they collect the savings from the savers and pass on the same to desired channels. They provide finance for the development of various sectors of the economy such as industry, agriculture, service etc. Thus financial institutions play an important role in the financial system or economy.

Role of Financial Institution in the Financial System

- Financial institutions are financial intermediaries.
- They provide the means and mechanism of transferring the resources from those whose income is more than expenditure to those who need these resources for productive purposes.
- The savings of the savers will reach the borrowers through the financial intermediaries in the form of financial instruments such as shares, stocks, debentures, deposits, loans etc. Thus, they play the role of intermediate between the savings and investments.
- They provide safety, liquidity and ensure return for savings.
- Financial institutions develop the saving habit among the people.
- They mobilise huge amount of savings for the industrial development as a productive capital. The financial institutions supply capital to the small, medium and large scale industries in India in the form of capital, venture capital, and services to promote the industrial growth in India.
- These contribute for the growth and development of industries, agriculture etc.

Meaning of financial institution:

A financial institution is basically a term lending institution .It is generally called as development bank. A development bank may be defined as a financial institutions concerned with providing all types of financial assistance to business units in form of loans, underwriting, investment, guarantee operations and promotional activities for economic development and industrial development. Financial institution includes banks, credit union

AMC, building societies and stock brokerages etc. These are the institutions which are responsible in distributing financial resources in a planned way to potential users. Investing money on behalf of the client is another of the varieties of functions of financial institutions.

The primary functions of financial institutions are:

1. Accepting deposits
2. Providing commercial Loans
3. Providing real estate Loans
4. Providing Mortgage Loans
5. Issuing Share certificate

Types of financial institutions

I. Banking Institutions

II. Non Banking Financial Institutions

I. <u>Banking Institutions :</u> they are governed by RBI, and come under Banking Regulations Act 1949.

1. Savings banks: savings bank is established to create saving habit among the people especially salaried people. At present most of the Commercial banks carry the function of savings bank.
2. Commercial Banks: are established with a objective to help businessmen.
3. Industrial Banks/Development Banks: they collect cash by issuing shares and debentures providing loan to industries. the main objective of these banks is to provide long term loans for expansion and modernisation of industries.
4. Land Mortgage bank/Land development Banks/Agricultural Banks: Finances Agricultural sector for lesser interest.
5. Indigenous Banks: includes Money lenders, sahukars lending their own funds to needy persons for interest.
6. Central Bank: Every country of the World has a Central Bank eg. RBI in India, Federal Reserve in USA, Bank of England in UK.
7. Co-operative banks: are registered under Cooperative societies Act in 1912, give credit facilities to small farmers, SSI etc.
8. RRBs: they are established with the objective to develop Rural Economy.
9. Foreign Bank: they are foreign banks working in India, these banks are concerned with financing corporate clients and specialised in Internationalised Banks.

II. Non Banking Financial Institutions: These are institutions which do not have

full license or is not supervised by a National or International Banking Regulatory Agency. They facilitate bank related financial services such as investment, risk pooling, market brokering etc .They may be categorised into 2 groups:

A) Organised Financial Institution

i) Development Finance Institution: they are the organised financial institution

Eg. IDBI, ICICI, IFCI , SFC, SIDC etc

ii) Investment Institution: These mobilise savings of Public at large through various schemes eg. LIC , GIC, UTI

B) Unorganised Financial Institution: These include hire purchase and consumer finance companies, leasing companies, credit rating agencies, merchant banking companies, housing finance companies.

Role of development banks:

1. Promotional financing.

2. Project promotion.

3. Entrepreneurial guidance and development.

4. Refinance facilities.

5. Technical assistance.

6. Housing finance and finance to small scale industries.

7. Rural development and agricultural development.

8. Innovation financial services:

Financial services like leasing, merchant banking, venture capital financing seed capital and assistance, research and development services and mutual fund services.

9. Co-ordinating functions.

10. Rendering advice of the govt.

INDUSTRIAL DEVELOPMENT BANK OF INDIA:

It was established in July 1964 under IDBI act

ROLE OF IDBI:

1. It is the principle financial institution for coordinating in conformity with national priorities, promoting or developing industries.

2. Providing Technical and Administrative for promotion from a management or expansion of industry.

3. Undertaking market and investment research and surveys.

FUNCTIONS OF IDBI:

It falls into the following groups.

1. Direct assistance.

2. Indirect assistance.

3. Promotional activities.

DIRECT ASSISTANCE:

It further divided into.

1. Term loan term loans are provided for period ranging between 10 to 12years.

2. Underwriting of securities.

3. Direct subscription of shares and debentures.

4. Guarantees loan and deferred payments

5. Venture capital.

6. Equipment leasing.

2. INDIRECT ASSISTANCE:

a) Refinancing of industrial loans.

b) Resource support to financial

institutions. c) Rediscounting of bills.

3.PROMOTIONAL ACTIVITES:

a) Assistances to backward areas:

Direct assistance like giving concessions in the form of interest longer repayment period, longer grace period and lower margin requirement

b) Refinance:

Refinance facilities are provided at concessional rate of interest to SFCs for financing small and medium industries

NON-FINANCE MEASURES:

By conducting survey of the backward areas for assessing the industrial potential and identifying the projects for resource availability and infrastructure facilities

B) ASSISTANCE TO SMALL SCALE INDUSTRIES:

1>Refinancing ton state levels institutions which in turn finance small scale industries and small road transport operators.

2> Constriction to the shares and bonds issued by SFC‟S

3>Refinancing to SFC"S to cover loans granted to industrial estates.

3> DEVELOPMENT TO ENTHROPRENORS

1) Seed capital assistance through SFC"S and SID"S.

2)100% refinance is respect of composite loans preparation of project profile.

Assistance to state level institutions in the formulation and implementation of

training
programs for entrepreneur.

INDUSTRIAL FINANCE CORPORATION OF INDIA(IFCI)

It was set up in 1948 under IFCI act its main object is to finance medium and long term period.

FUNTIONS OF IFCI

1. Granting of loans both in Rs and foreign currencies.

2. Raised by industrial concern in the capital market.

3. Underwriting of shares debentures and bonds.

4. Direct subscription to the shares and debentures of public Ltd companies.

OBJECTIVES OF IFCI:

1) To provide financial assistance in short medium and long term.

2) To provide consultancy and merchant banking.

3) To carry on business of leasing and higher purchase.

4) To undertake activities like wear housing, factoring custodial services, etc.

5) To set up investment company.

6) To deal, transact buy and sell foreign currencies.

7) Act's as trustee, executor, administrator, treasurer and trust.

STATE FINANCIAL CORPORATIONS (SFC'S):

It was established under SFC act 1951.

TYPES OF ASSISTANCE OR FUNCTIONS

1) Granting loans for a period not excluding 20 years.

2) Under writing the issue of stock under shares, bonds and debentures.

3) Granting deferred payment.

4) Granting loans raised by industrial concerns in the capital market.

UNIT TRUST OF INDIA

It was established in the year

1964. The primary objectives of UTI:

1. To encourage and pool the savings of middle and low income and enable them to share the benefits and prosperity of industrial development in the country.

Functions of UTI:

1) Selling the units of UTI among many investors in different parts of the country.

2) Paying dividends to the unit holders.

3) Investing the sale proceeds of the units in the corporate securities.

4) Buy or sell or deal in foreign exchange dealings.

5) Acquire and sell immovable property.

6) Open an a/c or enter in to agency agreement with the bank incorporated outside INDIA.

7) Extent port folio management service two persons residing outside INDIA.

8) Provide merchant banking and investment advisory service.

Advantages of the Units UTI

1) Investments in units are safe because the risk is spread over a wide range of securities which reduces the risk to the unit holders considerably.

3) The units are highly liquid.

LIFE INSURANCE CORPORATION OF INDIA:

It was established on 1st SEP 1956.LIC provides funds to industries in 3 forms.

1) Direct lending to the industry.

2) Purchase of shares and debentures in the stock market.

3) Subscription to the shares and bonds of financial institutions.

The LIC finance industry indirectly by investing in the shares and bonds state level financial institutions like IDBI, ICICI, IFCI, etc;

General Insurance Corporation of India (GIC)

It was established in the year 1972.The subsidiaries of GIC are:

1) National Insurance Company

2) New assurance.

3) The oriential fire general insurance company.

5) The united INDIA fire and general insurance company Ltd.

THE FUNCTIONS OF GIC ARE:

1) Financial assistance:

It is further divided into direct

assistance. a) Granting loans.

b) Under writing.

c) Direct subscription of shares and debentures.

2) Purpose wise

assistance. a) New

projects.

B) Expansion and diversification.

c) Modernization, rehabilitation and balancing equipment.

d) Working capital including the working of the assistance concerns.

3) Sector wise assistance.

Assistance to public sector is wide when compared to corporative

sector

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ICICI (Industrial Credit and Investment Corporation of India):

It was established in the year 1955

objectives.

1) To stimulate the promotion of new industries.

2) To assist the expansion modernization of existing industries.

3) To furnish technical and managerial aid so has to increase production and employment opportunity.

FUNCTIONS:

1) Long term and medium term loan are in rupees &foreign currency.

2) Participation in equity capital and in debenture.

3) Undergoing of shares and debentures.

4) Guarantee the suppliers of equipment & foreign

loaners. The main objectives of ICICI can be

classified as follows

1) Lending

operations. a)

Project finance.

b) Guarantee facility to

customers. c) Direct

subscription.

d) Leasing.

e) Deferred capital.

f) Technology finance.

>Subsidiaries.

ICICI has set up the following subsidiaries since 1999.

*ICICI –Securities & finance company Ltd.

*ICICI –Brokerage service Ltd.

*ICICI-Asset management Ltd.

*ICICI-Personnel finance services

Ltd. CAPITAL MARKET

OPERATION.

ICICI has promoted no institutions to promote capital & money market and also for finance growth of technology.

SPONSORING INSTITUTIONS:

IIBI [industrial investment bank of

INDIA] It was setup in INDIA in the year 1997.

The main objects of IIBI are.

- Project finance.
- Merchant banking services.
- Silk unit portfolio.
- Relationship with BIRF [Board for industrial financial reconstruction]

EXIM BANK [Export import bank of India]

It was set up on January 1st 1982.The main functions of EXIM bank are.

- Financing of exports & imports of goods & services of not only India but also third country.
- Financing of joint venture in foreign countries.
- Financing of export &import of machinery & equipment on lease basis.
- Undertaking merchant banking function.
- Providing technical administrative & finance assistance in EXIM trade.
- Technology &consultancy service.
- Relending facility to bank overseas.
- Line of credit to foreign govt.

NATIONAL HOUSING BANK [NHB]

It was set up on July 9th 1988. The main functions are:

1) Promote & develop specialized housing finance institutions for Mobilizing resources &
supply credit for house construction.

2) To provide guarantee & underwriting facilities to housing finance institution.

3) To coordinate working of all agencies connected with housing.

4) To provide refinance facilities to housing finance institutions &scheduled banks.

SIDC [STATE INDUSTRIEDS DEVELOPMENT CORPORATION]

It was set up in the year

1956. Functions of SIDC ARE:

- Formation of industrial estates.
- Marketing assistance.
- Hire purchase and equipment leasing scheme.
- Industrial development in backward areas.
- Export house.

MUTUAL FUNDS

DEFINITION:

The fund established in the form of a trust by sponsor to raise money by the trustees through sale of units to the public under one or more schemes for investing in securities in accordance with the regulation.

Mutual fund collects the saving from investors, invested in Government, in the corporate

Securities & income through dividends & interest decides capital gain.

SCOPE OF MUTUAL FUNDS

1) Organization of the fund lies in the hands of investors.

2) Investment in left in the hands of progression who earn fee for services.

3) It is invested in a portfolio of marketable securities.

4) It is represented in units.

5) It is invested in specific sector like IT sectors, fertilizer industries, ETC.

Types of Funds/ Classification of Mutual funds

Mutual Funds

On the basis of execution & Operation pattern

On the basis of yield and investment

Close ended

Open ended

Income Fund

Growth fund

Balance fund

Specialized fund

Money Market MF Fund

Taxation

Closed-End Fund: a fixed number of nonredeemable shares are sold through an initial offering and are then traded in the OTC market. Its duration is fixed, once subscription reaches the pre determined level , the entry of investors is closed. After expiry of fixed period, the entire corpus is disinvested and proceeds are distributed to various unit holders in proportion to their holding. Price for the shares is determined by supply and demand forces.

Open-End Fund: investors may buy or redeem shares at any point, where the price is determined by the net asset value of the fund.

Net Asset Value (NAV)

Definition: Total value of the mutual fund‟s stocks, bonds, cash, and other assets minus any liabilities such as accrued fees, divided by the number of shares outstanding.

On the basis of Yield and Investment Pattern

Mutual fund further classified on the basis of yield and investment pattern. they are:•Income Fund

Growth Fund

Balance Fund

Specialised

Fund Money

Market

Taxation Fund

Income funds

Income funds main aims at generating and distributing regular income to the subscribers (Investors) on a periodical basis. It concentrates more on distribution of regular income in terms dividend. Income funds are suitable to the old and retired people who may not have any regular income.

Growth funds

Growth funds concentrate mainly on long run gains. It means capital appreciation. They do not offer regular income and they aim at capital appreciation in the long run. Hence, they have been explained as “Nest Eggs” investments.

Balanced funds

Balance funds also known as “Income-cum-Growth” Fund. It is a combination of both income and growth funds. It aims at distributing regular income as well as capital appreciation. This is achieved by balancing the investments between the high growth equity shares and also the fixed income earning securities.

Specialised funds

A large number of specialised funds are in existence abroad. They offer special schemes so as to meet the specific needs of specific categories of people like pensioners, widows etc. For instance, Japan Fund, South Korea Fund etc.

Money Market mutual funds

Money markets mutual funds are basically open ended mutual funds are as such they have all the features of the open ended fund. But they investment in highly liquid and safe securities like commercial paper, banker‟s acceptance, certificates of deposits, Treasury bills etc.

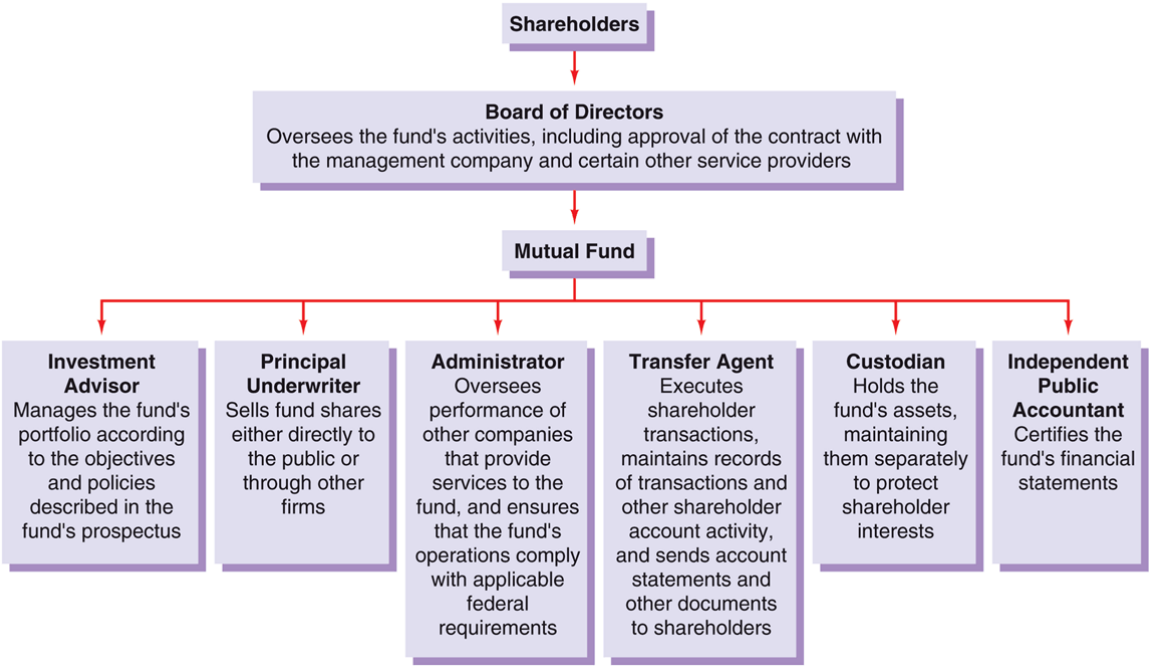
Taxation funds

A taxation fund is basically a growth oriented fund. But, it offers tax rebates to the investors either in the domestic or foreign capital market. It suitable to salaried people who want to enjoy tax rebates particularly during the month of February and March.

Index funds

Index fund refers to those funds where the portfolios are designed in such a way that they reflect the composition of some broad based market index. This is done by holding securities in the same proportion as they index it

Mutual Fund Structure:
the Organization



Asset Management Company

- An AMC is a legal entity formed by the sponsor to run a mutual fund.
- It is the AMC that employs fund managers and analysts and other personnel.

It is the AMC that handles all operational matters of a mutual fund – from launching schemes to managing them to interacting with the investors.