FINANCIAL SERVICES IN INDIA - AN OVERVIEW

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Abstract: *India's financial services sector typifies the progress and opportunity of its economy. Financial services form the lifeblood of economic growth and development. They facilitate the setting up of big and small businesses and the expansion of businesses. Employment and entrepreneurship created with the help of the services enable people to earn and save. The financial services industry is the largest-earning sector in the world. India's diverse and comprehensive financial services industry is growing rapidly, owing to demand drivers (higher disposable incomes, customized financial solutions, etc.) and supply drivers (new service providers in existing markets, new financial products, etc.). The Indian financial services industry comprises several key sub segments. These include, but are not limited to- mutual funds, pension funds, insurance companies, stock-brokers, wealth managers, financial advisory companies, and commercial banks- ranging from small domestic players to large multinational companies. The services are provided to a diverse client base- including individuals, private businesses and public organizations. Financial service is part of financial system that provides different types of finance through various credit instruments, financial products and services. In services we have leasing, factoring, forfeiting, mutual funds etc. through which various types of assets can be acquired either for ownership or on lease. The present paper focuses on the significance of financial services in India and various financial services available and also throws a light on challenges faced by them and the Government initiatives. It is the presence of financial services that enables a country to improve its economic condition whereby there is more production in all the sectors leading to economic growth.*

KEYWORDS:: FINANACIAL SERVICES, GROWTH; FINANCIAL SYSTEM.

Introduction

Financial services refer to services provided by the finance industry. The finance industry consists of a broad range of organizations that deal with the management of money. These ions include banks, credit card companies, insurance companies, consumer finance companies, stock brokers, investment funds and some government sponsored enterprises. Financial services may be defined as the products and services offered by financial institutions for the facilitation of various financial transactions and other related activities. Financial services can also be called financial intermediation. Financial intermediation is a process by which funds are mobilized from a large number of savers and make them available to all those who are in need of it and particularly to corporate customers. There are various institutions which render financial services. Some of the institutions are banks, investment companies, accounting firms, financial institutions, merchant banks, leasing companies, venture capital companies, factoring companies, mutual funds etc. These institutions provide variety of services to corporate enterprises. Such services are called financial services. Thus, services rendered by financial service organizations to industrial enterprises and to ultimate consumer markets are called financial services. These are the services and facilities required for the smooth operation of the financial markets. In short, services provided by financial intermediaries are called financial services.

Objectives of the study

To know the significance of Financial services

To study the various financial services in India

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To throw light on the problems faced and the Government initiatives

Concept of Financial Service: The term financial services means services provided by banking and non-banking finance companies established under the Reserve Bank of India Act,1934, regulated by the Reserve Bank of India; insurance companies established under the Insurance Regulatory and Development Authority Act,1999, regulated by the Insurance Regulatory and Development Authority, and other entities established under the Securities and Exchange Board of India Act,1992, regulated by the Securities and exchange board of India.

Significance of Financial Services for Indian Economy: The benefit of economic growth is reflected on the people in the form of economic prosperity wherein the individual enjoys higher standard of living. It is here the financial services enable an individual to acquire or obtain various consumer products through hire purchase. In the process, there are a number of financial institutions which also earn profits. The presence of these financial institutions promote investment, production, saving etc. The successful functioning of any financial system depends upon the range of financial services offered by financial service organizations. The importance of financial services in Indian economy may be understood from the following points:

Economic growth: The financial service industry mobilizes the savings of the people, and channels them into productive investments by providing various services to people in general and corporate enterprises in particular. In short, the economic growth of any country depends upon these savings and investments.

Promotion of savings: The financial service industry mobilizes the savings of the people by providing transformation services. It provides liability, asset and size transformation service by providing huge loan from small deposits collected from a large number of people. In this way financial service industry promotes savings.

Capital formation: Financial service industry facilitates capital formation by rendering various capital market intermediary services. Capital formation is the very basis for economic growth.

Creation of employment opportunities: The financial service industry creates and provides employment opportunities to millions of people all over the world.

Contribution to GNP: Recently the contribution of financial services to GNP has been increasing year after year in almost countries.

Financial Services in India

Merchant banking: Merchant banking is basically a service banking, concerned with providing non-fund based services of arranging funds rather than providing them. The merchant banker merely acts as an intermediary. Its main job is to transfer capital from those who own it to those who need it. Today, merchant banker acts as an institution which understands the requirements of the promoters on the one hand and financial institutions, banks, stock exchange and money markets on the other. SEBI (Merchant Bankers) Rule, 1992 has defined a merchant banker as, “any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, advisor, or rendering corporate advisory services in relation to such issue management”.

Credit rating: Credit rating means giving an expert opinion by a rating agency on the relative willingness and ability of the issuer of a debt instrument to meet the financial obligations in time and in full. It measures the relative risk of an issuer’s ability and willingness to repay both interest and principal over the period of the rated instrument. It is a judgement about a firm’s financial and business prospects. In short, credit rating means assessing the creditworthiness of a company by an independent organization. Some of the Credit rating agencies in India are: ICRA (Investment Information and Credit Rating Agency of India Ltd.), CARE (Credit Analysis and Research in Equities), CRISIL (Credit Rating Information Services of India Ltd.)

Custodial services: In Custodian is an institution or a person who is handed over securities by the security owners for safe custody. Custodian is a caretaker of a public property or securities. Custodians are intermediaries between companies and clients (i.e. security holders) and institutions (financial institutions and mutual funds). There is

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an arrangement and agreement between custodian and real owners of securities or properties to act as custodians of those who hand over it. The duty of a custodian is to keep the securities or documents under safe custody. The work of custodian is very risky and costly in nature. For rendering these services, he gets a remuneration called custodial charges. Thus custodial service is the service of keeping the securities safe for and on behalf of somebody else for a remuneration called custodial charges.

Loan syndication: Loan syndication is an arrangement where a group of banks participate to provide funds for a single loan. In loan syndication, a group of banks comprising 10 to 30 banks participate to provide funds wherein one of the banks is the lead manager. This lead bank is decided by the corporate enterprises, depending on confidence in the lead manager. A single bank cannot give a huge loan. Hence a number of banks join together and form a syndicate. This is known as loan syndication. Thus, loan syndication is very similar to consortium financing.

Factoring: Factoring is an arrangement under which the factor purchases the account receivables (arising out of credit sale of goods/services) and makes immediate cash payment to the supplier or creditor. Thus, it is an arrangement in which the account receivables of a firm (client) are purchased by a financial institution or banker. Thus, the factor provides finance to the client (supplier) in respect of account receivables. The factor undertakes the responsibility of collecting the account receivables. The financial institution (factor) undertakes the risk. For this type of service as well as for the interest, the factor charges a fee for the intervening period. The main organizations operating in factoring services are SBI Factors and Commercial Services (SBI FACS) Ltd. And CAN Bank Factors Ltd.

Forfaiting: Forfaiting is a form of financing of receivables relating to international trade. It is a non-recourse purchase by a banker or any other financial institution of receivables arising from export of goods and services. The exporter surrenders his right to the forfaiter to receive future payment from the buyer to whom goods have been supplied. Forfaiting is a technique that helps the exporter sells his goods on credit and yet receives the cash well before the due date. In short, forfeiting is a technique by which a forfeiter (financing agency) discounts an export bill and pay ready cash to the exporter. The exporter need not bother about collection of export bill. He can just concentrate on export trade.

Equipment leasing/Lease financing: A lease is an agreement under which a firm acquires a right to make use of a capital asset like machinery etc. on payment of an agreed fee called lease rentals. The person (or the company) which acquires the right is known as lessee. He does not get the ownership of the asset. He acquires only the right to use the asset. The person (or the company) who gives the right is known as lessor.

Mutual fund: Mutual funds are financial intermediaries which mobilize savings from the people and invest them in a mix of corporate and government securities. The mutual fund operators actively manage this portfolio of securities and earn income through dividend, interest and capital gains. The incomes are eventually passed on to mutual fund shareholders. In India the first mutual fund was UTI. It was set up in 1964 under an Act of parliament. By the end of March 2006, there were 36 mutual funds, 9 in the public sector and 27 in the private sector. However UTI dominated the mutual fund sector. In India mutual funds are being regulated by agencies like SEBI. Mutual funds play an important role in promoting saving and investment within the country.

Venture capital: Venture capital simply refers to capital which is available for financing the new business ventures. It involves lending finance to the growing companies. It is the investment in a highly risky project with the objective of earning a high rate of return. In short, venture capital means long term risk capital in the form of equity finance. In India, the venture capital plays a vital role in the development and growth of innovative entrepreneurships. Venture capital activity in the past was possibly done by the developmental financial institutions like IDBI, ICICI and state financial corporations.

Challenges faced by Indian financial services sector: Financial service sector has to face lot of challenges in its way to fulfill the ever growing financial demand of the economy. Some of the important challenges are listed below:

- Lack of qualified personnel in the financial service sector.
- Lack of investor awareness about the various financial services.
- Lack of transparency in the disclosure requirements and accounting practices relating to financial services.
- Lack of specialization in different financial services (specialization only in one or two services).
- Lack of adequate data to take financial service related decisions.
- Lack of efficient risk management system in the financial service sector.
- The above challenges are likely to increase in number with the growing requirements of the customers. However, the financial system in India at present is in a process of rapid transformation, particularly after the introduction of new economic reforms.

Government Initiatives

The Government of India has taken various steps to deepen reforms in the capital market, including simplification of the IPO process, which allows qualified foreign investors (QFIs) to access the Indian bond market. The Government has also approved 100 per cent FDI for insurance intermediaries. The insurance sector could be opened to 74 per cent FDI from the existing 49 per cent In November 2019, Government allocated Rs 10,000crore to set up AIFs for revival of stalled housing projects. Under the Interest Subvention Scheme for MSMEs, Rs 350crore (US$ 50.07 million) was allocated under Union Budget 2019-20 for 2 per cent interest subvention for all GST registered MSMEs on fresh or incremental loans. In December 2018, Securities and Exchange Board of India (SEBI) proposed direct overseas listing of Indian companies and other regulatory changes. The Government of India launched India Post Payments Bank (IPPB) to provide every district with one branch, which will help increase rural penetration. As of August 2018, two branches out of 650 branches were already operational.

Road Ahead

India is expected to be the fourth largest private wealth market globally by 2028.

India is today one of the most vibrant global economies on the back of robust banking and insurance sectors. The relaxation of foreign investment rules has received a positive response from the insurance sector, with many companies announcing plans to increase their stakes in joint ventures with Indian companies. Over the coming quarters, there could be a series of joint venture deals between global insurance giants and local players.

India's mobile wallet industry is estimated to grow at a Compound Annual Growth Rate (CAGR) of 150 per cent to reach US$ 4.4 billion by 2022, while mobile wallet transactions will touch Rs 32 trillion (USD $ 492.6 billion) during the same period.

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