FINANCIAL MARKETS

(Skill Development Programme)

B.A. SECOND YEAR

Semester – 3

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B.A. SECOND YEAR Semester - 3

Skill Development Programme : FINANCIAL MARKETS

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining a 'A' Grade from the NAAC in the year 2014, the Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 285 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education with the aim to bring higher education within reach of all. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even housewives desirous of pursuing higher studies. With the goal of bringing education in the doorstep of all such people. Acharya Nagarjuna University has started offering B.A, and B, Com courses at the Degree level and M.A, M.Com., L.L.M., courses at the PG level from the academic year 2021-22 on the basis of Semester system.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers invited respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn facilitate the country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Coordinators, Editors and Lesson -writers of the Centre who have helped in these endeavours.

Prof. P.Rajasekhar
Vice –Chancellor,
Acharya Nagarjuna University

AP State Council of Higher Education

B. A., B. Com and B. Sc Programmes Revised CBCS w. e. f. 2020-21

SKILL DEVELOPMENT COURSES- ARTS STREEM

Syllabus of 305SDH21-FINANCIAL MARKETS

Total 30hrs (2hrs/wk) 02 credits & Maximum 50 Marks

Learning Outcomes :

After successful completion of this course, the students will be able to:

1. *Acquire knowledge of financial terms*
2. *Know the concepts relating and markets and different avenues of investment*
3. *Understand the career skills related to Stock Exchanges*
4. *Comprehend the personal financial planning and money market skills*

Syllabus

Unit-I : 06 hrs
Indian Financial System -its components –Financial markets and institutions

Unit – II : 10 hrs
Capital Market – its function – organizations – elements – (shares , debentures, bonds, mutual funds) debt market – Equity Market (SEBI) and Security market (NSE)

Unit – III : 10 hrs
Money market – Organized – Unorganized - Sub market (call money, commercial bills, Treasury bills, Certificate of Deposit, Commercial papers)

Co-curricular activities : 04 hrs

1. Collection and study of pamphlets, application forms etc.
2. Invited lectures on the field topics by local experts
3. Introducing Online classes from NSE
4. Field visit to mutual fund offices/share brokers
5. Observation , study and analysis of selected companies share prices
6. Assignments, Group discussion, quiz etc.

Reference books and Websites :

1. T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2. Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3. Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4. Website on Indian Financial markets

MODEL QUESTION PAPER

SECOND YEAR B.A.

Semester - 3

FINANCIAL MARKETS

(Skill Development Programme)

Time: 1 1/2 hrs (90 Minutes) **Max. Marks: 50**

SECTION A **(4 x 5 = 20 Marks)**

(Answer any four questions. Each answer carries 5 marks)
(At least 1 question should be given from each Unit)

1. What is financial system? Explain the importance of financial system
2. Discuss various functions of financial system.
3. What the Role of financial markets?
4. Explain about financial system in India.
5. What are the Basic characteristics of capital markets ?
6. Explain about mutual funds.
7. Organized money market- Discuss
8. Certificate of Deposits **(CDs)**

SECTION B **(3 x 10 = 30 Marks)**

(Answer any three questions. Each answer carries 10 marks)
(At least 1 question should be given from each Unit)

1. What is financial institution? Explain about different Indian financial institutions.
2. What is capital market? Explain its functions of capital market.
3. What is money market? Discuss about sub markets.
4. Discuss various elements of capital market.
5. Explain about different components of Indian financial system.

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CONTENTS

LESSON - 1

AN OVERVIEW OF FINANCIAL SYSTEM IN INDIA

AIMS AND OBJECTIVES :

After studying this lesson student should be able to:

- Know the concept of Indian Financial System
- Understand the features & Functions of Financial System
- Importance of Financial System in India

STRUCTURE OF THE LESSON :

1.1. INTRODUCTION :

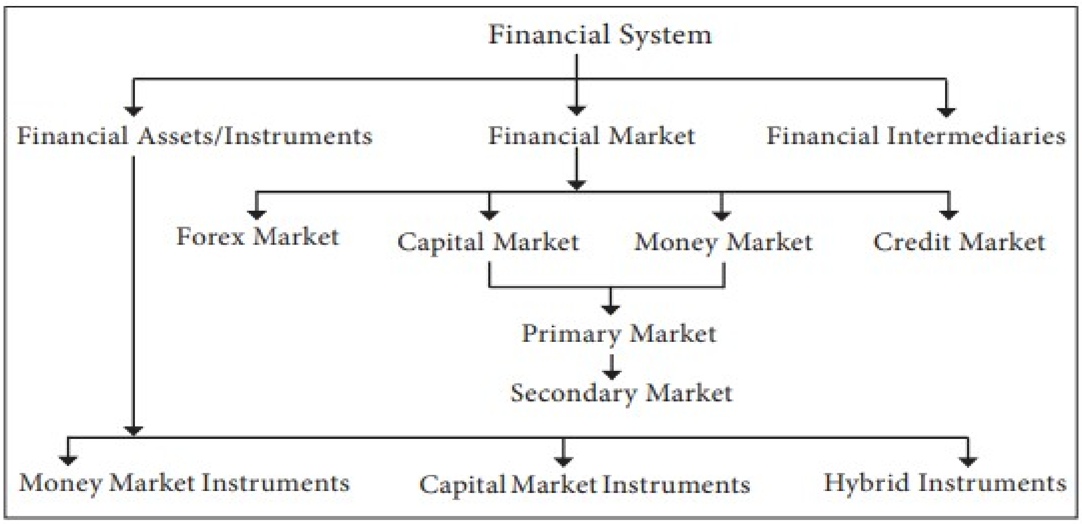
The word “system”, in the term “financial system”, implies a set of complex and closely connected or interlined institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit and finance-the three terms are intimately related yet are somewhat different from each other.

Financial System deals about the arrangements that can be made for raising different types of funds required for the business so that the economic conditions of the country can improve. It is the functioning of a healthy financial system on which depends the business prospects of a country. With more expansion of business and production in the country, the service sector will improve and more employment opportunities will be created.

The financial system helps the primary sector (the agriculture), secondary sector (the industry) and the service sector. Besides, Financial System deals about (a) various financial institutions, (b) with their financial services, (c) financial markets which enable individual, business and government concerns to raise finance; and (d) various instruments issued in the financial markets for the purpose of raising financial resources. Thus, financial system consists of 1.Financial Markets,2.Financial Instruments/assets ,3. Financial Institutions/intermediaries and their services

1.1.1. INDIAN FINANCIAL SYSTEM :

India's financial system is a very strong and efficient one which is evidenced by India's flourishing stock markets, fast-growing mutual funds, and capable banking sector. Indian financial system consists of financial market, financial instruments and financial intermediation.



1.1.2. Role of Financial System in Economic Development :

The economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate, government and household sector. While performing their activities, these units will be placed in a surplus/ deficit/ balanced budgetary situation. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. Thus, a Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities. Economic growth and development of any country depends upon a well-knit financial system. Financial system comprises a set of sub-systems of financial institutions financial markets, financial instruments and services which help in the formation of capital. Thus a financial system provides a mechanism by which savings are transformed into investments and it can be said that financial system play an significant role in economic growth of the country by mobilizing surplus funds and utilizing them effectively for productive purpose.

The financial system is characterized by the presence of integrated, organized and regulated financial markets, and institutions that meet the short term and long-term financial needs of both the household and corporate sector. Both financial markets and financial institutions play an important role in the financial system by rendering various financial services to the community. They operate in close combination with each other. Financial systems are multidimensional. Four **characteristics** are of particular interest for benchmarking financial systems: financial depth, access, efficiency, and stability. These characteristics need to be measured for financial institutions and markets. As a finance system provides you with accurate and complete information about your business in one place, it makes it easier for you to forecast future cash flows. This helps staff to better manage working capital and optimise daily, monthly and yearly cash flow. The financial system **plays a critical role** in the economy. It enables the financial intermediation process which facilitates the flow of funds between savers and borrowers, thus ensuring that financial resources are allocated efficiently towards promoting economic growth and development.

Fiscal Politics. On the evening of June 20, 1790, James Madison and Alexander Hamilton met at Thomas Jefferson's home on Maiden Lane, in New York. Over a long dinner, the three struck a historic deal that laid the financial groundwork for the fledgling nation. Financial structure refers to the mix of debt and equity that a company uses to finance its operations. This composition directly affects the risk and value of the associated business. Maidavolu Narasimham (3 June 1927 – 20 April 2021) was an Indian banker who served as the thirteenth governor of the Reserve Bank of India (RBI) from 2 May 1977 to 30 November 1977. For his contributions to the banking and financial sector in India, he is often referred to as the father of banking reforms in India. Finance consists of three interrelated areas: (1) money and credit markets, which deals with the securities markets and financial institutions; (2) investments, which focuses on the decisions made by both individuals and institutional investors; and (3) financial management, which involves decisions made. It plays a vital role in the economic development of the country as it encourages both savings and investment. It helps in mobilising and allocating one's savings. It facilitates the expansion of financial institutions and markets. Plays a key role in capital formation. The Federal Reserve Board of Governors (Board of Governors), the Federal Reserve Banks (Reserve Banks), and the Federal Open Market Committee (FOMC) make decisions that help promote the health of the U.S. economy and the stability of the U.S. financial system.

1.2. Understanding the Financial System :

A financial system is an economic arrangement wherein financial institutions facilitate the transfer of funds and assets between borrowers, lenders, and investors. Its goal is to efficiently distribute economic resources to promote economic growth and generate a return on investment (ROI) for market participants. Like any other industry, the financial system can be organized using markets, central planning, or some mix of both. Financial markets involve borrowers, lenders, and investors negotiating loans and other transactions. In these markets, the economic good traded on both sides is usually some form of money: current money (cash), claims on future money (credit), or claims on the future income potential or value of real assets (equity). These also include derivative instruments. Derivative instruments, such as commodity futures or stock options, are financial instruments that are dependent on an underlying real or financial asset's performance. In financial markets, these are all traded among borrowers, lenders, and investors according to the normal laws of supply and demand. In a centrally planned financial system (e.g., a single firm or a command economy), the financing of consumption and investment plans is not decided by counterparties in a transaction but directly by a manager or central planner. Which projects receive funds, whose projects receive funds, and who funds them is determined by the planner, whether that means a business manager or a party boss. Most financial systems contain elements of both give-and-take markets and top-down central planning. At the same time, all modern financial markets operate within some kind of government regulatory framework that sets limits on what types of transactions are allowed. Financial systems are often strictly regulated because they directly influence decisions over real assets, economic performance, and consumer protection.

Multiple components make up the financial system at different levels. The firm's financial system is the set of implemented procedures that track the financial activities of the company. Within a firm, the financial system encompasses all aspects of finances, including accounting measures, revenue and expense schedules, wages, and balance sheet verification. On a regional scale, the financial system is the system that enables lenders and borrowers to exchange funds. Regional financial systems include banks and other institutions, such as securities exchanges and financial clearinghouses. The global financial system is basically a broader regional system that encompasses all financial institutions, borrowers, and lenders within the global economy. In a global view, financial systems include the International Monetary Fund, central banks, government treasuries and monetary authorities, the World Bank, and major private international banks.

1.3. FEATURES OF THE INDIAN FINANCIAL SYSTEM :

The characteristics of Indian financial system are as follows: a) It plays a vital role in the economic development of the country as it encourages both savings and investment b) It helps in mobilising and allocating one's savings c) It facilitates the expansion of financial institutions and markets d) Plays a key role in capital formation e) It helps form a link between the investor and the one saving f) It is also concerned with the Provision of funds. These are briefly discussed

a) It plays a vital role in the economic development of the country as it encourages both savings and investment : It is the institutional environment that influences savings and investment. Develop-ment is rather impossible without an effective government, market, and civil society. Sound state policies with good governance contribute real per capita income to go at a higher rate, and not bad policies and bad governance. Savings refers to that part of disposable income, which is not used in consumption, i.e. whatever is remained in the hands of a person, after paying all the expenses. On the other end, Investment is the act of investing the saved money into financial products, with a view of earning profits. It alludes to the increase in capital stock. It is not necessarily true that an increase in savings will lead to an increase in investment. Even if investment rises the institutional prerequisites for development may be lacking. In other words, because of lack of proper investment incentives, capital formation tends to be low in the developing countries. This link between savings and investment create a way for the macroeconomic balance of the country and are two direct contributors to the growth of the country. A macroeconomic balance is struck when the leak of income in the form of savings is filled by investors stepping up with their demand for capital goods, i.e., investment.

b) It helps in mobilising and allocating one's savings : If properly devised and con-ducted small savings campaign can mobilise a sizable amount of resources. Further, the mobilisation of the hoardings of gold and jewellery through government programmes constitutes a highly desir-able source of resource mobilisation**.** Human beings (and every creature) constantly struggle and arrange for or mobilize resources they need. Over thousands of years we have built evolutionary societies in which resource mobilization, its means and methods have also evolved. Ancient barter trade was a system of resource mobilization, and then later currencies developed to facilitate it. In the initial phases of economic development, banks are main means of resource mobilization in an economy. On same lines, this is case currently with India. This is because majority people in such economies are too risk averse.

c) It facilitates the expansion of financial institutions and markets : First, various financial institutions including banks and institutional investors have expanded their activities geographically. In this process, they acted as an intermediary to channel funds from lenders to borrowers across national borders. Second, the more mature securities markets have gained a clear cross-border orientation. For instance, most countries where economic activities take place have an established stock exchange and a banking system. Each of these institutions is different and hence perform different functions. However, together, these financial markets and institutions make up a financial system. Financial Institutions are firms that provide access to the financial markets, both to savers, who wish to purchase financial instruments directly, and to borrowers, who want to issue them (Cecchetti/ Schoenholtz 2010). Furthermore, financial institutions act as an intermediary, thereby they decrease transaction costs and risk, and simultaneously increase efficiency through information processing.

d) Plays a key role in capital formation : Capital formation is the net capital accumulation during an accounting period for a particular country. The term refers to additions of capital goods, such as equipment, tools, transportation assets, and electricity. The essence of the process, then, is the diversion of a part of society's currently available resources to the purpose of increasing the stock of capital goods so as to make possible an expansion of consumable output in the future." Saving and investment are essential for capital formation. Accordingly, Prof. Meier observed that, "Human capital formation is the process of acquiring and increasing the number of persons who have skills, education and experience which are critical for the economic and political development of a country." In the national accounts (e.g., in the United Nations System of National Accounts and the European System of Accounts) gross capital formation is the total value of the gross fixed capital formation (GFCF), plus net changes in inventories, plus net acquisitions less disposals of valuables for a unit or sector.

e) It helps form a link between the investor and the one saving : For an enterprise, investment connotes the production of new capital goods, such as plant and machinery or change in inventories. Many people juxtapose savings for investment, which is totally incorrect. Saving is a factor that decides the level of investment made. An important controversy in macroeconomics relates to the relationship between saving and investment. Many economists before J.M. Keynes were generally of the view that saving and investment are generally not equal; they are equal only under condition of equilibrium**.** It should be noted that when investment exceeds saving, that is, when investment increases, a new equilibrium between saving, and investment will materialise at a higher level of income; and when saving exceeds investment, that is, when investment decreases, the new equilibrium of saving and investment will be at a lower income level. While dealing with personal finance, setting goals are probably the most important step. And in order to achieve those goals, saving and investment play the biggest role. Savings means keeping money aside for future use. Investing means putting money or buying some assets in expectation that money will grow with the time.

f) It is also concerned with the Provision of funds : Provisions essentially refer to any funds set aside from company profits for this express purpose. To qualify as a provision in accounting, the funds must be for a specific purpose, such as to offset the decrease in an asset's value. Provisions in accounting refer to the amount that is generally put aside from the profit in order to meet a probable future expense or a reduction in the asset value although the exact amount is unknown. Provision cannot be seen as savings, but it can be regarded as a way of recognising any upcoming or future liabilities. Most of the time, provision is treated as a reserve, but reserve and provision are not interchangeable. A provision is set up to cover probable future liabilities while a reserve is a part of the profit that is set aside for assisting the company's growth and expansion. Contract provisions are intended to protect the interests of one or both parties in a contract. Contract provisions can be found in a country's laws, in loan documents, and in contract agreements. A provident fund is managed by the government, with set minimum and maximum contribution levels. How do Provident Funds Work? The money held in private savings accounts continues to grow in many developing countries, but it's still rarely enough to provide most families with a comfortable life in retirement.

1.4. FUNCTIONS OF AN INDIAN FINANCIAL SYSTEM :

A financial system allows its participants to prosper and reap the benefits. It also helps in borrowing and lending when needed. In simpler words, it will circulate the funds to different parts of an economy. Here are some of the financial system functions: You are free to use this image on your website, templates, etc., Please provide us with an attribution link

i) Payment System – An efficient payment system allows businesses and merchants to collect money in exchange for their products or services. Payments can be made with cash, checks, credit cards, and even crypto currency in certain instances. The directions are applicable to all Payment System providers authorised / approved by the Reserve Bank of India (RBI) to set up and operate a payment system in India under the Payment and Settlement Systems Act, 2007. Banks function as operators of a payment system or as participant in a payment system. Who are the Operators of Payment Systems (OPS)?i) Cash-in service providers, ii) Merchant acquirers, iii) Payment facilitators, iv) Payment gateways, v) Platform providers

ii) Savings – It provides a measure for managing and controlling the risk involved in mobilizing savings and allocating credit. It promotes the process of capital formation by bringing together the supply of saving and the demand for investible funds. It helps in lowering the cost of transaction and increase returns. Public savings allow individuals and businesses to invest in a range of investments and see them grow over time. Borrowers can use them to fund new projects and increase future cash flow, and investors get a return on investment in return. In economics, savings is the amount that is left after spending. In banking, savings refers to savings accounts, which are short-term, interest-bearing deposits with a bank or other financial institution. There are only two things to do with money: Save it or spend it. It is a link between savers and investors. It utilizes mobilized savings of savers (who are not organized /scattered) in more efficient and effective manner. It provides payment mechanism for exchange of goods and services. It facilitates for the transfer of resources across geographic boundaries. It provides detailed information to the operators/ players in the market such as individuals, business houses, Governments etc.

iii) Liquidity – The financial markets give investors the ability to reduce the systemic risk by providing liquidity. It thus allows for easy buying and selling of assets when needed. Liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price. Cash is the most liquid of assets, while tangible items are less liquid. The two main types of liquidity include market liquidity and accounting liquidity. Current, quick, and cash ratios are most commonly used to measure liquidity.

iv) Risk Management – It protects investors from various financial risks through insurances and other types of contracts. Risk management doesn't occur in a vacuum; it's there to help the business achieve its objectives. So, the risk manager must understand the business and its objectives, together with the resources it uses and the constraints it works within. Different organizations have different criteria for deciding how much risk they're prepared to accept.

v) Transfer of Resources – Transfer is a process placing employees in positions where they are likely to be more effective or where they are likely to get more job satisfaction this transfer is a process of employee's adjustment with the work, time and place. In transfers there is change in responsibility, designation and pay, etc. Transferring a resource is giving away or selling a resource. If you, your spouse, or a co–owner give away a resource or sell it for less than it is worth, you may be ineligible for SSI for up to 36 months. Valid transfers of resource ownership may occur through any of the following types of transactions: i) Sale of property; ii) Trade or exchange of one property for another; iii) Spend-down of cash; iv) Giving away cash; v) Transferring any financial instrument (e.g., stocks, bonds);

vi) Managing Information – Information management is the collection, storage, management and maintenance of data and other types of information. It involves the gathering, dissemination, archiving and destruction of information in all its forms. Management Information System, commonly referred to as MIS is a phrase consisting of three words: management, information and systems. Looking at these three words, it's easy to define Management Information Systems as systems that provide information to management.

viii) Efficient Middleman – A middleman plays the role of an intermediary in a distribution or transaction chain who facilitates interaction between the involved parties. Middlemen specialize in performing crucial activities involved in the purchase and sale of goods in their flow from producers to the ultimate buyers. Many industries and business sectors utilize middlemen, from trade and commerce to wholesalers to stockbrokers. A middleman, or intermediary, will facilitate interaction between parties, typically for a commission or fee. With the growth in technology and its capabilities, Internet companies have also become a type of middleman. Auction sites, for example, bring sellers into contact with buyers they usually wouldn't reach. Middlemen also make money by selling the product for more than its purchase price. This difference is called the "markup" or cost the buyer ends up paying. Middlemen can be small companies or large corporations with an international presence.

ix) Pooling of Resources – In resource management, pooling is the grouping together of resources (assets, equipment, personnel, effort, etc.) for the purposes of maximizing advantage or minimizing risk to the users. The term is used in finance, computing and equipment management. Pooling is the grouping together of assets, and related strategies for minimizing risk. Resource pooling is an IT term used in cloud computing environments to describe a situation in which providers serve multiple clients, customers or "tenants" with provisional and scalable services. These services can be adjusted to suit each client's needs without any changes being apparent to the client or end user.

x) Government Policy – Governments attempt to stabilize or regulate an economy by implementing specific policies to deal with inflation , unemployment, and interest rates.

Government policies contain the reasons things that are to be done in a certain way and the reason for doing in that direction. Public problems can originate in endless ways, and they require different policy responses. Governments establish many policies that guide businesses. The government can make changes in fiscal policy which leads to changes in taxes, trade, subsidies, regulations, interest rates, licencing and more. Businesses should be flexible enough to respond to changing rules and policies. The government policies are applicable at all the levels from the national level to local levels such as states and municipalities, and these local authorities have their own sets of rules. There are few international treaties which can influence the way companies to do business. Governments get revenue to spend from taxation. Increased spending requires increases in taxes or borrowing. Any tax increase will discourage investment, especially among entrepreneurs, who take the risks of starting and managing businesses. Increased spending also eats into the limited pool of savings, leaving less money for private investment.

1.5. IMPORTANCE OF INDIAN FINANCIAL SYSTEM :

Indian financial system played a pivotal in Indian economy. The following aspects have covered and discussed in brief it manner viz., A). Issuing and gathering of deposits B). Supply of loans from the collected pool of money: There are four important sources of the supply of loanable funds: (1) Savings, (2) Dishoarding, (3) Bank money, and (4) Disinvestment C). The undertaking of financial transactions, D). Boosting the growth of stock markets and other financial markets **,** E) . Setting up the legal commercial substructure

A. Issuing and gathering of deposits : Banks can employ a number of different deposit-gathering strategies ranging from promotional rates to prize draws to lure new customers. However, many banks attempt to gather more deposits by offering services other than just deposit accounts and hope that when customers sign up for these services the deposit accounts will follow. 1. Companies accepting deposits shall maintain a register of deposits, entering particulars of each depositor, as provided in the Rules, within 7 days of issue of the deposit receipt. 2. Entries made shall be authenticated by a director / company secretary / any officer authorized by the Board.

B. Supply of loans from the collected pool of money : There are four important sources of the supply of loanable funds: (1) Savings, (2) Dishoarding, (3) Bank money, and (4) Disinvestment. All of these sources are dependent upon the rate of interest, that is, they are interest-elastic.

(1) Savings : Savings done by households and firms out of their incomes are the biggest source of loanable funds. The loanable fund theorists considered savings in two senses. The Swedish economists considered saving in the ex-ante sense which means savings planned out of the anticipated incomes. D.H. Robertson took savings as the difference between the income of the previous period and consumption of the current period (S = Yt-1– Ct). In both these versions, savings were assumed to be interest-elastic; that is, the assumption was that the volume of saving increases with incomes and vice versa. It was conceded that savings by households depend on their income but the neoclassical contended that given the level of income, savings vary with the rate of interest. It is not only individuals, business concerns also save. Business concerns always retain a part of their earning for ploughing back into their business whether they are individual enterprises, partnerships or joint stock companies. While other considerations may also work with them, their savings depend also upon the current rate of interest. A high market rate of interest means a high cost of borrowing and this encourages business savings as a substitute for borrowing from the market. By saving thus the firms may not enter the loanable-funds market but this influences the rate of interest by reducing the demand for loanable funds. In Fig. 7.2, the curve S slopes from left upwards to the right showing that savings increase with rise in the rate of interest.

(2) Dishoarding : Dishoarding means bringing out hoarded money into use and thus constitutes a source of supply of loanable funds. Individuals are free to dishoard the idle cash balances from a previous period thereby making them active. People hoard money to satisfy their desire for liquidity. At a low rate of interest there is not much of an inducement to lends more at high rates of interest and less at lower rates. The supply curve of bank money (BM) is shown in the diagram to be sloping upward to the right, that is, it is interest-elastic.

(3) Disinvestment : Disinvestment means not providing sufficient funds for depreciation of equipment. It takes place when business concerns do not feel inclined to put part of their earnings into the depreciation fund which is used for replacement of existing capital equipment when it wears out. In effect this means a supply of active balances or loanable funds. Disinvestment particularly characterizes declining industries or other industries in a period of high and booming rate of interest. As M.M. Bober has observed, “Disinvestment is encouraged somewhat by a high rate of interest on loanable funds. When the market rate is high some of the current capital may not produce a marginal revenue product to match this rate of interest. The firm may decide to let this capital run down and to put the depreciation funds in the loan market.

C. The undertaking of financial transactions : “undertaking” shall mean an undertaking in which the investment of the company exceeds twenty per cent. of its net worth as per the audited balance sheet of the preceding financial year or an undertaking which generates twenty per cent. of the total income of the company during the previous financial year; Financial undertaking of a Person means (i) any transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of such Person, or (ii) any agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party ’s assets, liabilities or exchange transactions, including, but not limited to, interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options.

D. Boosting the growth of stock markets and other financial markets :

As mentioned earlier, a growth stock is characterized by higher price multiples and valuations and low dividend payouts while exhibiting a stronger and more volatile momentum in the market. Apart from consumer spending, business investment is also a key indicator of economic growth. When stock prices are high, businesses are likely to make more capital investments due to high market values. Many companies issue an IPO during this time as market optimism is high and it is a good time to raise capital through the sale of shares.

E. Setting up the legal commercial substructure :

i) Introduction : Commercial law is one of the most significant legal areas. This area of law deals with business-to-business and consumer-to-business transactions, as well as employee contracts, business contracts, financial transactions, and other topics. Commercial law, also referred to as mercantile law or trade law, is the body of law that governs the rights, relationships, and actions of people and businesses involved in commerce, merchandising trade, and sales. It is frequently seen as a branch of civil law that deals with both private and public law issues. The article talks about how this body of law helps in regulating businesses and how they do their work around frameworks set by this law.

ii) Commercial law **:** Before attempting to define commercial law, it is necessary to consider its content or the aspect of the legal reality that it governs. To begin, we can remark that commercial law deals with legal relationships between individuals, which is why it is classified as private law. However, distinguishing between civil and commercial issues is difficult, particularly since certain legal organizations and contracts, such as purchase, society, deposit, and so on, are governed by both codes. This means that the content of each code can not be utilized to distinguish between civil and commercial matters. To make this distinction, we must first examine the historical development of commercial law to determine which aspects of legal reality it now governs.

iii) The nature of commercial law : What is the definition of commercial law? In the absence of a well-established legal definition of commercial law, several definitions have been proposed by writers on the subject. The following are some of them: As HW Disney noted in his book, the Elements of Commercial Law (1931), commercial law is a term that is difficult to define precisely, but it is used to refer to all of the parts of English law that are concerned with commerce, trade, and business. In the book, Contract and Commercial Law, HC Gutteridge said that the goal of commerce is to transact in products, and commercial law can be described as the particular laws that apply to contracts for the sale of things if we use this criterion. The mercantile nature of the subject runs through all of these different definitions of commercial law. The law of commerce is known as commercial law. It is concerned with commercial transactions, that is, transactions in which both parties deal with each other for the purpose of doing business. Many diverse areas of commercial activity are covered by commercial law. An exhaustive list of the subject's contents is neither possible nor desirable. Commercial law is a practical and relevant subject that aims to make the corporate community's commercial procedures easier. As those practices alter and evolve, typically to accommodate new technologies, so may the content of business law. A strict description of the subject's scope will only stifle this process.

iv) Historical Development of Commercial Law :

a) The middle ages : Modern business law has its origins in the middle ages' lex mercatoria (merchant law). During that time, merchants would travel across Europe with their wares to fairs and markets. Special local courts, such as the courts of the fairs and boroughs, and the staple courts, where the judge and jury would be merchants themselves, would decide their conflicts. These merchant courts would make decisions fast, apply flexible evidence and procedural rules, and preserve good faith and fairness standards. A readiness to recognize innovative mercantile methods was also present. Some of the most fundamental characteristics of current commercial law were formed during this time period, including the bill of exchange, charter party, and bill of lading, assignability and negotiability, stoppage in transit acceptance, and general average.

b) The common law age : The Court of Admiralty, which continued to recognize the lex mercatoria, took over most of the business of the merchant courts in the fifteenth and sixteenth centuries. However, in the seventeenth century, the Naval Court's commercial competence was taken over by common law courts. As the merchant courts had ceased to exist by that time, the common law courts took over the majority of the nation's mercantile litigation. In order to preserve that business, common law courts embraced some of the lex mercatoria's requirements. The lex mercatoria was not fully absorbed into the common law until the late seventeenth and eighteenth centuries.

c) The rise of consumerism : After World War II, the establishment of the welfare state ushered in the next major era of transformation. During this time, there was a shift away from the Victorian ideas of freedom and contract sanctity (and the laissez-faire economics on which those values were based) and toward those of social responsibility and the protection of the economically weaker against the economically stronger.

d) 20th century : Commercial Law returned to its old subjective conception at the turn of the twentieth century. It was once again deemed a law that restricted the activities of specific people. We used to talk about merchants in the Middle Ages, but in the twentieth century, the term merchant was gradually superseded by the concepts of enterprise and entrepreneur.

v) Sources of Commercial law :

a) Contracts : Contract law is the foundation of commercial law. Goods and services are provided in the world of commerce according to the conditions of contracts negotiated between businessmen. Each contract term may have been individually negotiated by the parties in some cases. However, beyond the terms relating to subject matter and price, there would have been little or no negotiation on the specific terms of the agreement in many circumstances. In such circumstances, the parties prefer to employ standard form contracts to enact their agreement, saving time and money that would have been spent negotiating each phrase individually. The courts are unwilling to interfere with the concepts of contract freedom and sanctity as long as the standard form contract is made between businessmen and not between an ordinary person and a company provider of goods and services. This is especially true of standard form contracts developed by trade groups and adopted by their members, such as bills of lading, charter parties, insurance policies, and commodity market contracts of sale.

b) Customs : The customs of merchants have long been a productive source of legislation in the sphere of commercial law. A custom is a regulation that has become law in a specific location, whereas a usage is the established practice of a certain trade or profession. In fact, courts frequently disregard the technical distinctions between custom and use, conflating the two categories. To insinuate a term into a commercial contract, a court may accept proof of a trade tradition or usage.

The custom or usage must be one that the court will recognize for these purposes because only then will the custom or usage become a legally binding obligation.

c) Common Law : When a specific commercial law does not have a norm to apply or when there is no tradition, Common law can be used to control commercial issues. Prior court judgments set the precedent for common law. In other words, no hard and fast rules apply to common law rulings. Furthermore, judgments may differ from one court to the next or from one state to the next.

vi) Commercial laws in India : The important business or commercial laws of India are-

a) The Indian Contract Act, 1872 : It is the most well-known business law in our country. It went into force on September 1, 1872, and it applied to the whole country of India, except for Jammu and Kashmir. It consists of 266 sections. The fundamentals are defined by numerous rulings in the Indian judiciary under the Indian Contract Act, 1872. Specific requirements for legitimate contracts include free consent, consideration, competency, eligibility, and so on. A Legitimate contract must follow these rules or else it is ruled null and void.

b) The Sale of Goods Act, 1930 : The Sale of Goods Act of 1930 governs contracts and agreements involving the sale of goods and services. Commodity sales are one of the most important sorts of transactions under Indian law. India is one of the world's greatest economies and a magnificent country. As such, it has enough checks and safeguards in place to ensure the safety and prosperity of its business and commerce communities. The Sale of Goods Act of

1930, which defines and declares terminology relating to the sale of goods and the exchange of commodities, is explained in this section.

c) The Indian Partnership Act, 1932 : According to the Indian Partnership Act of 1932, a partnership is a relationship between two or more parties who agree to share the earnings of a business, either all or merely one or more persons acting for them all. A Partnership is a legally binding agreement. A partnership, as defined, is an association of two or more people. A partnership is formed as a result of a contract or agreement between two or more people. A partnership is not formed by the operation of the law. It also can not be inherited. It must be a mutually agreed-upon voluntary arrangement between couples. A partnership agreement can be either written or oral in nature. Sometimes, the partner's continuous actions and mutual understanding imply such an arrangement.

d) The Limited Liability Partnership Act, 2008 : The Limited Liability Partnership Act, 2008 covers the scope of limited liability partnerships. The definition of a limited liability partnership is an alternative corporate company form that provides the partners with the benefits of restricted liability while incurring low compliance costs. It also allows the partners to organize their internal structure in the same way that a typical partnership would. A limited liability partnership is a legal entity that is accountable for the entire amount of its assets. The partners' responsibility, on the other hand, is limited. As a result, an LLP is a crossover between a corporation and a partnership. It is not the same thing as a limited liability company.

e) Companies Act, 2013 : With the domestic and international economic landscape changing at an unprecedented rate, India's government chose to replace the Companies Act, 1956, with the new legislation. The Companies Act, 2013, aims to bring company legislation in India up to date. The Act looks at the definition and characteristics of a company. The Companies Act, 2013, fundamentally transformed India's corporate regulations by introducing several previously unknown ideas. The introduction of the "One Person Company" concept was one such game-changer.

f) Arbitration and Conciliation Act, 1996 : In India, arbitration is now controlled by arbitration law, which is primarily set down in the Arbitration and Conciliation Act, 1996. The objective of this Act was to consolidate and reform the law governing domestic arbitration, international commercial arbitration, and foreign award enforcement, as well as defining the law relating to conciliation.

1.6. SUMMARY :

A financial system is a set of institutions, such as banks, Capital good qualify as tangible assets that an organization uses to produce goods or services such as office buildings, equipment and machinery., and stock exchanges, that permit the exchange of funds. Financial systems exist on firm, regional, and global levels. Banking is said to be the backbone of any economy as it has a direct bearing with financial and economic development. Like any other industry, the financial system can be organized using markets, central planning, or some mix of both. Financial markets involve borrowers, lenders, and investors negotiating loans and other transactions. The structure of the Indian financial system comprises a total of two elements- i) organized markets and ii) unorganized markets. There are four main components of the Indian Financial System. This includes: Financial Institutions, Financial Assets, Financial Services, Financial Markets. The Financial Institutions act as a mediator between the investor and the borrower. The products which are traded in the Financial Markets are called Financial Assets. 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 marketplace where buyers and sellers interact with each other and participate in the trading of money, bonds, shares and other assets is called a financial market.

All commercial transactions, operations, and interactions between and among all business entities, regulatory bodies, business support agencies, modes of transportation, and customers are governed by commercial law. As a result, commercial law is critical for the smooth, fair, and lucrative operation of enterprises in every sector of commerce and the economy. Commercial law has evolved significantly over time, but in general, it is intended to provide business owners with the ability to manage their operations within legal constraints. There are various commercial laws in India that must be followed by every business.

1.7. TECHNICAL TERMS :

Asset Management :

Asset management is part of a financial company that employs experts who manage money and handle the investments of clients. This is done either actively or passively.

Commercial transactions :

The term commercial transactions is merely descriptive. It is merely a collective name for those rules that relate to business dealings. The term itself has no legal consequences. It serves only as a convenient and illustrative shelter under which certain legal rules may be assembled.

Arbitration :

The process of arbitration is overseen by a professional arbitrator, who facilitates communication between two sides of a dispute. An arbitrator may or may not be an attorney, and many retired judges take positions as arbitrators. Often the most effective arbitrators have knowledge of, and experience in, the subject of the disputes they hear. For instance, an employment law attorney, or retired administrator in the state’s employment division, may be effective in resolving an employment dispute.

Financial resources :

The definition of financial resources is the money you have available for spending. Types of funding commonly used in business include venture capital, cash in the bank and assets your company can convert to cash easily. Your financial resources are money available for spending.

Over-the-counter (OTC) :

In financial trading, an over-the-counter market is a market where financial securities are traded through a broker-dealer network as opposed to on a financial exchange, which is known as exchange trading and is centralized. An over-the-counter market is not centralized and occurs between two parties.

Capital goods :

Capital good qualify as tangible assets that an organization uses to produce goods or services such as office buildings, equipment and machinery.

Disinvestment :

Divestment or disinvestment means selling a stake in a company, subsidiary or other investments. Businesses and governments resort to divestment generally as a way to pare losses from a non-performing asset, exit a particular industry, or raise money. Governments often sell stakes in public sector companies to raise revenues.

Financial securities :

A financial security is a document of a certain monetary value. Traditionally, it used to be a physical certificate but nowadays, it is more commonly electronic.

Commerce :

Commerce is the exchange of goods, services or commodities on a large scale. How It Works. Nearly every business transaction is a form of commerce: Purchasing food at a restaurant, buying stocks on the stock market, selling goods in a store, drilling for oil, etc.

1.8. SELF ASSESSMENT QUESTIONS :

1. Define financial system and explain its importance of Financial System?
2. Discuss components of Indian Financial System.
3. Explain the features and characteristics of Financial System?
4. What is Financial System? Explain the functions of Financial System.
5. What are the advantages and dis advantages of Financial System?

1.9. SUGGESTED READINGS :

1. T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2. Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3. Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4. Website on Indian Financial markets

Dr. KRISHNA BANANA

LESSON - 2

FINANCIAL SYSTEM AND ITS COMPONENTS

AIMS AND OBJECTIVES :

After studying this lesson student should be able to:

- Know the components of Indian Financial System
- Understand the financial institutions and markets
- Awareness about financial assets and financial services

STRUCTURE OF THE LESSON :

2.1 Introduction

2.2 Structure of Indian Financial System

2.3 Components of Indian Financial System

2.4 Financial Institutions

2.5 Financial Markets

2.6 Financial Assets

2.7 Financial Services

2.8 Summary

2.9 Technical Terms

2.10 Self Assessment Questions

2.11 Suggested Readings

2.1. INTRODUCTION :

A developing country – India is the 5th largest economy in the world in terms of its nominal GDP. The Indian Financial System refers to all institutions, structures, and services that provide pecuniary facilities to the public. It makes possible trade and transfers of funds in a secure manner. India, being a democracy has independent pillars of the financial system especially in the areas of banking, capital and stock markets, insurance, liabilities, claims, transactions, and investments. It is important for wealth creation and the economic development of the country. A financial system is a set of institutions, such as banks, insurance companies, and stock exchanges, that permit the exchange of funds. Financial systems exist on firm, regional, and global levels. Banking is said to be the backbone of any economy as it has a direct bearing with financial and economic development. Economic development becomes faster if the banking sector is stronger and efficient. There are four key pillars to consider for a sound financial system to be put in place. Otherwise known as the 4Ps, these are pricing, profit, performance, and planning. You've probably heard of Suze Orman, Dave Ramsey and Robert Kiyosaki (or at least his bestseller, Rich Dad, Poor Dad). But those aren't the only personal finance gurus worth following. Check out these other moneymakers who dispense their own unique brand of financial advice. Manmohan Singh is one of India's leading economists and is known to have been the brain behind India's socio-economic reforms and economic liberalization

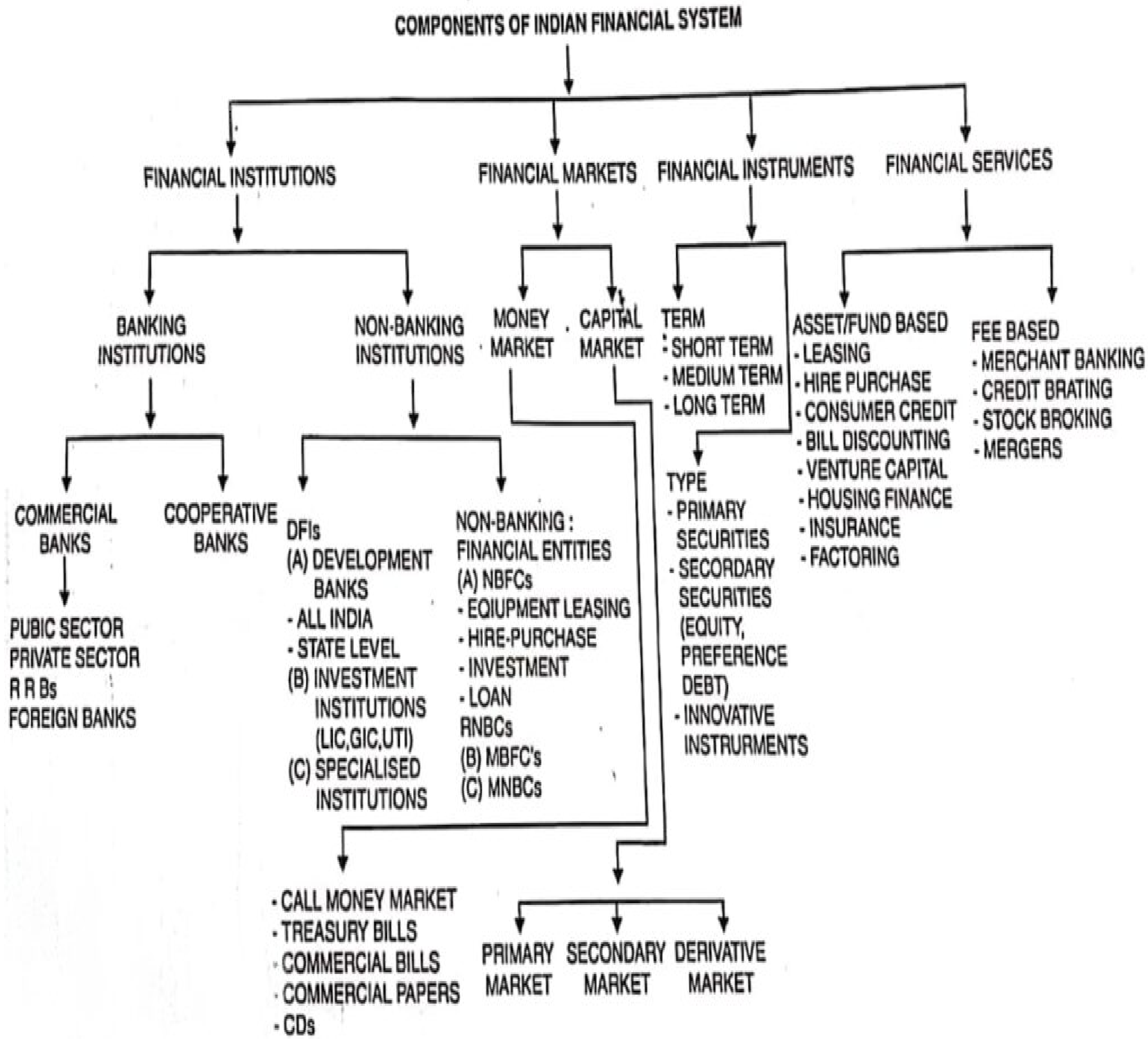
2.2. STRUCTURE OF INDIAN FINANCIAL SYSTEM :

The Structure of Indian Financial System is about A financial system is a system that system which allows the exchange of funds between investors, lenders, and borrowers. Indian Financial systems operate at national and global levels. They consist of complex, closely related services, markets, and institutions intended to provide an efficient and regular linkage between investors and depositors. The structure of the Indian financial system comprises a total of two elements- i) organized markets and ii) unorganized markets. The financial system is related to the institution that involves the financial markets and services related to the institution for enabling the corporate activities to facilitate the transfer of finance and management of accounts. The classification of the structure of the Indian financial system provides the aspects related to the financial institutions and their intervention.

2.3. COMPONENTS OF INDIAN FINANCIAL SYSTEM :

An ordinary financial system comprises 4 parts such as i) money, ii) financial instruments, iii) financial institutions, and iv) central banks. The institution of the Indian financial system has maintained the ‘profit-making public sector undertaking’ since 1969 that has supported the structure of the Indian financial system and functional structure of the commercial banks. Components of The Indian Financial System. It has 5 major components.1. Financial Institution, 2. Financial Assets, 3. Financial Services, 4. Financial Markets, 5. Money

2.3.1. Financial Institution : A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers. Virtually everyone living in a developed economy has an ongoing or at least periodic need for the services of financial institutions.



Structure of Indian Financial System

2.3.1.a . Characteristics of Financial institutions :

i) Dealing with financial and monetary transactions: A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.

ii) Encompass a broad range of business operations: Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.

iii). It is varied : Financial institutions can vary by size, scope, and geography.

2.3.1.b. Understanding Financial Institutions (FIs) : Financial institutions serve most people in some way, as financial operations are a critical part of any economy, with individuals and companies relying on financial institutions for transactions and investing. Governments consider it imperative to oversee and regulate banks and financial institutions because they do play such an integral part in the economy. Historically, bankruptcies of financial institutions can create panic. In the United States, the Federal Deposit Insurance Corporation (FDIC) insures regular deposit accounts to reassure individuals and businesses regarding the safety of their finances with financial institutions. The health of a nation's banking system is a linchpin of economic stability. Loss of confidence in a financial institution can easily lead to a bank run.

2.3.1.c. Role of Financial Institution : The following are the important role of financial institutions take n into consideration for the development of employment. i). Mediate ii) . Savings are gathered iii) Safe investments v).Turned into an investment v) Uniform denominations vi) Provide a balance

i) Mediate : Their role is to mediate between the lender and the borrower.

ii) Savings are gathered: The lender’s savings are gathered through various commercial markets.

iii) Safe investments : These can turn risky financings into safe investments.

iv) Turned into an investment : A liability that is for a short duration can be turned into an investment for a longer duration.

v) Uniform denominations : These can make comparable large deposits and loans with small deposits and loans due to uniform denominations.

vi) Provide a balance : These provide a balance between the loan taker and the amount depositor.

2.3.1.d Importance of Financial Institutions : Financial institutions are important because they provide a marketplace for money and assets, so that capital can be efficiently allocated to where it is most useful. For example, a bank takes in deposits from customers and lends the money to borrowers. Without the bank as an intermediary, any one individual is unlikely to find a qualified borrower or know how to service the loan. Via the bank, the depositor is able to earn interest as a result. Likewise, investment banks find investors to market a company's shares or bonds to.

2.3.1 .e. Functions of the 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:

i) A short term liability can be converted into a long term investment

ii) It helps in conversion of a risky investment into a risk-free investment

iii) Also acts as a medium of convenience denomination, which means, it can match a small deposit with large loans and a large deposit with small loans.

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

2.3.1.f. Categories of Financial Institutions : The financial institutions can further be divided into two Categories .

Category-1: 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

Role of Banking Institutions or Depository Institutions : i) Their role is to acquire money from the public.ii) Interests are paid on these deposits made by the people.iii) The lent money is then provided as loans to those who need it.
iv) Interests are charged on these loans given to those who require it.v) Examples include banks and other credit unions.

Category-2 : 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.
Role of Non-banking Institutions or Non-depository Institutions : i) Their role is to sell commercial and financial goods and products to those who visit them. i) These are based on offering insurance, mutual funds, brokerage deals, etc. iii) Examples of these majorly include companies.

2.3.1.g. Classification of Financial Institutions : Further, Financial Institutions can be classified into three categories:

i) Regulatory – Those managements and institutions which regulate and overlook the commercial and financial market. Example – RBI, IRDA, SEBI, etc.

ii) Intermediates – Those institutions which provide financial counseling and help by offering loans etc. Example – PNB, SBI, HDFC, BOB, Axis Bank.

iii) Non Intermediates – Institutions that provide financial aid to corporate customers. It includes NABARD, SIBDI, etc.

2.3.1.h. Types of Financial Institutions :

Financial institutions offer a wide range of products and services for individual and commercial clients. The specific services offered vary widely between different types of financial institutions. The most common types of financial institutions are commercial banks, investment banks, insurance companies, and brokerage firms. These entities offer a wide range of products and services for individual and commercial clients such as deposits, loans, investments, and currency exchange.

i) Commercial Banks : A commercial bank is a type of financial institution that accepts deposits, offers checking account services, makes business, personal, and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking, as opposed to an investment bank. Banks and similar business entities, such as thrifts or credit unions, offer the most commonly recognized and frequently used financial services: checking and savings accounts, home mortgages, and other types of loans for retail and commercial customers. Banks also act as payment agents via credit cards, wire transfers, and currency exchange. Financial institutions can operate at several scales from local community credit unions to international investment banks.

ii) Investment Banks : Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings.

iii) Insurance Companies : Among the most familiar non-bank financial institutions are insurance companies. Providing insurance, whether for individuals or corporations, is one of the oldest financial services. Protection of assets and protection against financial risk, secured through insurance products, is an essential service that facilitates individual and corporate investments that fuel economic growth.

iv) Brokerage Firms : Investment companies and brokerages, such as mutual fund and exchange-traded fund (ETF) provider Fidelity Investments, specialize in providing investment services that include wealth management and financial advisory services. They also provide access to investment products that may range from stocks and bonds all the way to lesser-known alternative investments, such as hedge funds and private equity investments.

What's the Difference Between a Commercial and Investment Bank? A commercial bank, where most people do their banking, is a type of financial institution that accepts deposits, offers checking account services, makes business, personal, and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings.

2.4. FINANCIAL MARKETS :

Financial markets involves both short-duration loans and long-duration loans. It can be given to both individuals and organizations. These are granted by several banks, financial institutions, non – financial institutions, etc. The marketplace where buyers and sellers interact with each other and participate in the trading of money, bonds, shares and other assets is called a financial market. The financial market can be further divided into four types such as capital market, money market, foreign exchange market, and credit market.

2.4.a. Capital Market : Designed to finance the long term investment, the Capital market deals with transactions which are taking place in the market for over a year. The capital market can further be divided into three types: These deal with trades and transactions which take place in the market. These take place for a period of 1 year. These are of 3 major types:I) Corporate Securities Market,2) Government Securities Market,3) Long Term Loan Market Capital Market

2.4.b. 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: These are for short-duration investments.They are denominated by the government, banks, and other institutions. This market is based on wholesale debt having a low-risk factor with transparent instruments and formats used.It has 2 main types: 1.Organized Money Market 2.Unorganized Money Market

2.4.c. 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. highly developed market dealing with several currencies. It is responsible for the foreign transfer of funds.This takes place on the basis of foreign currency rates.

2.4.d. Credit Market : A market where short-term and long-term loans are granted to individuals or Organisations by various banks and Financial and Non-Financial Institutions is called Credit Market The markets where trade and exchange of bonds, shares, money, investments, and assets take place between buyers and purchasers are these. Financial markets have 4 major types:

2.5. FINANCIAL ASSETS (INSTRUMENTS) :

The products which are traded in the Financial Markets are called 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: The objective of these is to provide convenient trade of securities in the commercial and financial market based on the requirements of those who seek credit. These are the goods or products which are sold in the financial market. Financial Assets include:1. Call Money: 2. Notice Money: 3. Term Money: 4. Treasury Bills: 5 Certificate of Deposit: 6. Commercial Paper.

2.5.i. Call Money – Call money is a short-term loan which comes with interest. The tenure of call money loan ranges from one day to fourteen days after the disbursement of the amount is made by the lending institution. As these loans are not of long-term, there are no defined timelines to repay interest and principal. Without any assurance, this is a loan lent for just a day which is repaid the next day 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. Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule, nor does the lender have to provide any advanced notice of repayment. Call money is any type of short-term, interest-earning financial loan that the borrower has to pay back immediately whenever the lender demands it. The call money rate is the interest rate on a type of short-term loan that banks give to brokers who in turn lend the money to investors to fund margin accounts. For both brokers and investors, this type of loan does not have a set repayment schedule and must be repaid on demand.

2.5.ii. Notice Money – When banks and other financial entities participating in money market borrow and lend funds from each other for a period between 2 days and 14 days, then it is called Notice Money. Without any assurance, this is a loan rent for more than a day but less than a duration of 14 days. No collateral securities are required for this kind of transaction. The call and notice money market is an inter-bank market the world over and therefore the Narsimham Committee has recommended that we adopt the same in India.

2.5.iii. Term Money – Money, in simple terms, is a medium of exchange. It is instrumental in the exchange of goods and/or services. Further, money is the most liquid assets among all our assets. Money is an officially issued legal tender that typically consists of notes and coins. Money is the circulating medium of exchange as defined by a government. Money is often synonymous with cash and includes various instruments such as checks. When the maturity period of a deposit is beyond 14 days, it is called term money. When the duration of the maturity of a particular amount deposited is more than 14 days. If money is borrowed or lend for period between 2 days and 14 days it is known as Notice Money. Term Money refers to borrowing/lending of funds for period between 15 days and one year.

2.5.iv. Treasury Bills – Treasury bills, also known as T-bills, are short term maturity promissory notes issued by a national government – their maturity is usually three months, but may range from just a few days to up to twelve months. Treasury bills are primary instruments for raising funds and regulating the money supply through open-market ... With the duration of maturity of less than a year, these belong to the government in the bond or debt security format. These are bought in the form of government T– Bills which are taken as loans from the government. 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. Treasury bill market refers to the market where treasury bills buy and sell. Treasury bills are very popular and enjoy a higher degree of liquidity since they issue by the government. Explain and Learn, Treasury Bills: Meaning, Features, Types, and Importance! Contents: 1. Explain and Learn, Treasury Bills: Meaning, Features, Types, and Importance!

2.5.v. Certificate of Deposits – A certificate of deposit (CD) is a time deposit, a financial product commonly sold by banks, thrift institutions, and credit unions in the United States. CDs differ from savings accounts in that the CD has a specific, fixed term (often one, three, or six months, or one to five years) and usually, a fixed interest rate. The first known use of certificate of deposit was in 1846. Financial Definition of certificate of deposit. A certificate of deposit (CD) is a relatively low-risk debt instrument purchased directly through a commercial bank or savings and loan institution. The Certificate of Deposit (CD) is an agreement between the depositor and the bank where a predetermined amount of money is fixed for a specific time period Issued by the Federal Deposit Insurance Corporation (FDIC) and regulated by the Reserve Bank of India, the CD is a promissory note, the interest on which is paid by the bank With the duration of maturity of less than a year, these belong to the government in the bond or debt security format. These are bought in the form of government T– Bills which are taken as loans from the government. It is a dematerialized form (Electronically generated) for funds deposited in the bank for a specific period of time. The disclosure statement should outline the interest rate on the CD and say if the rate is fixed or variable. It also should state when the bank pays interest on the CD, for example, monthly or semi-annually, and whether the interest payment will be made by check or by an electronic transfer of funds.

2.5.vi. Commercial Paper – Commercial paper is a form of unsecured, short-term debt. It's commonly issued by companies to finance their payrolls, payables, inventories, and other short-term liabilities. Maturities on commercial paper range from one to 270 days, with an average of around 30 days. Commercial paper is issued at a discount and matures at its face value. The minimum denomination of commercial paper is $100,000 and it pays a fixed rate of interest that fluctuates with the market. Used by corporates, it is an instrument that is not secured even though for a short duration of debt. It is an unsecured short-term debt instrument issued by corporations.
Commercial paper is a commonly used type of unsecured, short-term debt instrument issued by corporations, typically used for the financing of payroll, accounts payable and inventories, and meeting other short-term liabilities. Maturities on commercial paper typically last several days, and rarely range longer than 270 days. Commercial paper is a money-market security issued (sold) in the commercial paper market by large corporations to obtain funds to meet short-term debt obligations (for example, payroll) and is backed only by an issuing bank or company promise to pay the face amount on the maturity date specified on the note. Commercial paper is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts payable and inventories and meeting short-term liabilities. Maturities on commercial paper rarely range longer than 270 days. Commercial paper is usually issued at a discount from face value... The commercial paper market is growing, and most of the investments are through prime money market Money Market The money market is a financial market wherein short-term assets and open-ended funds are traded between institutions and traders. read more funds (MMF).

2.6. FINANCIAL SERVICES :

The major objective of these is to provide counseling to their visitors regarding the purchase or selling of a property, permitting transactions, deals, lending, and investments. These make sure the effectiveness of the investment and arrangement of the fund source too. These are usually taken up by asset and liability management companies . Financial services also include in them: 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 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. The financial services in India include: **b**anking Services, Insurance Services, Investment Services, and Foreign Exchange Services.

2. 6. A. Banking Services : Banking is directly or indirectly connected with the trade of a country and the life of each individual. It is an industry that manages credit, cash, and other financial transactions. Banking Services means each and any of the following bank services: (a) commercial credit cards, (b) stored value cards and (c) treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services). Functions performed by a bank such as the provision of loans, accepting debits, giving out credit or debit cards, account opening, granting checkbooks, etc are a part of these services.Any small or big service provided by banks like granting a loan, depositing money, issuing debit/credit cards, opening accounts, etc. Added on to the bank as a service is a group of decomposed banking services consisting of an ecosystem of FinTech startups and service providers. With this technology, based on the BaaS-platform, it is possible to create FinTech banks, which could improve banking processes and provide increased convenience for banking clients.

2. 6. B. Insurance Services : Insurance is a contract, represented by a policy, in which a policyholder receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured. Insurance policies are used to hedge against the risk of financial losses, both big and small, that may result from damage to the insured or their property, or from liability for damage or injury caused to a third party. These include services of offering insurance, selling policies, brokerage deals, etc – Services like issuing of insurance, selling policies, insurance undertaking and brokerages, etc. are all a part of the Insurance services.Insurance is a contract (policy) in which an insurer indemnifies another against losses from specific contingencies or perils. There are many types of insurance policies. Life, health, homeowners, and auto are the most common forms of insurance. The core components that make up most insurance policies are the deductible, policy limit, and premium. A multitude of different types of insurance policies is available, and virtually any individual or business can find an insurance company willing to insure them—for a price. The most common types of personal insurance policies are auto, health, homeowners, and life. Most individuals in the United States have at least one of these types of insurance, and car insurance is required by law.

a) Insurance Policy Components : When choosing a policy, it is important to understand how insurance works. A firm understanding of these concepts goes a long way in helping you choose the policy that best suits your needs. For instance, whole life insurance may or may not be the right type of life insurance for you. Three components of any type of insurance are crucial: premium, policy limit, and deductible.

b) Premium : A policy's premium is its price, typically expressed as a monthly cost. The premium is determined by the insurer based on your or your business's risk profile, which may include creditworthiness. For example, if you own several expensive automobiles and have a history of reckless driving, you will likely pay more for an auto policy than someone with a single midrange sedan and a perfect driving record. However, different insurers may charge different premiums for similar policies. So finding the price that is right for you requires some legwork.

c) Policy Limit : The policy limit is the maximum amount that an insurer will pay under a policy for a covered loss. Maximums may be set per period (e.g., annual or policy term), per loss or injury, or over the life of the policy, also known as the lifetime maximum. Typically, higher limits carry higher premiums. For a general life insurance policy, the maximum amount that the insurer will pay is referred to as the face value, which is the amount paid to a beneficiary upon the death of the insured.

d) Deductible : The deductible is a specific amount that the policyholder must pay out of pocket before the insurer pays a claim. Deductibles serve as deterrents to large volumes of small and insignificant claims. Deductibles can apply per policy or per claim, depending on the insurer and the type of policy. Policies with very high deductibles are typically less expensive because the high out-of-pocket expense generally results in fewer small claims.

2. 6. C. Types of Insurance :

There are many different types of insurance. Let's look at the most important.

a) Health Insurance : With regard to health insurance, people who have chronic health issues or need regular medical attention should look for policies with lower deductibles. Though the annual premium is higher than a comparable policy with a higher deductible, less expensive access to medical care throughout the year may be worth the tradeoff.

b) Home Insurance : Homeowners insurance (also known as home insurance) protects your home and possessions against damage or theft. Virtually all mortgage companies require borrowers to have insurance coverage for the full or fair value of a property (usually the purchase price) and won't make a loan or finance a residential real estate transaction without proof of it.

c) Auto Insurance : When you buy or lease a car, it's important to protect that investment. Getting auto insurance can offer reassurance in case you're involved in an accident or the vehicle is stolen, vandalized, or damaged by a natural disaster. Instead of paying out of pocket for auto accidents, people pay annual premiums to an auto insurance company; the company then pays all or most of the costs associated with an auto accident or other vehicle damage.

d) Life Insurance : Life insurance is a contract between an insurer and a policy owner. A life insurance policy guarantees that the insurer pays a sum of money to named beneficiaries when the insured dies in exchange for the premiums paid by the policyholder during their lifetime.

e) Travel Insurance : Travel insurance is a type of insurance that covers the costs and losses associated with traveling. It is useful protection for those traveling domestically or abroad. According to a 2021 survey by insurance company Battleface, almost half of Americans have faced fees or had to absorb the cost of losses when traveling without travel insurance.

2. 6. D. Investment Services :

An investment is an asset or item accrued with the goal of generating income or recognition. In an economic outlook, an investment is the purchase of goods that are not consumed today but are used in the future to generate wealth. nvestment Services means investment legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services Examples of Investment Services in a sentence Investment services include overlooking and management of investment, assets, and deposits. It mostly includes asset management. Investment management is a phrase that refers to the buying and selling of investments within a portfolio, and can also include banking and budgeting duties, as well as taxes. Investment banking is a specific division of banking related to the creation of capital for other companies, governments and other entities.

a) Types of Investment Services : "Investment services" is a general term used to describe a whole range of activities related to investments in financial instruments. Typically, the most common forms of investment services are the following:

i. The provision of investment advice whereby investors are provided with personal recommendations on the investments products that would be suitable for them (also known as an advisory service);
ii. The purchase or sale of financial products on an execution only basis (therefore without receiving investment advice); or
iii. The provision of portfolio management services (collective or discretionary).

The below links provide an explanation of the different types of investment services which may be provided by licensed entities.
It also explains some of the requirements these entities need to be in line with in terms of the revised Markets in Financial Instruments Directive known as MiFID II. One should always check that such entity is in fact licensed to provide investment services before entering into an agreement with such entity. This information is provided in the Financial Services Register. Investment services should only be sought from licensed entities.

2.6. E. Foreign Exchange Services :

These include currency exchanges, foreign exchanges, and foreign fund transfers. Exchange of currency, foreign exchange, etc. are a part of the Foreign exchange services. Foreign Exchange Services for Businesses: In a post-COVID globalised village, there are many small and medium businesses who can use a business foreign exchange service, as well as corporations who can benefit from the rates and added values in corporate foreign exchange.
1. American Express makes money from currency exchange.

2. One (1) Membership Rewards ® point will be awarded for every USD $30 your business wires internationally using the FX International Payments ("FXIP") service. The maximum award per transaction is 4,000 points. ...
3. Forward contracts are not suitable for every business. American Express is not providing you with legal, tax or financial advice.

2.7. MONEY : It is an important medium of exchange that can be used to purchase goods and services. It can also act as a store of value. It is uniformly accepted everywhere. It eases transactions especially impromptu daily purchases. It makes the goods and services easily exchangeable. It acts as a verifiable record in the socio-economic context.

2.7. i. Money Market : The money market is where financial instruments with high liquidity and very short maturities are traded. It is used by participants as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year. Involves dealing with short-term funds. Associates with assets like treasury bills, commercial paper, bills of exchange, certificate of deposits, etc. Its participants include commercial banks, NBFS, chit funds, etc. The RBI is responsible for its working. he money market is referred to as dealing in debt instruments with less than a year to maturity bearing fixed income. In this article, we will cover the meaning of money market instruments along with its types and objectives. The money market instruments carry a maturity period of less than a year. However tradable in the short term, stocks create wealth creation when invested for a number of years. These instruments are used to fund the short-term needs of the borrower. Used for long-term fund requirements. Risk is higher. It is a market for short term financial needs, for example, working capital needs. It's primary players are the Reserve Bank of India (RBI), commercial banks and financial institutions like LIC, etc., The main money market instruments are Treasury bills, commercial papers, certificate of deposits, and call money.

2.7. ii. Capital Market : Capital markets are where savings and investments are channeled between suppliers and those in need. Suppliers are people or institutions with capital to lend or invest and typically include banks and investors. Those who seek capital in this market are businesses, governments, and individuals. Capital markets are composed of primary and secondary markets. The most common capital markets are the stock market and the bond market. They seek to improve transactional efficiencies by bringing suppliers together with those seeking capital and providing a place where they can exchange securities. Capital markets refer to the venues where funds are exchanged between suppliers and those who seek capital for their own use. Suppliers in capital markets are typically banks and investors while those who seek capital are businesses, governments, and individuals. Capital markets are used to sell different financial instruments, including equities and debt securities. These markets are divided into two categories: primary and secondary markets. The best-known capital markets include the stock market and the bond markets. Involves dealing with long-term funds. Associates with assets such as shares, debentures, bonds and government securities. Its participants include Stockbrokers, underwriters, mutual funds, individual investors, financial institutions etc. The SEBI is responsible for its working.

2.8. SUMMARY :

Economic development becomes faster if the banking sector is stronger and efficient. There are four key pillars to consider for a sound financial system to be put in place. Otherwise known as the 4Ps, these are pricing, profit, performance, and planning. A financial system is a set of institutions, such as banks, insurance companie, and stock exchanges, that permit the exchange of funds. Financial systems exist on firm, regional, and global levels. Components of The Indian Financial System consisting of 5 major components.1. Financial Institution, 2. Financial Assets, 3. Financial Services, 4. Financial Markets, 5. Money. Financial institutions serve most people in some way, as financial operations are a critical part of any economy, with individuals and companies relying on financial institutions for transactions and investing. Financial Institutions can be classified into three categories. The most common types of financial institutions are commercial banks, investment banks, insurance companies, and brokerage firms. The financial market can be further divided into four types such as capital market, money market, foreign exchange market, and credit market. Financial Assets include:1. Call Money: 2. Notice Money: 3. Term Money: 4. Treasury Bills: 5 Certificate of Deposit: 6. Commercial Paper. The major objective of these is to provide counseling to their visitors regarding the purchase or selling of a property, permitting transactions, deals, lending, and investments. The financial services in India include: **b**anking Services, Insurance Services, Investment Services, and Foreign Exchange Services.

2.9. TECHNICAL TERMS :

Economy: An economy is a system of inter-related production and consumption activities. That ultimately determine the allocation of resources within a group. The production and consumption of goods and services as a whole fulfill the needs of those living and operating within it.

Financial system :

A financial system is the set of global, regional, or firm-specific institutions and practices used to facilitate the exchange of funds. Financial systems can be organized using market principles, central planning, or a hybrid of both.

Banking : Banking is the business of protecting money for others. Banks lend this money, generating interest that creates profits for the bank and its customers. A bank is a financial institution licensed to accept deposits and make loans. But they may also perform other financial services.

Economic development:

Economic Development is programs, policies or activities that seek to improve the economic well-being and quality of life for a community. What “economic development” means to you will depend on the community you live in. Each community has its own opportunities, challenges, and priorities.

Financial Institutions:

Financial institutions, sometimes called banking institutions, are business entities that provide services as intermediaries for different types of financial monetary transactions. Broadly speaking, there are three major types of financial institutions:

Financial Assets:

A financial asset is a tangible liquid asset that gets its value from a contractual claim. Cash, stocks, bonds, bank deposits and the like are examples of financial assets. Unlike land, property, commodities or other tangible physical assets, financial assets do not necessarily have inherent physical worth.

Financial Services:

Financial servicesrefer to services provided by the banks and financial institutions in a financial system. In general, all types of activities which are of financial nature may be regarded as financial services. In a broad sense, the term financial services mean mobilisation and allocation of savings.

Financial Markets:

Financial markets refer broadly to any marketplace where the trading of securities occurs. There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets. These markets may include assets or securities that are either listed on regulated exchanges or else trade over-the-counter (OTC).

2.10. SELF ASSESSMENT QUESTIONS :

1. Discuss different components of Indian Financial System
2. Explain different types of financial institutions?
3. What is Financial System? Explain the financial services.
4. What are financial assets? Briefly explain regarding financial assets
5. What is the difference between money market and capital market?
6. What is insurance services? Explain various types of insurance services.

2.11. SUGGESTED READINGS :

1. T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2. Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3. Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4. Website on Indian Financial markets

Dr. KRISHNA BANANA

LESSON - 3

FINANCIAL MARKETS

AIMS AND OBJECTIVES :

After studying this lesson student should be able to:

- Know the functions of Financial markets
- Understand the classification of financial markets
- Awareness about types of financial markets and its examples

STRUCTURE OF THE LESSON :

3.1 Introduction

3.2 Functions of Financial markets

3.3 Classification of Financial markets

3.4 Types of Financial markets

3.5 Examples of Financial markets

3.6 Summary

3.7 Technical Terms

3.8 Self Assessment Questions

3.9 Suggested Readings

3.1. INTRODUCTION :

To state it more clearly, let us imagine a bank where an individual maintains a savings account. The bank can use their money and the money of other depositors to loan to other individuals and organizations and charge an interest fee. The depositors themselves also earn and see their money grow through the interest that is paid to it. Therefore, the bank serves as a financial market that benefits both the depositors and the debtors.Financial markets refer broadly to any marketplace where the trading of securities occurs.There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets. These markets may include assets or securities that are either listed on regulated exchanges or else trade over-the-counter (OTC).Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society. When financial markets fail, economic disruption including recession and unemployment can result. Financial markets, from the name itself, are a type of marketplace that provides an avenue for the sale and purchase of assets such as bonds, stocks, foreign exchange, and derivatives.

3.1. a) Definition : A financial market is a word that describes a marketplace where bonds, equity, securities, currencies are traded. Few financial markets do a security business of trillions of dollars daily, and some are small-scale with less activity. These are markets where businesses grow their cash, companies decrease risks, and investors make more cash. Financial Market refers to a marketplace, where creation and trading of financial assets, such as shares, debentures, bonds, derivatives, currencies, etc. take place. It plays a crucial role in allocating limited resources, in the country's economy. It **acts as an** intermediary between the savers and investors by mobilizing funds between them. The financial market provides a platform to the buyers and sellers, to meet, for trading assets at a price determined by the demand and supply forces. Firms use stock and bond markets to raise capital from investors. Speculators look to various asset classes to make directional bets on future prices, while hedgers use derivatives markets to mitigate various risks, and arbitrageurs seek to take advantage of mispricings or anomalies observed across various markets. Brokers often act as mediators that bring buyers and sellers together, earning a commission or fee for their services.

3.1. b) Importance of Financial Markets : There are many things that financial markets make possible, including the following:

i) Financial markets provide a place where participants like investors and debtors, regardless of their size, will receive fair and proper treatment.

ii) They provide individuals, companies, and government organizations with access to capital.

iii) Financial markets help lower the unemployment rate because of the many job opportunities it offers

3.1. c) Meaning and Understanding of Financial Markets : A Financial Market is referred to space, where selling and buying of financial assets and securities take place. It allocates limited resources in the nation's economy. It serves as an agent between the investors and collector by mobilising capital between them. In a financial market, the stock market allows investors to purchase and trade publicly companies share. The issue of new stocks are first offered in the primary stock market, and stock securities trading happens in the secondary market. Financial markets play a vital role in facilitating the smooth operation of capitalist economies by allocating resources and creating liquidity for businesses and entrepreneurs.. Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers). The stock market is just one type of financial market. Financial markets are made by buying and selling numerous types of financial instruments including equities, bonds, currencies, and derivatives. Financial markets rely heavily on informational transparency to ensure that the markets set prices that are efficient and appropriate. The market prices of securities may not be indicative of their intrinsic value because of macroeconomic forces like taxes. Some financial markets are small with little activity, and others, like the New York Stock Exchange (NYSE), trade trillions of dollars of securities daily..

3.2. FUNCTIONS OF FINANCIAL MARKET :

The households (who are the surplus units) may keep their savings in banks or they may use that amount for buying securities from the capital market. The financial market and banks then lend the funds to the business firms (who are the deficit units). The banks and financial market compete with each other. The functions of the financial market are explained with the help of points below: The role of financial markets in the success and strength of an economy cannot be underestimated. Here are four important functions of financial markets: a) It facilitates mobilisation of savings and puts it to the most productive uses b) Determines the price of securities, c) Makes financial assets liquid, d) Lowers the cost of transactions

3.2. a) It facilitates mobilization of savings and puts it to the most productive uses : It mobilises savings by trading it in the most productive methods. As mentioned in the example above, a savings account that has money in it should not just let that money sit in the vault. Thus, financial markets like banks open it up to individuals and companies that need a home loan, student loan, or business loan. Mobilisation of Savings and Channelising the Savings into the most Productive Uses. As the financial markets act as a link between the savers and investors, it transfers savers' savings to the most productive and appropriate investment opportunities.

3.2. b) Determines the price of securities : The price of anything depends upon two factors: its demand and supply in the market. Hence, the demand and supply of financial securities and assets help decide the price of different financial securities. It assists in deciding the securities price by interaction with the investors and depending on the demand and supply in the market. It helps in determining the price of the **securities**. The frequent interaction between investors helps in fixing the price of securities, on the basis of their demand and supply in the market. Investors aim to make profits from their securities. However, unlike goods and services whose price is determined by the law of supply and demand, prices of securities are determined by financial markets.

3.2. c) Makes financial assets liquid : It gives liquidity to bartered assets. Buyers and sellers can decide to trade their securities anytime. They can use financial markets to sell their securities or make investments as they desire. It provides liquidity to tradable **assets**, by facilitating the exchange, as the investors can readily sell their securities and convert assets into cash. Financial Markets provides the savers and investors with a platform to convert the securities into cash, as they easily sell and buy the financial securities in this market.

3.2. d) Lowers the cost of transactions : In financial markets, various types of information regarding securities can be acquired without the need to spend. It **saves** the time, money and efforts of the parties, as they don't have to waste resources to find probable buyers or sellers of securities. Further, it reduces cost by providing valuable information, regarding the securities traded in the financial market. Investors and companies have to collect information regarding financial securities before investing in them, which can be very time-consuming. It also decreases cost by giving valuable information about the securities traded in the financial market. A market that serves as a link between the savers and borrowers, by transferring the capital or money from those who have a surplus amount of money to those who are in need of money or investment, is known as Financial Market. Simply put, Financial Market is a market that creates and exchanges financial assets. In general, the investors are known as the surplus units and business enterprises are known as the deficit units. Hence, a financial market acts as a link between surplus units and deficit units and brings the borrowers and lenders together. One can allocate funds with the help of the following two main ways: Through Banks Through Financial Markets

3.3. CLASSIFICATION OF FINANCIAL MARKET :

The financial markets classified into four categories such as: 1. By Nature of Claim 2. By Maturity of Claim 3. By Timing of Delivery 4. By Organizational Structure. They are all discussed briefly:

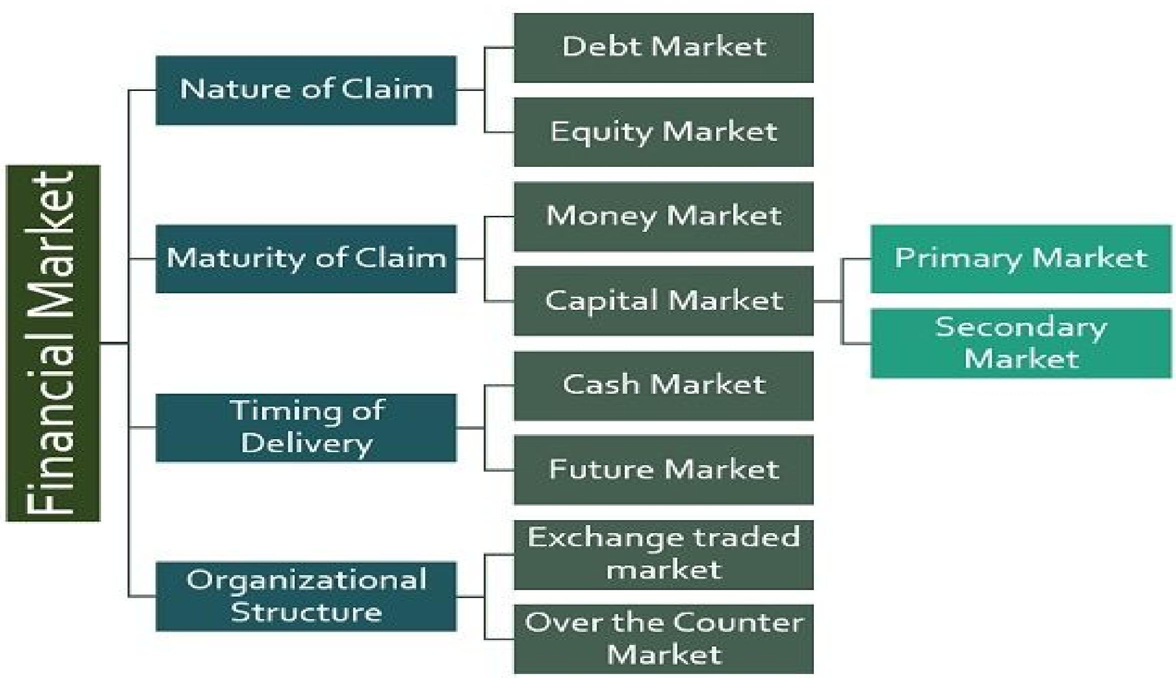


Fig.-1: Classification of Financial Market

3.3. A) By Nature of Claim :

In the corporate world, there are different activities, projects, or needs for which an entity requires funding. These funds are usually long-term funds that are raised for more than one year. There are various sources through which these funds can be raised. But the most common and usually used source is debt. Debt is a cheaper and simpler way to raise funds, although it carries fixed financial charges in the form of interest. Usually, in a market, when funds are required by an entity, the entity issues debt, and a lender who is worthy enough to buy it pays for it. This selling and buying of debt securities are called the “debt market.” **a**) Debt Market: The market where fixed claims or debt instruments, such as debentures or bonds are bought and sold between investors. b) Equity Market: Equity market is a market wherein the investors deal in equity instruments. It is the market for residual claims.

I) Debt Market : Debt market refers to the arrangement where buying and selling of securities take place in the form of bonds or debts. It is a market where an investor or lenders can easily approach each other. In the debt market, different types of bonds are issued at different rates of interest. Usually, the bonds or securities are issued by the government and various corporate entities to the potential lender. These bonds are repaid to the lender after a specified period.

a) Debt Market Instruments : Debt market instruments are all those securities that are issued by the private sector, the public sector, or the government to raise funds in the market. In this type of security, the rate of interest is fixed and is paid regularly at constant intervals. Debt instruments are the documents that represent the obligations for repayment. According to that document, the money borrowed by the entity should be repaid to the investor.

b) Types of debt market instruments : There are various types of debt market instruments that are available to a user. Some of them are:

i) Bonds: Bonds are the most common debt market instruments that are in the form of documents containing information about debt, rates of interest, and repayment periods. It forms a contract between the lender and borrower and binds the borrower with obligations.Bonds are commonly issued by government entities and individual businesses. Bonds are usually issued at the market price and contain a fixed charge in the form of interest. The rate of interest is called the face value of a bond, and usually, it is always in percentage form.There are various types of bonds that are issued by different entities, such as government bonds, institutional bonds, corporate bonds, and municipal bonds. It depends on the lender and borrower in which types of the bond they want to deal with.

ii) Debenture : Debentures are a type of long-term loan that is issued when capital is required for specific or unique projects. Debentures, unlike bonds, also bear a specific rate of interest that is represented in percentage form. However, in debentures, no asset is given as collateral. The trust between the lender and the borrower forms a contract.

Debentures are used by both government and corporate entities to fund various projects. However, the debentures issued by the government are for a longer period as compared to those that are issued by corporate entities.

iii) Commercial Paper : Commercial paper is another debt market instrument that is used by various entities. A commercial paper is an uncertain and unsecured promissory note drawn by the borrower on the lender. A commercial paper is issued and accepted when it is rated by any of the credit rating agencies.

iv) Fixed Deposits : Fixed deposits are one of the most popular and rapidly growing types of debt instruments. It is the best way of earning a better rate of return and investing money for further benefits. It is more secure and safer than mutual funds or stocks and is a wonderful debt market instrument.

c) Types of debt markets : There are two the primary market and the secondary market.

i) Primary market : In the primary market, usually, the borrower approaches the investor who wants to raise their capital. Also, in this type of market, the price at which the bonds will be issued is already decided by the investor when raising money.

ii) Secondary market : On the other hand, in a secondary market, bonds are usually traded in an investing market where the investor approaches multiple borrowers through bonds. The price of these bonds is fluctuating and keeps changing.

Debt Vs Equity

While understanding the difference between debt and equity, it is important to understand the meaning of both terms. Equity or equity financing refers to the process of raising capital through the issue of shares in a company. This is one of the common methods of raising funds. On the other hand, debt or debt financing refers to the process of raising capital through long-term loans in the form of debentures or bonds. This is the most used method of raising loans from the market.

II) Equity Market : Equity market is a market wherein the investors deal in equity instruments. It is the market for residual claims. An equity market is a market in which shares of companies are issued and traded, either through exchanges or over-the-counter markets. Also known as the stock market, it is one of the most vital areas of a market economy.

a) Equity Market Meaning : The equity market refers to the platform where companies issue shares for sale and investors buy them, helping the former raise capital for enhancing business growth and opportunities. It gives the investors a proportionate stake in the company; hence, they gain ownership of the firm through the shares they purchase. An equity market is synonymous with **stock market**. These stocks are bought and sold either via a stock exchange or over-the-counter (OTC) market. Here, the sale and purchase occur at a specific price. This is the price at which the buyer agrees to buy, and the seller agrees to sell.

b) Types of Equity market : The equity market is classified into two categories – primary and secondary markets**.**

i) Primary Market : Also referred to as the issue market, this is the place where companies introduce or issue their equity market shares for the very first time. The companies can publicly give the shares as an IPO or through a Follow on Public offer (FPO). They can also consider rights issues, allowing their existing shareholders to maintain their earlier ratio in the shares and sell securities at a price lower than the current market prices.

ii) Secondary Market : As soon as the securities are put on sale after their first time, they are said to enter the secondary market, where they move from the hands of one investor to another. The securities of semi-government bodies, government organizations, joint-stock companies, etc. trade under this market category. It is for the investors who are into daily trading.

c) Features of equity market :

The equity market makes companies allow investors to enjoy ownership in exchange for capital. As a result, the former get financial benefits, and the latter has ownership rights. Besides that, the stock market also helps raise capital for companies, and enhance liquidity and investment opportunities to boost the economy.
When the companies are budding, they **issue shares** for interested investors to buy. These **investments** from various sources help build their capital, thereby letting them think about the further growth of the business. The investors' decision is completely based on the business idea one has. If the concept is convincing, the investors are ready to invest in them to check if there is room for potential growth.

Secondly, it turns a market liquid, indicating the easy conversion of assets into cash. These markets are centralized platforms where the prices at which buyers and sellers want to deal in security are matched. Based on this match, the trade takes place, converting the securities into instant cash. The **demand and supply** of assets are quick enough, which keeps the market active throughout the day.

The third one on the list is enhanced investment options. Investors get an opportunity to have their own choices. They can work on the risks associated with the deal and be available for different deals in a row. They have full liberty to choose the companies, the securities of which they think would be more fruitful.

The above features reflect how important a **world equity market** is to ensure the stability of a country's economy as the market is active and stable.

d) Debt vs Equity Market :

The debt market is a platform where assets are traded. On the contrary, an equity market is a junction where securities are traded. Debt instruments include bonds and mortgages requiring fixed installment payments with interest, while equity instruments include stocks/shares. Dealing in an equity market never makes companies indebted. On the contrary, a debt instrument, when issued to borrowers, increases their debt liability. In equity financing, the funds help raise capital in exchange for ownership rights to investors. In contrast, debt financing is all about borrowing finances only to repay sources, adding the interest charges to the principal amount. Though the equity market is riskier than the debt market, investors still prefer dealing there for a highly rewarding option.

e) The key difference between equity and debt is the following :

Basis	**Equity**	**Debt**
Ownership	Equity shareholders are the owners of the company.	Debt holders are the company's lenders or investors.
Repayment	There are no such repayment obligations	Debt is to be repaid after a specific period.
Interest payment	There are no interest payments due. However, regular dividends have to be paid to the equity shareholders.	Regular interest has to be paid on debts on time.
Security	No such security is required.	Security is given to the lender.
Involvement	Equity shareholders take an active role in the day-to-day activities as well as in decision-making.	Debt holders do not participate in the workings of an organization or decision-making.

3.3. B. By Maturity Of Claim :

I. MONEY MARKET : A market for short-term funds that are meant to use for a period of up to one year is known as Money Market. In the general case, the money market is the source of funds or finance for working capital. The transactions held in the money market involve lending and borrowing of cash for a short term and also consist of the sale and purchase of securities with one year term or securities which get paid back (redeemed) within one year. Some of the common instruments of the money market are Call Money, Commercial Bills, T. Bills, Commercial Paper, Certificates of Deposits, etc.

a) Monetary assets: The market where monetary assets such as commercial paper, certificate of deposits, treasury bills, etc. which mature within a year, are traded is called money market. It is the market for short-term funds. No such market exist physically; the transactions are performed over a virtual network, i.e. fax, internet or phone.

b) Some of the features of a Money Market are as follows :

i) It is a market for the short term. ii) There is no fixed geographical location of a money market. iii) Some of the common instruments of the money market are Call Money, Commercial Bills, Certificates of Deposits, etc. iv) Some of the major institutions involved in the money market are LIC, GIC, RBI, Commercial Banks, etc.

c) ***Some of the Instruments of Money Market are as follows :*** *i) Call Money, ii) Treasury Bills (T. Bills), iii) Commercial Bills, iv) Commercial Paper*

i) Call Money : The money borrowed or lent on demand for a short period of time (generally one day) is known as Call Money. The term of the call money does not include Sundays and other holidays. It is used mostly by banks. It means that when one bank faces a temporary shortage of cash then the bank with surplus cash lends the former bank with money for one or two days. It is also known as Interbank Call Money Market.

ii) Treasury Bills (T. Bills) : On behalf of the Government of India, Treasury Bills are issued by the Reserve Bank of India (RBI). With the help of T. Bills, the Government of India can get short-term borrowings as they are sold to the general public and banks. The Treasury Bills are freely transferable and negotiable instruments and are issued at a discount. As Treasury Bills are issued by the Reserve Bank of India, they are considered the safest investments. The maturity period of the Treasury Bills varies from 14 days to 364 days.

iii) Commercial Bills : Commercial Bills also known as Trade Bills or Accommodation Bills are the bills drawn by one organisation on another. Commercial Bills are the common instruments of the money market which are used in credit sales and purchases. The maturity period of commercial bills is for short-term, generally of 90 days. However, one can get the commercial bills discounted with the bank before the maturity period. The Trade Bills are negotiable and easily transferable instruments.

iv) Commercial Paper : An unsecured promissory note issued by private or public sector companies with a fixed maturity period varying from 15 days to one year, is known as a Commercial Paper. It was for the first time introduced in India in 1990. As this instrument is unsecured, it can be issued by companies with creditworthiness and good reputation. The main investors of commercial papers are commercial banks and mutual funds.

v) Certificate of Deposits : A time or deposit that can be sold in the secondary market is known as a Certificate of Deposits (C.D.). It can be issued by a bank only and is a bearer certificate or document of title. A Certificate of Deposits is a negotiable and easily transferable instrument. The banks issue the Certificate of Deposits against the deposit kept by the institutions and companies. The time period of a Certificate of Deposits ranges from 91 days to one year. The C.D.'s can be issued to companies, corporations, and individuals during a period of tight liquidity. It is that time when the bank's deposit growth is slow, but the credit demand is high.

II. CAPITAL MARKET : A marketer including all institutions, organisations, and instruments providing medium and long-term funds is known as a Capital Market. A capital market does not include institutions and instruments providing finance for a short term, i.e., up to one year. Some of the common instruments of a capital market are debentures, shares, bonds, public deposits, mutual funds, etc. An ideal capital market is one which allocates capital productively, provides sufficient information to the investors, facilitates economic growth, where finance is available to the traders at a reasonable cost, and where the market operations are fair, free, competitive, and transparent. The market where medium and long term financial assets are traded in the capital market. It is divided into two types:

i) Primary Market : A market in which the securities are sold for the first time is known as a Primary Market. It means that under the primary market, new securities are issued from the company. Another name for the primary market is New Issue Market. This market contributes directly to the capital formation of a company, as the company directly goes to investors and uses the funds for investment in machines, land, building, equipment, etc. financial market, wherein the company listed on an exchange, for the first time, issues new security or already listed company brings the fresh issue.

ii) Secondary Market : A market in which the sale and purchase of newly issued securities and second-hand securities are made is known as a Secondary Market. In this market, a company does not directly issue its securities to the investors. Instead, the existing investors of the company sell the securities to other investors. The investor who wants to sell the securities and

the one who wants to purchase meet each other in the secondary market, and exchange the securities for cash takes place with the help of an intermediary called a broker.
Alternately known as the Stock market, a secondary market is an organised marketplace, wherein already issued securities are traded between investors, such as individuals, merchant bankers, stockbrokers and mutual funds.

3.3. C. By Timing of Delivery :

The market where the transaction between buyers and sellers are settled in real-time. A Cash Market is a market in which trading of securities, currencies, and commodities takes place for on-the-spot settlement and delivery in exchange for cash or a similar mode of payment. There is no involvement of a credit facility in such markets. Futures market is one where the delivery or settlement of commodities takes place at a future specified date.

a) Cash Market : Cash Market is a financial market in which trading of securities, currencies, and commodities takes place for on-the-spot settlement and delivery in exchange for cash or a similar mode of payment. There is no involvement of a credit facility in such markets. The securities can be in the form of stocks, bonds, debentures, etc. Commodities can consist of agricultural produce, oil barrels, gold and other precious metals, and many other similar goods. Other than securities and commodities, trading of currencies can also be done likewise. The other name for a Cash market is "Spot market." It is so because transactions and their settlement occur on the spot. "Immediate delivery" in a cash market does not take place in a literal sense. The delivery can happen in a couple of days or even within a month as per the terms and conditions of the sale. The rate at which the transaction will take place will be the one the parties agree to at the time of the final sale and transfer of money. There are instances in which a buyer and a seller may verbally agree to trade at a certain price. Later, suppose the price of the commodity goes up. The seller can ask for a higher price since no exchange of money or payment took place. Hence, trades in a cash market generally fructify only after an exchange of payment or money.

i) Cash Market operate : Cash Market operate in general market conditions, prices of securities or commodities tend to fluctuate solely on the amount of their demand and supply in such a market. If the demand is high, the price of the item tends to go up. On the other hand, if the demand is low or nil, the price of the item crashes or falls. Similarly, prices of items tend to go up in case of short supply and vice-versa. Future expectations about prices, predictions about weather, and other related costs such as storage play a little role in deciding prices in such markets. It is so because the agreement takes place on the spot and is based on the present market situation. A Cash market can be a regulated exchange such as the NYSE (New York Stock Exchange), BSE (Bombay Stock Exchange), etc. Such exchanges have a set rules and regulations framework within which they operate and hence are safe and systematic. Such transactions can also take place as OTC or Over-the-Counter transactions. OTC markets are unsystematic and do not have a very rigid regulatory framework to operate within. There is usually no central exchange or a broker, and the trade takes place directly between the buyer and the seller. Contracts are generally customized according to the requirements of both parties. Also, the rate agreed upon in the agreement is unknown to other market players. Hence, such markets do have the advantage of maintaining secrecy. But there is always counterparty risk in OTC markets due to the lack of strict rules and regulations. The seller or the buyer can retract and not agree to complete the transaction anytime as per his will and choice. Hence, this leads to unreliability and mistrust in such markets.

ii) Advantages and limitations of a Cash Market : The main and foremost advantage of a Cash Market is that investors can trade only up to the limit of their cash holdings. Trades have to be settled on the settlement date, and hence they cannot enter into deals beyond what their pockets permit. Hence, investments will always be controlled, and risky trades beyond the capacity of the investor will not happen. The maximum amount that the investor can lose in such markets is the original amount of his investment, which will most likely not occur. Thus, there is an upside limit to one's losses. Also, they will save on any extra charges such as interest costs.

Cash markets have their own limitations too. An investor cannot use a margin trading account for Cash market transactions since deals are closed on the spot. Such markets provide limited leverage, and an investor has to have liquid money in his accounts on the settlement date. Thus, the upside potential in such investments is limited to the amount of liquid money an investor actually has. Also, investors may miss out on lucrative trades and profit-making opportunities due to liquidity constraints.

b) Futures Market : Futures market is one where the delivery or settlement of commodities takes place at a future specified date.

Futures Market Definition: A futures market is a financial marketplace where participants trade futures contracts for commodities, stock indices, currency pairs, and interest rates at a pre-determined rate and agreed-upon future date. It, thus, protects investors and traders from losing money on a transaction even if the price of the commodity or financial instrument rises or falls later.Also known as a futures exchange, this auction market facilitates buying, selling, and hedging 24/7 per the rules of its jurisdiction. These exchanges standardize futures contracts involving the trade of underlying assets, i.e., precious metals, agricultural products, and financial securities. The futures market trading serves two primary purposes – speculation (enabling investors to make a profit) and hedging (allowing traders to minimize losses).

A futures market is a financial exchange where traders trade futures contracts for precious metals, agricultural products, stock indices, currency pairs, and interest rates at a pre-determined rate and date. It protects investors and traders from losing money on a transaction even if the price of the commodity or financial instrument increases or decreases later. A futures exchange standardizes futures contracts and allows investors and traders to exchange them on its trading venues or clearinghouses with the help of futures brokers.

Futures market investing has two purposes – speculating (allowing investors to profit) and hedging (allowing traders to protect their positions).The futures market maintains a balance between rising product prices and the prices investors pay for them. It also standardizes futures contracts and allows investors to trade them with the help of futures brokers on its trading venues or clearinghouses. By signing a contract, the buyer and seller agree to pay an agreed-upon price for a commodity or derivative Let us say there is a wheat producer who has enough grain to sell on the market. The producer would prefer to sell the grain for a higher price. But the buyer, such as cereal manufacturers, would buy it for a lower price. A central financial exchange, i.e., futures market, facilitates the trade between the two. Both parties agree to buy and sell the futures market commodity at a specified price at a future date by signing a futures contract. As a result, the market price rise or decline does not affect either the seller or the buyer. In other words, futures contracts protect the producer against market volatility while transferring risk and reward to the investor. So, if the set price of wheat per unit was $50 on the day of signing the futures contract and the cost is now $100, the buyer will still pay $50 without being affected by the current market price increase. In this case, the seller may regret it as the selling price for the grain drops to half, even though the current market value of wheat is higher.

i) Futures Markets Purpose : Futures contracts are exchange-traded derivatives, the value of which depend on the value of the underlying asset. And futures markets allow trading these derivatives later, known as the expiration date, at a pre-determined price. Besides, these exchanges serve other purposes, such as : i) Price Discovery or Speculation – Buyers and sellers from all around the world converge on a single marketplace to set commodity and financial instrument. prices for future delivery and profit from market volatility. ii) Price Risk Transfer or Hedging – Buyers and sellers fix commodity and financial instrument prices for future delivery to avoid losses due to market volatility.

ii) Steps In Futures Markets Trading : Futures market trading works similar to that of stock market trading but with a few distinct steps, which are as follows:

i) Register with a clearinghouse to open a trading account.

ii) Making a deposit

iii) Buying or selling a futures contract at the current market price (the futures price)

iv) Purchasing in the future indicates that the buyer is taking a long position

v) Selling in the future indicates that the seller is in a short position

vi) Buying or selling the commodity before it expires, or

vii) Buying or selling before the contract's expiration date to complete the transaction.

viii) Investors typically sell futures contracts before they expire.

iii) Examples : To understand the concept better, here are a few futures market examples shared:

Example #1: Stella is a corn producer who is anticipating a higher price for her harvest. But she worries as she harvests it all at once, putting the corn at risk of spoilage . Her efforts will be for naught if this occurs. On the other hand, there is a company that needs corn in bulk to produce flour. While the firm cannot purchase all of the maize for the year at once, it wants to buy it at a lower price. They both access a futures market and sign a futures contract to fix the price of corn until the contract expires. It means that regardless of how much the price of grain rises or lowers, the parties will be unaffected. However, if the price of grain rises at the time of sale, Stella will benefit, but the flour-making company will lose. Likewise, if the price decreases, the situation will be vice-versa.

Example #2: Greg invests $100,000 in futures market stocks with a 10% profit margin. As a result, he had to maintain 10% of the stock's value, or $10,000, with the broker. If stock prices gained 5%, the profit would be $5,000 while keeping merely $10,000 with his broker. As a result, Greg's profit margin. on his investment would be 25%. On the other hand, if he had purchased the stocks directly from the stock market, the profit margin would have been 5% only due to the increase in the stock price.

iv) Top Futures Markets : The futures market depends on the futures contract signed between the two parties. It also performs various functions, such as providing physical or electronic trading venues or clearinghouses, standardized contract details, market data, pricing formula, exchange self-regulation, margin mechanisms, price position and limits, settlement processes, delivery times and procedures, and contract size. Futures exchanges such as the New York Mercantile Exchange (NYMEX), the Chicago Mercantile Exchange (CME), the Chicago Board Options Exchange (CBOE), the Kansas City Board of Trade, the Chicago Board of Trade (CBoT), the Minneapolis Grain Exchange, Intercontinental Exchange, and Eurex let investors trade futures contracts.
The following are some of the highly liquid futures contracts available, along with their denominations:
a) E-mini S&P 500 (ES) contracts, b)E-mini Dow Jones Industrial Average (YM) futures,c) 10 Year Treasury (T)-Notes (ZN), d) Crude Oil (CL), e) 5 Year T-Notes (ZF), f) Gold (GC) futures, g) Euro FX (6E), h) 30 Year T-Notes (ZB),i) Japanese Yen (6J), j) 2 Year T-Notes (ZT), k) Eurodollars GE

3.3. D) By Organizational Structure :

Since last few years, the role of the financial market has taken a drastic change, due to a number of factors such as low cost of transactions, high liquidity, investor protection, transparency in pricing information, adequate legal procedures for settling disputes, etc ***a) Exchange-Traded Market :*** A financial market, which has a centralised organisation with the standardised procedure. ***b) Over-the-Counter Market :*** An OTC is characterised by a decentralised organisation, having customised procedures.

I) Exchange-Traded Markets : Exchange-Traded Markets are the marketplaces where all the transactions pass through a central source. Or, we can say it is the intermediary or the platform or the conduit that connects the buyer and seller. And all the market transactions are necessarily routed through it. Though it is an intermediary or a conduit, or an exchange holds and yields immense power and control over the trade and its constituents. It also means that the exchange takes up all the responsibility to ensure the parties honor the contractual obligations. NYSE (New York Stock Exchange) and NASDAQ are good examples of exchange-traded markets. Suppose Mr. A is planning to sell his car. He can either go to a car selling website, which will have its own rules and regulations, as well as charge a fee to sell the car. Another option for Mr. A is to give an ad for selling the car and wait for the buyers to approach themselves. Here, the car selling website is similar to the exchange-traded markets. On the other hand, selling the car through ads, or without any rules and regulations, is like selling through an OTC market (discussed later).

Finance Management

EXCHANGE TRADED MARKETS

EXCHANGE TRADED MARKETS are marketplaces where all transactions pass through a central source.

FEATURES

- Organized & centralized trading
- Counter party in all trades is exchange.
- Face heavy regulations
- Transaction cost is relatively higher
- Less competition among intermediaries
- Transparency is comparatively higher

OVER THE COUNTER MARKETS

Over the counter market features multiple intermediaries who compete with each other over connecting buyers and sellers.

a) Exchange Traded Markets – More Details :

The primary purpose of exchange-traded markets is to ensure fair, efficient, and orderly trading. In an exchange-traded market, the buyers and sellers trade securities, commodities, derivatives, and more such instruments of the listed firms. The market factors (demand and supply) decide the prices of the securities, including shares, debentures, bonds, and more securities, that trade on such markets. These markets feature the association of persons. Such people will get the registration with the exchange and are member brokers. The exchange has set rules for the brokers and companies whose securities are listed for trade. The firms that want their shares to list on these markets need to abide by the market rules and regulations. They also need to regularly provide information to the exchange. This information includes financial reports, audited statements, any major change in the management, any key development about the project, etc. Initially, these exchanges had an open outcry' system, something similar to your local vegetable market, where the seller shouts the price. In that system, the exchange was the trading floor or the market place and the member brokers had to be physically present to transact and trade on behalf of their clients. But now, most of the trading is electronic and quick, which means you trade from anywhere, and thus there is no need to be physically present to make a trade. Amsterdam is the oldest exchange-traded market that was established in 1602. At that time, it used to trade the shares of the United East India Company of the Netherlands.
Now, almost every nation has one or more such markets. Moreover, some markets specialize in a particular type of security. The London Metal Exchange, for instance, specializes in metals trading, and ICE Futures Europe deals in derivatives.

b) Features of Exchange Traded Markets : The features of the exchange-traded markets are as follows:

i) These markets trade in an organized manner and have a centralized exchange.

ii) Usually, in a transaction, there are two parties. In these markets, the counter party or the second party in all the trades is the exchange that plays the role of an intermediary.
iii) These markets face heavy regulations and thus, feature less counter party risk.
iv) Since there is less competition among the intermediaries, the transaction cost in these markets is comparatively higher.
v) Such markets are generally used by well-established firms.
vi) These markets work for specific hours in the day. In contrast, the OTC markets are available 24*7.
vii) All the contracts remain standard ones, and the transparency also is relatively higher than in any other market.

II) Over-the-counter (OTC) Markets :

OTC (over-the-counter) market is another type of market that exists in parallel to the Exchange-traded markets. Unlike the Exchange-traded markets, these markets are decentralized, or there is no central force. The OTC market features multiple intermediaries. These intermediaries compete with each other over connecting buyers and sellers. Such competition among the intermediaries helps to ensure lower transaction costs in the OTC markets. However, a big drawback of such markets is the lack of regulations, and that may lead to fraudulent practices by the participants. Still, OTC markets are the most popular ones. The growth of electronic trading has pushed OTC markets ahead of the exchange-based markets in terms of the daily trading volume.

Decentralized market—meaning : An over-the-counter (OTC) market is a decentralized market—meaning it does not have physical locations, and trading is conducted electronically—in which market participants trade securities directly between two parties without a broker. While OTC markets may handle trading in certain stocks (e.g., smaller or riskier companies that do not meet the listing criteria of exchanges), most stock trading is done via exchanges. Certain derivatives markets, however, are exclusively OTC, and so they make up an important segment of the financial markets. Broadly speaking, OTC markets and the transactions that occur on them are far less regulated, less liquid, and more opaque. They manage public stock exchange, which is not listed on the NASDAQ, American Stock Exchange, and New York Stock Exchange. The OTC market dealing with companies are usually small companies that can be traded in cheap and has less regulation.

3.4. TYPES OF FINANCIAL MARKETS :

There are so many financial markets, and every country is home to at least one, although they vary in size. Some are small while some others are internationally known, such as the New York Stock Exchange (NYSE) that trades trillions of dollars on a daily basis. Here are some types of financial markets.1. Stock Markets, 2. Bond Markets, 3. Money Markets, 4. Derivatives Markets, 5. Forex Market, 6. Commodities Market, 7. Cryptocurrency Markets.

3.4.1. Stock Markets : The stock market trades shares of ownership of public companies. Each share comes with a price, and investors make money with the stocks when they perform well in the market. It is easy to buy stocks. The real challenge is in choosing the right stocks that will earn money for the investor. Perhaps the most ubiquitous of financial markets are stock markets. These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO), with shares subsequently traded among various buyers and sellers in what is known as a secondary market. Stocks may be traded on listed exchanges, such as the New York Stock Exchange (NYSE) or Nasdaq, or else over-the-counter (OTC). Most trading in stocks is done via regulated exchanges, and these play an important role in the economy as both a gauge of the overall health of the economy as well as providing capital gains and dividend income to investors, including those with retirement accounts such as IRAs and 401(k) plans. Typical participants in a stock market include (both retail and institutional) investors and traders, as well as market makers (MMs) and specialists who maintain liquidity and provide two-sided markets. Brokers are third parties that facilitate trades between buyers and sellers but who do not take an actual position in a stock.There are various indices that investors can use to monitor how the stock market is doing, such as the Dow Jones Industrial Average (DJIA) and the S&P 500. When stocks are bought at a cheaper price and are sold at a higher price, the investor earns from the sale.

3.4.2. Bond Markets : A financial market is a place where investors loan money on bond as security for a set if time at a predefined rate of interest. Bonds are issued by corporations, states, municipalities, and federal governments across the world. Money Markets – They trade high liquid and short maturities, and lending of securities that matures in less than a year. A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. You may think of a bond as an agreement between the lender and borrower that contains the details of the loan and its payments. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the United States Treasury, for example. The bond market also is called the debt, credit, or fixed-income market. The bond market offers opportunities for companies and the government to secure money to finance a project or investment. In a bond market, investors buy bonds from a company, and the company returns the amount of the bonds within an agreed period, plus interest.

3.4.3. Money Markets : Typically the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers. Individuals may also invest in the money markets by buying short-term certificates of deposit (CDs), municipal notes, or U.S. Treasury bills, among other examples.

3.4.4. Derivatives Markets : A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. In and of itself a derivative is worthless. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products, that derive their value from underlying instruments like bonds, commodities, currencies, interest rates, market indexes, and stocks. Futures markets are where futures contracts are listed and traded. Unlike forwards, which trade OTC, futures markets utilize standardized contract specifications, are well-regulated, and utilize clearinghouses to settle and confirm trades. Options markets, such as the Chicago Board Options Exchange (CBOE), similarly list and regulate options contracts. Both futures and options exchanges may list contracts on various asset classes, such as equities, fixed-income securities, commodities, and so on. Such a market involves derivatives or contracts whose value is based on the market value of the asset being traded. The futures mentioned above in the commodities market is an example of a derivative. They trades securities that determine its value from its primary asset. The derivative contract value is regulated by the market price of the primary item — the derivatives market securities, including futures, options, contracts-for-difference, forward contracts, and swaps

3.4.5. Forex Market : It is a financial market where investors trade in currencies. In the entire world, this is the most liquid financial market. The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than $6.6 trillion in daily transactions, which is more than the futures and equity markets combined. As with the OTC markets, the forex market is also decentralized and consists of a global network of computers and brokers from around the world. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

3.4.6. Commodities Market : The commodities market is where traders and investors buy and sell natural resources or commodities such as corn, oil, meat, and gold. A specific market is created for such resources because their price is unpredictable. There is a commodities futures market wherein the price of items that are to be delivered at a given future time is already identified and sealed today. Commodities markets are venues where producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money. The bulk of trading in these commodities, however, takes place on derivatives markets that utilize spot commodities as the underlying assets. Forwards, futures, and options on commodities are exchanged both OTC and on listed exchanges around the world such as the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE).

3.4.7. Crypto currency Markets : The past several years have seen the introduction and rise of crypto currencies such as Bit coin and Ethereum, decentralized digital assets that are based on blockchain technology. Today, thousands of cryptocurrency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another, or for fiat monies such as dollars or euros. Because the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud. Decentralized exchanges are also available that operate without any central authority. These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies. Financial markets dispense efficiently flow of investments and savings in the economy and facilitate the growth of funds for producing goods and services. The right blend of financial products and instruments and financial markets and institutions fuels the demands of investors, receiver and the overall economy of a country. Financial markets (bonds and stocks), instruments (derivatives, bank CDs, and futures), and institutions (banks, pension funds, insurance companies, and mutual funds) give the investors the opportunities to specialize in specific services and markets. As quoted by Demirgcc-Kunt and Levine "Financial markets and financial institutions together contribute to economic growth and not the relative mix of these two factors".

3.5. EXAMPLES OF FINANCIAL MARKET :

The above sections make clear that the "financial markets" are broad in scope and scale. To give two more concrete examples, we will consider the role of stock markets in bringing a company to IPO, and the role of the OTC derivatives market in the 2008-09 financial crisis.

3.5.1. Stock Markets and IPOs :

When a company establishes itself, it will need access to capital from investors. As the company grows it often finds itself in need of access to much larger amounts of capital than it can get from ongoing operations or a traditional bank loan. Firms can raise this size of capital by selling shares to the public through an initial public offering (IPO). This changes the status of the company from a "private" firm whose shares are held by a few shareholders to a publicly-traded company whose shares will be subsequently held by numerous members of the general public. The IPO also offers early investors in the company an opportunity to cash out part of their stake, often reaping very handsome rewards in the process. Initially, the price of the IPO is usually set by the underwriters through their pre-marketing process. Once the company's shares are listed on a stock exchange and trading in it commences, the price of these shares will fluctuate as investors and traders assess and reassess their intrinsic value and the supply and demand for those shares at any moment in time.

3.5.2. OTC Derivatives and the 2008 Financial Crisis: MBS and CDOs :

While the 2008-09 financial crisis was caused and made worse by several factors, one factor that has been widely identified is the market for mortgage-backed securities (MBS). These are a type of OTC derivatives where cash flows from individual mortgages are bundled, sliced up, and sold to investors. The crisis was the result of a sequence of events, each with its own trigger and culminating in the near-collapse of the banking system. It has been argued that the seeds of the crisis were sown as far back as the 1970s with the Community Development Act, which required banks to loosen their credit requirements for lower-income consumers, creating a market for subprime mortgages. The amount of subprime mortgage debt, which was guaranteed by Freddie Mac and Fannie Mae, continued to expand into the early 2000s, when the Federal Reserve Board began to cut interest rates drastically to avoid a recession. The combination of loose credit requirements and cheap money spurred a housing boom, which drove speculation, pushing up housing prices and creating a real estate bubble. In the meantime, the investment banks, looking for easy profits in the wake of the dotcom bust and the 2001 recession, created a type of MBS called collateralized debt obligations (CDOs) from the mortgages purchased on the secondary market. Because subprime mortgages were bundled with prime mortgages, there was no way for investors to understand the risks associated with the product. When the market for CDOs began to heat up, the housing bubble that had been building for several years had finally burst. As housing prices fell, subprime borrowers began to default on loans that were worth more than their homes, accelerating the decline in prices.

When investors realized the MBS and CDOs were worthless due to the toxic debt they represented, they attempted to unload the obligations. However, there was no market for the CDOs. The subsequent cascade of subprime lender failures created liquidity contagion that reached the upper tiers of the banking system. Two major investment banks, Lehman Brothers and Bear Stearns, collapsed under the weight of their exposure to subprime debt, and more than 450 banks failed over the next five years.

3.6 SUMMARY :

The role of financial markets in the success and strength of an economy cannot be underestimated. Here are four important functions of financial markets: a) It facilitates mobilisation of savings and puts it to the most productive uses b) Determines the price of securities, c) Makes financial assets liquid, d) Lowers the cost of transactions. The financial markets classified into four categories such as: 1. By Nature of Claim 2. By Maturity of Claim 3. By Timing of Delivery 4. By Organizational Structure. There are so many financial markets, and every country is home to at least one, although they vary in size. Some are small while some others are internationally known, such as the New York Stock Exchange (NYSE) that trades trillions of dollars on a daily basis. Here are some types of financial markets.1. Stock Markets, 2. Over-the-Counter Markets, 3. Bond Markets, 4. Money Markets, 5. Derivatives Markets, 6. Forex Market, 7. Commodities Market, 8. Cryptocurrency Markets. The financial market can be further divided into four types such as capital market, money market, foreign exchange market, and credit market. Financial Assets include:1. Call Money: 2. Notice Money: 3. Term Money: 4. Treasury Bills: 5 Certificate of Deposit: 6. Commercial Paper. The major objective of these is to provide counseling to their visitors regarding the purchase or selling of a property, permitting transactions, deals, lending, and investments. The financial services in India include: **b**anking Services, Insurance Services, Investment Services, and Foreign Exchange Services. The IPO also offers early investors in the company an opportunity to cash out part of their stake, often reaping very handsome rewards in the process. Initially, the price of the IPO is usually set by the underwriters through their pre-marketing process.

3.7. TECHNICAL TERMS :

Transactions : A transaction involves a monetary exchange for a good or service. Transactions can be a little more tricky when it comes to corporate accounting. Accrual accounting recognizes a transaction immediately after it is final.

Certificate : A certificate of incorporation is a legal document/license relating to the formation of a company or corporation. It is a license to form a corporation issued by state government or, in some jurisdictions, by non-governmental entity/corporation. [1] Its precise meaning depends upon the legal system in which it is used.

Structure : The arrangement of particles or parts in a substance or body *structure* organization of parts as dominated by the general character of the whole personality *structure.*

Derivatives : Derivatives are defined as the varying rate of change of a function with respect to an independent variable. The derivative is primarily used when there is some varying quantity, and the rate of change is not constant. The derivative is used to measure the sensitivity of one variable (dependent variable) with respect to another variable (independent variable). In this article, we are going to discuss what are derivatives, the definition of derivatives Math, limits and derivatives in detail.

Money Markets :

The money market refers to trading in very short-term debt investments. At the wholesale level, it involves large-volume trades between institutions and traders. At the retail level, it includes money market mutual funds bought by individual investors and money market accounts opened by bank customers.

Maturity : Maturity refers to the practice in which a person responds to a situation with age-appropriate behavior. The term maturity is used in a number of areas, such as financial, physical, and even spiritual; however, for this lesson, it will be discussed as a psychological term. When discussing maturity within psychology, think of it in terms of biological, social, and emotional development. What it means to be mature.

3.8. SELF ASSESSMENT QUESTIONS :

1. What iss Financial market? Explain the importance of Financial market.
2. Explain different types of financial markets?
3. What is Financial System? Explain the financial market functions..
4. What are financial assets? Briefly explain regarding financial assets
5. What is the difference between primary market and secondary market?
6. What is money market? Explain the difference between money market and capital market

3.9. SUGGESTED READINGS :

1. T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2. Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3. Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4. Website on Indian Financial markets

Dr. KRISHNA BANANA

LESSON - 4

FINANCIAL INSTITUTIONS

AIMS AND OBJECTIVES :

After studying this lesson student should be able to:

- Know the functions of Financial Institutions
- Understand the classification of financial Institutions
- Awareness about different types of financial Institutions

STRUCTURE OF THE LESSON :

4.1 INTRODUCTION :

Financial institutions are entities that help individuals and businesses fulfill their monetary or financial requirements, either by depositing money, investing it, or managing it. Some of the institutions labeled under this category include – banks, investment firms, trusts, brokerage ventures, insurance companies, etc. You are free to use this image on your website, templates, etc., Please provide us with an attribution link. Financial institutions refer to entities that have been established to offer financial services to customers, be it an individual or a business. They have an important role in maintaining the economic ecosystem of a nation as they regulate the money supply through the consistent movement of the monetary resources in the market. Individuals and businesses use these entities to serve their personal and professional financial requirements and commitments. These institutions allow customers to deposit money, withdraw when needed, transfer them online instantly, save them for future use, and manage them smartly for gains. They are also for those who want to buy and sell stocks, bonds, and derivatives to earn profits. Financial institutions are the economic entities that help individuals and businesses with several financial services, enabling them to deposit, save, invest, and manage their monetary resources. Central banks, commercial banks, investment entities, credit unions, thrift institutions, insurance companies, etc., are some of the widely available financial institution types. These institutions are strictly regulated by national authorities to keep the financial structure and market active and efficient.

4.2. FUNCTIONS OF FINANCIAL INSTITUTIONS :

The functions of financial institution are as follows : i) Ensure a healthy economy ii) Regulate the money supply iii) Banking and investment services iv) Fulfil Customer's financial needs v) Offer a wide range of monetary or financial services vi) Use the funds productively

i) Ensure a healthy economy : Though the financial institutions aim to ensure a healthy economy, there are other minor and major roles they play to ensure they achieve their final goal. The national and international financial institutions have a great role in ensuring a healthy economy. With the give and take of the monetary resources, the flow of transactions remains balanced, which keeps the economy going. Moreover, such entities in the nation make the market liquid, triggering more economic activities in the respective countries. Therefore, any damage to these financial entities can have a direct negative impact on the economic health of the nation.

ii) Regulate the money supply : The primary function of these institutions is to regulate the money supply. With the regular flow of money, the financial entities keep the financial ecosystem active. The money supply process must be efficient, given the wide use of money in carrying out transactions.

iii) Banking and investment services : One of the most common functions of these institutions is banking and investment services. They serve individual customer needs, be it a person or a business. They allow them to deposit their money, save it, earn interest, and invest further. In addition, as a non-banking institution, they also offer consultation facilities to customers and help them know the pros and cons of investing in a financial product, be it stocks, bonds

iv) Fulfil Customer's financial needs : There are various types of financial institutions to fulfill different requirements of customers. They look into the customer's financial needs, be it an individual or a company, and offer relevant services. These entities provide customers with valuable pieces of advice while choosing appropriate financial investment or savings options. The professionals explain the pros and cons of each alternative for their customers to decide which investment they should spend on.

v) Offer a wide range of monetary or financial services : Financial institutions, as the name implies, are entities that deal in finances. They offer a wide range of monetary or financial services to individuals and businesses. From helping individuals save money to enabling them to invest in stocks, such institutions serve different functions simultaneously.

vi) Use the funds productively : As the financial institutions enable individuals and companies to save, manage, invest, and use the funds productively, the administrative authorities of a nation take due care of their regulations. If not dealt with well, these institutions might collapse, damaging the economy to a great extent. In short, a properly regulated financial entity will mean a healthy economy.

4.3. TYPES OF FINANCIAL INSTITUTIONS :

There is a wide range of such institutions operating around the world. However, the commonly identified types are as follows: i) Central Banks ii) Commercial Banks iii) Non-Banking Institutions iv) Credit Unions v) Investment Entities vi) Thrift Institutions vi) Thrift Institutions vii) Insurance Companies

i) Central Banks : These are the financial entities that monitor and oversee the procedures of the other financial or banking institutions in the nation. They do not deal with individual customers directly. Instead, they finance other retail banks. In short, these are banks for the banks. Every economy has a separate central bank and is named differently. For example, in the United States, the Federal Reserve Bank is the central bank.

ii) Commercial Banks : Retail and commercial banks are widely available to serve the financial needs of individuals and businesses. From depositing money to borrowing amounts to buy property, these banks act as saviors for people in need to secure their future financially. Some of the products that these banks offer include savings accounts, personal loans, mortgage loans, certificates of deposits (CDs), credit cards, etc.

iii) Non-Banking Institutions : Non-banking financial institutions (NBFIs) are entities that neither acquire a valid banking license nor do they allow customers to deposit amounts. However, these entities can offer alternative financial facilities to customers, including investment, consultation, brokerage, transmission, and risk pooling services.

iv) Credit Unions : The institutions offer traditional banking services but are not publicly traded entities. They are established and operated by the members, the ultimate shareholders. These associations use and reinvest the money received as an interest to keep the costs low. As a result, they become the better choices for members to fulfill their financial needs. These entities enjoy tax-exempt status as not-for-profit organizations

v) Investment Entities : The investment banks and brokerage firms fall under this non-depository category. The investment firms help corporations, governments, and other entities build capital, raise funds, and gain financial advice. These entities, as brokerage ventures, let customers acquire finances by investing in securities, like stocks, mutual funds
, bonds, and exchange-traded funds (ETFs). In addition, it acts as a guide to startups or companies in conducting complex transactional processes. They also offer advice for initiating fruitful mergers and acquisitions (M&A).

vi) Thrift Institutions: Also referred to as savings and loan associations, these entities allow up to 20% of total lending to customers, who are also their owners. They help individuals enjoy opening accounts and acquiring personal loans and home mortgages.

vii) Insurance Companies: These financial institutions allow individuals and businesses have policies against monthly premiums, which they are subject to pay at regular intervals. In addition, these schemes offer coverage or protection to assets against any financial risk
they remain exposed to.

4.4. ESTABLISHMENT YEARS OF MAJOR FINANCIAL INSTITUTIONS IN INDIA :

i) Imperial Bank of India 1921,

ii) Reserve Bank of India (RBI) m April 1, 1935

iii) Industrial Finance Corporation of India (IFCI) 1948,

iv) State Bank of India July 1, 1955

v) Industrial Credit and Investment Corporation India Ltd.(ICICI) 1955

vi) Life insurance corporation of India (LIC) Sept.1956

vii) Export Credit Guarantee Corporation of India (ECGC) 30 July 1957

viii) Industrial Development Bank of India (IDBI) July,1964

ix) General Insurance Corporation (GIC) Nov.1972, x)

x) Regional Rural Banks Oct. 2, 1975

xi) Housing development and finance Corporation Ltd (HDFC) 1977

xii) EXIM Bank January 1, 1982,

xiii) IRBI(now it is called IIBIL since march 1997) March 20,1985

xiv) Board for Industrial and Financial Reconstruction 1987

xv) Securities and Exchange Board of India (SEBI) April 12, 1988

xvi) National Housing Bank July 1988

xvii) Small Industries Development Bank of India (SIDBI) 1990

xviii) Bharatiya Reserve Bank Note Mudran Private Limited 1995

xix) Rural Infrastructure and Development Fund (RIDF) April 1, 1995

xx) nfrastructure Development Finance Company (IDFC) Jan.31, 1997

xxi) Unit Trust of India Feb.1, 2003

xxii) Bifurcation of UTI (UTI-i & UTI-ii) Feb. 2003

xxiii) Indian Infrastructure Finance Company (IIFCL) April, 2006

xxiv) National Payments Corporation of India Dec.2008

4.5 DETAILS OF MAJOR FINANCIAL INSTITUTION IN INDIA DURING 1935 TO 2011 : There are so many financial companies established in India to absorb the saving of household sector. Government mobilizes this small saving in the economy through these financial institutions. These major and small institutions play the same role in the economy as the blood in the human body. Some examples of these financial institutions are RBI, SEBI, IDBI, EXIM Bank and Export Credit Guarantee Corporation of India (ECGC). The nations have strict regulatory mechanisms for financial institutions. Though it differs from country to country, each regulatory authority aims to ensure these entities keep the financial market and the economy active and efficient.

Table-4.5: Details of the Name, Year of Establishment, Chairman / Governor/MD and CEO and Headquarter of Major Financial Institution in India during 1935 to 2011

Financial Institutions	Establishment	Chairman/ Governor/ MD & CEO	Headquarter
RBI (Reserve Bank of India)	April 1, 1935	Shri. Shaktikanta Das (Governor)	Mumbai, Maharashtra
NABARD	July 12, 1982	Dr. G R Chintala (Chairman)	Mumbai, Maharashtra
SIDBI	April 2, 1990	Shri. Sivasubramanian Ramann (Chairman)	Lucknow, Uttar Pradesh
IRDAI	1999	Shri. Debasish Panda (Chairman)	Hyderabad, Telangana
EXIM Bank	January 1, 1982	Harsha Bhupendra Bangari (MD)	Mumbai, Maharashtra
NHB (National Housing Bank)	July 9, 1988	Shri Sarada Kumar Hota (MD)	New Delhi

ECGC	July 30, 1957	Shri M. Senthilnathan (Chairman and MD)	Mumbai, Maharashtra
SEBI	April 12, 1992	Ms. Madhabi Puri Buch (Chairperson)	Mumbai, Maharashtra
NPCI	December 2008	Mr. Dilip Asbe (MD and CEO)	Mumbai, Maharashtra
DICGC	July 15, 1978	Dr. Michael Debabrata Patra (Chairman)	Mumbai, Maharashtra
GIC (General Insurance Corporation)	November 22, 1972	Shri. Devesh Srivastava (Chairman and MD)	Mumbai, Maharashtra
LIC (Life Insurance Corporation of India)	September 1, 1956	Shri. Mangalam Ramasubramanian Kumar (Chairperson)	Mumbai, Maharashtra
AICIL	December 20, 2002	Shri. Malay Kumar Poddar (Chairman and MD)	New Delhi, India
UTI (Unit Trust of India) Mutual Fund	February 1, 1964	Shri. Imtaiyazur Rahman (Director & CEO)	Mumbai, Maharashtra
CDSL (Central Depository Services Limited)	February 1988	Shri. Nehal Vora (MD and CEO)	Mumbai, Maharashtra
NSDL (National Securities Depository Limited)	November 8, 1996	Padmaja Chunduru (MD and CEO)	Mumbai, Maharashtra
NIBM (National Institute of Bank Management)	1969	Shri. Shaktikanta Das (Chairman)	Pune
NOFHC (Non-operating Financial Holding Company)	--	--	--
CERSAI	March 11, 2011	Shri. Pramod R Datar	New Delhi
CAPART	1986	Shri M. Venkaiah Naidu	New Delhi
PFRDA	August 23, 2003	Shri. Supratim Bandyopadhyay (Chairman)	New Delhi
EPFO (Employees Provident Fund Organisation)	March 4, 1952	Ms. Neelam Shammi Rao (CEO)	New Delhi

BCSBI (Banking Codes and Standards Board of India)	February 18, 2006	Shri. A.C. Mahajan (Chairman)	Mumbai, Maharashtra
IDRBT	1996	Prof. D Janakiram (Director)	Hyderabad (India)
OECA (Export Credit Agency)	--	--	Mumbai, Maharashtra
SHCIL (Stock Holding Corporation of India Ltd.)	1986	Shri Ramesh NGS (Chairman)	Mumbai, Maharashtra
NICL (National Insurance Company Limited)	1906	Smt. Suchita Gupta (Chairman & MD)	Kolkata

4.6 NUMBER OF MAJOR FINANCIAL INSTITUTIONS IN INDIA :

The following are the briefly explained regarding financial institution in India viz., 1.RBI (Reserve Bank of India) 2. NABARD (National Bank for Agriculture and Rural Development) 3. SIDBI (Small Industries Development Bank of India) 4.IRDAI (insurance Regulatory and Development Authority of India) 5. EXIM BANK (Export –Import Bank) 6. NHB (National Housing Bank) 7.ECGC (Export Credit Guarantee Corpotation of India) 8. SEBI (Securities and Exchange Board of India) 9. NPCI (National Payments Corporation of India) 10. NFS (National Financial Switch) 11. DICGC (Deposit Insurance and Credit Guarantee Corporation) 12. GIC (General Insurance Corporation) 13. LIC (Life Insurance Corporation of India) 14. AICIL (Agriculture Insurance Company of India Limited) 15.UTI (Unit Trust of India) 16.CDSLCentral Depository Services Limited) 17. NSDL (National Securities Depository Limited) 18.NIBM (National Institution of Bank Management) 19. NOFHC (Non-operating Financial Holding Company) 20. CERSAI (Central Registry of Securitization Asset Reconstruction) 21. CAPART (Council for Advancement of People's Action and Rural Technology) 22. PFRDA (Pension Fund Regulatory Development Authority) 23.BCSBI(Banking Codesand Standards Board of India) 24. IDRBT (Institute for Development & Research in Banking Technology) 25. OECA (Export Credit Agency) 26. SHCIL(Stock Holding Corporation of India Ltd.)

4.6.1.RBI (Reserve Bank of India) : Reserve Bank of India Act, 1934 is the legislative act under which the Reserve Bank of India was formed. This act along with the Companies Act, which was amended in 1936, were meant to provide a framework for the supervision of banking firms in India. The Reserve Bank of India Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank, which commenced operations on April 1, 1935. Headquarter: Mumbai, Maharashtra. **Governor:** Shaktikanta Das. The RBI has regularized the issue of Bank notes (currency). The RBI is a lender of the last resort. The reserve bank is the banker's bank. The reserve bank is acting as a liaison between the government and commercial banks, financial corporations, and small savings boards. The RBI had played an important role in the development of institutional machinery of industrial finance, agricultural credit, and commercial banking. The reserve bank has ensured monetary stability in the country.

4.6.2. NABARD (National Bank for Agriculture and Rural Development) : Established: NABARD was established on 12th July 1982 on the recommendation of the CRAFICARD committee which is also known as the Sivaraman Committee. Headquarter: Mumbai,Maharashtra. Chairman: G R Chintala. Biggest Rural Development Bank. Established on 12 July 1982 on the recommendation of Shivaraman committee to implement NABARD act 1981 . AIM To uplift Rural India & rural non-farm sector. NABARD acts as the regulator for cooperative banks &RRB's (Regional Rural Banks). NABARD is the apex organization related to financing in the agricultural sector. It looks after matters concerned with policy, planning, and operations in rural areas in India. Rural Infrastructure Development Fund (RIDF) is operated by NABARD. Provides refinance to lending institutions in rural areas. Helps SHG (Self Help Group) & poor people in rural areas. Runs program for agricultural & rural development. Recommends about licensing for RRBs, Co-operative banks to RBI

4.6.3. SIDBI (Small Industries Development Bank of India) : Established: Small Industries Development Bank of India (SIDBI in short) was established on 2nd April 1990 under the Small Industries Development Bank of India Act 1989 as a subsidiary of Industries Development Bank of India. Headquarter: Lucknow, Uttar Pradesh. Chairman: Sivasubramanian Ramann. SIDBI refinances loans & advances provided by the existing lending institution to small-scale its. SIDBI is an independent financial institution that provides help for the growth and development of micro, small and medium-scale enterprises (MSMEs). The second fund is a debt fund called SIDBI make is an India loan for enterprises (SMILE), which was announced in the Union budget (2015) in February. The fund will provide short-term loans and loans in the nature of quasi-equity of MSMEs to meet debt-to-equity norms and pursue growth.

4.6.4. IRDAI (Insurance Regulatory and Development Authority of India) : Established: IRDDAI was set up in the year 1999 by the Insurance Regulatory and Development Authority Act, 1999, which was passed by the Government of India. Headquarter: Hyderabad,Telangana. Chairman: Shri. Debasish Panda. It is an autonomous apex statutory body to control & develops insurance agencies in India. IRDA is a national agency of GOI. Passed by the Government of India under IRDA Act 1999 on the recommendation of Malhotra Committee. It was incorporated as a statutory body in April 2000 IRDA act 1999, amended in 2002 to incorporate some emerging requirements Objective To protect the interest of policyholders, to regulate, promote & ensure orderly growth of the insurance industry & for matters connected therewith or incidental thereto. Primary Function: The IRDAI is an autonomous, statutory agency tasked with regulating and promoting the insurance and re-insurance industries in India.

4.6.5. EXIM BANK (Export –Import Bank) : EXIM Bank was established on January1,1982,forthepurposeoffinancing,facilitating,andpromotingforeigntradeofIndia.Headquarter: Mumbai,Maharashtra. Managing Director: Harsha Bhupendra Bangari (MD). It was established in 1982 under the EXIM Bank of India Act 1981. The bank lays special emphasis on the extension of Lines of Credit (LOCs) to overseas entities, national govt., regional financial institutions, and Commercial Banks. The bank extends Buyers credit & suppliers credit to finance and promote the country's exports. To promote hi-tech exports from India, the bank has a lending program to finance the Research & Development (R & D) activities of export-oriented companies. The authorized capital of the EXIM bank is Rs. 200 crores & the paid-up capital is Rs. 100 crore, wholly subscribed by the central government. The Export-Import (EXIM) Bank of India is the principal financial institution in India for coordinating the working of institutions engaged in financing export and import trade. To tap domestic & foreign markets for resources. undertaking development & financial activities in the export sector (export & import).

4.6.6. NHB (National Housing Bank) : Established: The bank started its operations in July 1988. National Housing Bank was established under section 6 of the National Housing Bank Act (1987).Headquarter: NewDelhi Key People: Shri Sarada Kumar Hota (MD) Primary Function: The National Housing Bank (NHB), the apex institution of housing finance in India, was set up as a wholly-owned subsidiary of the Reserve Bank of India.

4.6.7. ECGC (Export Credit Guarantee Corpotation of India) : Established: ECGC Ltd. was established on 30 July 1957 to strengthen the export promotion by covering the risk of exporting oncredit.Headquarter: Mumbai,Maharashtra. Chairman: Shri M. Senthilnathan. It is a company wholly owned by the Government of India. ECGC provides insurance cover in respect of risks in export trade. ECGC Ltd. provides export credit insurance support to Indian export and is controlled by the Ministry of Commerce. ECGC Ltd. is the 7 largest credit insurer in the world in terms of the courage of national exports. Primary Function: Export Credit Guarantee Corporation of India. This organization provides risk as well as insurance cover to the Indian exporters.

4.6. 8. SEBI (Securities and Exchange Board of India) : Established: SEBI was first set up as a non-statutory body in April 1988, to regulate the working of the stock exchange. Later it was made an autonomous body on 12 April 1992 via SEBI Act 1992. Headquarter: Mumbai,Maharashtra.Chairperson: Ms.MadhabiPuri uch Objective: Protects the interest of investors and promotes the development of the stock exchange & regulates the activities of the stock market. As per the SEBI Regulations, the level of risk will be depicted by the color code boxes for Mutual Funds: Blue: Principal at low risk .Yellow: Principal at medium risk .Brown: Principal at high risk. This regulation came into effect on 1 July 2013 post which all the fund houses have labeled their funds can be the basis of the risk levels. SEBI has launched a centralized web-based system to redress complaints by SCORES. Primary Function:SEBI is the security market regulator in India. 1st chairman of SEBI is Dr. S.A.Dave[12April1988-23Aug 1990]

4.6.9. NPCI (National Payments Corporation of India) : Headquarter: Mumbai Non-Executive Chairman: Mr. Biswamohan Mahapatra MD &CEO: Mr. Dilip Asbe NPCI was incorporated in Dec 2008 & the certificate of commencement of business was issued in April 2009. NPCI was set up with the guidance & support of RBI& IBA (Indian Bank's Association). NPCI has successfully completed the major project of developing a domestic card payment network-Rupay. Presently, there are 10 crore promoter banks (SBI, PNB, BOB, BOI, Canara Bank, Union Bank of India, ICICI, HDFC, Citi Bank & HSBC\NPCI is the umbrella organization for all retail payments systems in India. It introduced UPI, USSD, BHIM App, Bharat QR CODE, IMPS, National Financial Switch, CTS, BBPS, Rupay, NACH, AEPS AEPS (Aadhar Enabled Payment System): It is a new payment service offered by the NPCI to banks, financial institutions using the "Aadhar" number and online UIDAI authentication through their respective Business correspondent service centers. RBI has approved the pilot of AEPS. IMPS (Immediate Payment System): It is an over the mobile 24×7 interbank electronic payment mechanism that enables customers to use mobile instruments, internet banking & ATMs as channels for accessing their bank accounts and placing interbank fundtransfers in a secured manner Requisites: 1. MMID: Mobile Money Identifier is a7 digit code issued by banks to their customers. This number is mandatory for the beneficiary of funds if he wants to enter into a transaction 2. IFSC: Indian Financial System Code is a code that is a kind of identity for a specificbank.

4.6.10. NFS (National Financial Switch) : It was initiated by the Institute of Development & Research in Banking Technology and handed over to NPCI in 2009. NFS consists of a national switch to facilitate connectivity between banks switcher & their ATMs and an interbank payment gateway for authentication and routing the payment details of various e-commerce transactions. NFS is India's largest ATM connecting facility. The main purpose of NFS initially was to include rural and cooperative banks under its umbrella. **Rupay:**Rupay is the Indian domestic card payment network being set up by NPCI on the behalf of banks in India

4.6.11. DICGC (Deposit Insurance and Credit Guarantee Corporation) : Established: Under the DICGC act 1961 on 15 July 1978. Subsidiaryof RBI Head office: Mumbai. Chairman: Dr. Michael Debabrata Patra. 1. DICGC insures all bank deposits as saving, fixed, current, recurring, etc except the following deposits: Deposits of foreign Government. Deposits of state/central government .Interbank Deposits .Deposit of state land development banks with state cooperative banks. Any amount due on the account and Any amount exempted by RBI approval deposit received outside India. 2. DICGC insures up to a maximum of Rs.500,000 for both principal & interest held by a customer as on date of scheme merger/reconstruction or cancellation of bank's license come into force (in case of multiple a/e still maximum insured amount is Rs. 5 lakh). NOTE: All commercial banks, branches of foreign banks functioning in India, RRBs, local area bankco-operativebanksareinsuredbyDICGC.

4.6.12. GIC (General Insurance Corporation) : The company has 5 directors and 2 reported key management personnel. The longest serving director currently on board is Devesh Srivastava who was appointed on 21 December, 2019. Devesh Srivastava has been on the board for 2 years and 11 months. The most recently appointed director is Priya Bhushan Sharma, who was appointed on 22 March, 2022. Founded: 22 Nov 1972 under the companies act1956 Headquarter: Mumbai.Chairman: Devesh.Srivastava. GIC of India (GICRe) is the sole reinsurance company in the Indian insurance market.
NOTE: GICRe becomes Ist reinsurer to open office at India's Ist International Financial Service Centre (IFSC) at Gujarat International Finance Tec-city (Gift city).

4.6.13. LIC (Life Insurance Corporation of India) : Life Insurance Corporation, popularly known as LIC is Indian state-owned insurance group and investment company. Buy Life Insurance Plans and Policies from lic of india Avail tax benefits with multiple cover options.Headquarter: Mumbai. Chairperson: Shri. Mangalam Ramasubramanian Kumar. The company was founded in 1956 under the Life Insurance of India act on 19 June 1956. LIC is an Indian state-owned insurance group and investment company headquarters in Mumbai. It is the largest insurance company in India. LIC offers a variety of insurance products to its customers such as insurance plans, unit-linked plans, special plans, and group schemes LIC's slogan yogakshemam vahamyaha is in the Sanskrit language which translates in English as "your welfare is our responsibility". The slogan can be seen in the Logo, written in devanagri script.

4.6.14. AICIL (Agriculture Insurance Company of India Limited) : Started from 1 April 2003. Founded: 20 Dec. 2002 under Indian companies act 1956.Headquarter: New Delhi, India. Key people: Sh, Malay Kumar Poddar (MD & Chairman) Slogan: Sampann Bharat ki Pehchan, Beemit Phasal Khushaal Kisan. AICIL was incorporated with an authorized capital of Rs. 1500 Cr. It offers yield-based and weather-based crop insurance programs in almost 500 districts of India. It covers almost 20 million farmers, making it the biggest crop insurer in the world in number of farmers served. AICIL commenced business from 1st April 2003. AICIL is under the administrative control of the Ministry of Finance, GOI and under the operational supervision of the Ministry of Agriculture, GOI, IRDA, Hyderabad (India) is the regulatory body governing AICIL.

4.6. 15.UTI (Unit Trust of India) : People who hold units under this can sell them to UTI at a given rate as well. A very particular reason why this is an attractive investment option is because the investment in UTI has a certain rebate on income tax. Moreover, the income from UTI is also exempted from income tax as per certain conditions. \Unit Trust is an investment plan where the funds are pooled together and then the investment. The fund that has been pooled is later unitized. The investor is known as a unitholder. He or she holds a certain number of units. On the other hand, the second party which is the manager is responsible for the daily running of the trust and for investing the funds.

The trustee, governed by the Trust Companies act in the year 1967, is the third party. The role of the third party is to monitor the manager's performance against the trust's deed. The purpose of the deed is to outline the objectives and the vital information about the trust. Also, the assets of the trust are held in the name of the trustee. Then they are held "in trust" for unitholders.Industry: Mutual fund Founded 1964. Headquarter: Mumbai. Chairman: Shri. Imtaiyazur Rahman. Slogan: Haq, Ek Behtar Zindagi Ka. UTI is a financial organization in India, which was created by the UTI Act passed by the parliament of India on December 30, 1963, under the direction of Col. Akash Behl. UTI has established with an initial capital of Rs. 5 crores, contributed by the RBI, LIC, SBI & its subsidiaries and scheduled banks & financial institutions

4.6.16. CDSL (Central Depository Services Limited) : "CDSL" was found in 1999 to fulfil one goal: Convenient, Dependable and secured depository services. Over two decades later, everything we have done – the values we have built on, dematerialisation of various asset classes, e-services – have all been in support of that singular goal, at an affordable cost.We are a Market Infrastructure Institution (MII) and a crucial part of the Capital market structure, providing services to all Market participants - Exchanges, Clearing Corporations, Depository Participants (DPs), Issuers and Investors. A Depository is a facilitator for holding of securities in the dematerialised form and an enabler for securities transactions. Founded: Feb.1998.Headquarter: Mumbai. Key people: Nehal Vora (MD & CEO). It is the second Indian Central Securities Depository. CDSL holds securities either in certificated or uncertificated form, to enable the book-entry transfer of securities. CDSL is mainly promoted by Bombay Stock Exchange Ltd. (BSE)

4.6.17. NSDL (National Securities Depository Limited) : Founded: 8 Nov 1996. Headquarter: Mumbai. Key People: Padmaja Chunduru (Chairman). It is the first & largest electronic securities depository in India. It has established a national infrastructure using international standards that handles most of the securities held & settled in dematerialized form in the Indian capital market. NSDL is promoted by:IDBI (Industrial development bank of India Ltd.) – Largest development Bank of India. UTI (Unit Trust of India) Largest mutual fund in India. NSE (National Stock Exchange of India Ltd.) - Largest stock exchange in India. Some of the prominent banks in the country have taken a stake in NSDL NSDL also has a subsidiary company NSDL Database Management Ltd. NSDL e-Governance, Infrastructure Limited

(NSDL e-Govt): NSDL e-Gov was originally set up as a Depository in 1995. e-Governance solutions have helped governments to identify and clear bottlenecks, promote transparency, reduce service delivery cost & efficiently . NSDL e-Governance Infrastructure Ltd. and the pension fund Regulatory and Development Authority (PFRDA) have entered into an agreement relating to setting up a Central Recordkeeping Agency (CRA) for the National Payment System (NPS). The NPS was introduced by Govt. of India for its new recruiters (except the Armed Forces) joining w.e.f. 1 Jan 2004.

4.6.18. NIBM (National Institution of Bank Management) : National Institution of Bank Management established in 1969 and its headquarter in Pune. Governed by: Shri.ShaktikantaDas. NIBM is the RBI's fully owned subsidiary. It is an Indian Institution for research, training, and consultancy in banking and finance. The campus is self-contained, with residential and educational facilities. It is registered as a society under the societies registration Act 1860. It was established in 1969 by the RBI in consultation with GOI as an autonomous "Apex institute" for the Indian Banking System. It is governed by a board, chaired by the Governor of the Reserve Bank of India. The institute generates more than 70% of its own operating budget the rest is funded by the banking industry. Sh. K.L. Dhingra is the current director of the institute as on 2017. A major activity is the regular publication of the following two quarterly journals in English: (i) Prajnan: Journal of social and management sciences: A leading refereed quarterly journal (launched in 1972). (ii) Vinimaya: Present conceptual & practical viewpoints of both bankers & management educationists (Launched in 1979). Member Banks: In addition to RBI, its associate member banks are the SBI and several of its subsidiaries, 19 National Banks & two foreign banks HSBC & Bank of America

4.6.19. NOFHC (Non-operating Financial Holding Company) : Non-operative Financial Holding Company (NOFHC) is a type of Non-Banking Financial Company which is not an inactive form of Finance Business but do hold/acquire and often termed as promoter/promoter group which will hold the Bank as well as other financial services companies regulated by Reserve Bank of India (RBI) or other financial sector regulators, to the extent permissible under the applicable regulatory prescription. RBI-wide notification released on 7-4-2014 has informed the concerned financial institution that non-operative financial holding companies **(NOFHCs) will be a separate category of NBFCs.** Promoter groups will be permitted to set up a new bank only through a wholly-owned NOFHO which will hold the banks as well as all other financial services companies regulated by RBI or other financial sector regulators. **NOFHC will be registered as a non-deposit-taking non-banking financial company (NBFC)** with the Department of Non-Banking Supervision (DNBS) of the Reserve Bank.

4.6.20. CERSAI (Central Registry of Securitization Asset Reconstruction) : Founded: 11March2011.Headquarter: NewDelhi MD & CEO: Pramod R Datar 1st CEO & Registry R.V.Verma(Chairman of National Housing Bank) CERSAI is a central online mortgage registry of India which maintains all central registries of mortgages in India. It was primarily created to check mortgage frauds in which people took multiple loans on the same assets from different banks. It was formed under (SARFAESI ACT-2002) and register under section 25 of the companies act 1956. This is a government company with a shareholding of 51% by the central government and selected public sector banks & National Housing Bank are also shareholders. According to government directives, financial institutions must register a Banking and Economic Awareness mortgage within 30 days of its creation. It aims to help potential buyers by providing them the proper history of the Asset and Lenders can assess data to check whether the same asset has been mortgaged with any other financial institution.

4.6.21. CAPART (Council for Advancement of People's Action and Rural Technology) : Headquarters: NewDelhi. It is set up to address specific problems relating to development in rural areas. CAPART is an autonomous body registered under the Societies Registration Act 1860 and is functioning under the aegis of the Ministry of Rural Development, GOI. Today, this agency is a major promoter of rural development in India. Objectives of Capart: To encourage, promote, assist voluntary action for the implementation of projects intending enhancement of rural prosperity and to make efforts in rural development with the help of new technology inputs. To promote, plan, undertake, develop maintain and support projects/schemes aimed at all-around development and create employment opportunities in rural areas. CAPART deals with the public through Voluntary Organizations (VOs). It has been made mandatory for the VOs to register themselves on the National Portal (NGO-PS) and apply & track the status of their applications online

4.6.22. PFRDA (Pension Fund Regulatory Development Authority) : Chairman: Supratim Bandyopadhyay. It was established by GOI on 23 Aug 2003. The Government has an executive order, that mandates PFRDA to act as a regulator for the pension sector, PFRDA is authorized by the Ministry of Finance. PFRDA promotes old age income security by establishing, developing, and regulating pension funds and protects the interest of subscribers to a scheme of pension funds. It is responsible for the appointment of various intermediate agencies such as CRA (Central record-keeping agency). EPFO (Employees Provident Fund Organization) Head office: NewDelhi Head: Ms. Neelam Shammi Rao It is a statutory body of GOI under the "Ministry of Labour & Employment". It administrates a compulsory contributory provident fund scheme, pension scheme, and Insurance Scheme. On 1 Oct 2014 PM "Narendra Modi" launched a universal account number of employees covered by EPFO to enable PF number portability. The Employees provident fund & miscellaneous provision Act, 1952 come into effect on 4 March 1952. The board is chaired by the Union Labour Minister of India (The chief executive of the EPFO). EPFO act is not applicable in Jammu & Kashmir.

4.6.23. BCSBI (BankingCodesandStandardsBoardofIndia) :
Chairman: Shri.A.C.Mahajan.Formed: 18Feb2006.Headquarter: Mumbai.Head: A.C.Mahajan. Members: 129. BCSBI is an independent banking industry Agency that protects consumers of banking services in India. It is an independent and autonomous body, registered as a separate society under the Societies Registration Act 1860 on Feb 18, 2006. SS Tarapore came up the idea to form a committee for the benefit of customers so that they can get better financial services.

4.6.24. IDRBT (Institute for Development & Research in Banking Technology) : Established: In 1996 by RBI. Headquarter: Hyderabad (India). Head: D Janakiram. IDRBT is banking research institute. RBI established IDRBT with the aim of providing the operational services support in information technology to banks and Financial Institutions. IDRBT is the only institute in India that exclusively focuses on Banking Technology.. IDRBT is also an academic institution that offers a range of academic & research programs, designed specifically to meet both the existing and emerging requirements of the Banking and Financial sector in India.

4.6.25. OECA (Export Credit Agency) : Head-office: Mumbai. An export credit agency or investment insurance agency is a private or quasi-governmental institution that acts as an intermediary between national governments and exporters to issue export financing. The financing can take the form of credits or credit insurance and guarantees or both, depending on the mandate the ECA has been given by its government. EXIM Bank, ECGC (Export Credit Guarantee Corporation of India) are two export credit agencies in India. Export credit agency of CHINA has the highest capital.

4.6.26.SHCIL (Stock Holding Corporation of India Ltd.) : Headquarter: Mumbai. Established-1986. Key People: Shri Ramesh NGS (Chairman). It is India's largest custodian and depository participant. SHCIL is known for its online trading portal with investors and traders. It also looks after the e-stamping systems around India.. SHCIL has been appointed as a point of presence (POP) by PFRDA for National Pension System (NPS). It offers a full spectrum of NPS services and facilities to all citizens. SHCIL is the only Central Record Keeping Agency (CRA) appointed by the government of India.

4.7. SUMMARY :

A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers. The functions of financial institution are as follows: i) Ensure a healthy economy ii) Regulate the money supply iii) Banking and investment services iv) Fulfil Customer’s financial needs v) Offer a wide range of monetary or financial services vi) Use the funds productively. There is a wide range of such institutions operating around the world. However, the commonly identified types are as follows: i) Central Banks ii) Commercial Banks iii) Non-Banking Institutions iv) Credit Unions v) Investment Entities vi) Thrift Institutions vii) Insurance Companies. The following are the briefly explained regarding financial institution in India viz., 1.RBI (Reserve Bank of India) NABARD (National Bank for Agriculture and Rural Development) 3. SIDBI (Small Industries Development Bank of India) 4.IRDAI (insurance Regulatory and Development Authority of India) 5. EXIM BANK (Export –Import Bank) 6. NHB (National Housing Bank) 7.ECGC (Export Credit Guarantee Corpotation of India) 8. SEBI (Securities and Exchange Board of India) 9. NPCI (National Payments Corporation of India) 10. NFS (National Financial Switch) 11. DICGC (Deposit Insurance and Credit Guarantee Corporation) 12. GIC (General Insurance Corporation) 13. LIC (Life Insurance Corporation of India) 14. AICIL (Agriculture Insurance Company of India Limited) 15.UTI (Unit Trust of India) 16.CDSLCentral Depository Services Limited) 17. NSDL (National Securities Depository Limited) 18.NIBM (National Institution of Bank Management) 19. NOFHC (Non-operating Financial Holding Company) 20. CERSAI (Central Registry of Securitization Asset Reconstruction) 21. CAPART (Council for Advancement of People's Action and Rural Technology) 22. PFRDA (Pension Fund Regulatory Development Authority) 23.BCSBI(Banking Codesand Standards Board of India) 24. IDRBT (Institute for Development & Research in Banking Technology) 25. OECA (Export Credit Agency) 26. SHCIL(Stock Holding Corporation of India Ltd.)

4.8. TECHNICAL TERMS :

Central Bank :

A central bank is a financial institution given privileged control over the production and distribution of money and credit for a nation or a group of nations.

Commercial Bank:

Commercial banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation, and agency functions. They are also called joint stock banks because they are organised in the same manner as joint stock companies.

Thrift Institutions:

A thrift bank–also just called a thrift–is a type of financial institution that specializes in offering savings accounts and originating home mortgages for consumers. Thrift banks are also sometimes referred to as Savings and Loan Associations (S&Ls). Thrift banks differ from larger commercial banks, like Wells Fargo or Bank of America, because they usually offer higher yields on savings accounts and provide limited lending services to businesses.

Credit Unions :

A credit union is a type of financial organization that is owned and governed by its members. Credit unions provide members with a variety of financial services, including checking and savings accounts and loans. They are non-profit organizations that are intended to provide high-quality services to its members, not to maximize profits.

4.9. SELF ASSESSMENT QUESTIONS :

1. What is Financial institution? Explain the importance of Financial institution.
2. Explain different types of financial institutions?
3. What are the functions of financial institution? Explain.
4. Write about **National Payments Corporation of India**
5. Write about **LIC and GIC**
6. Write about **Central banks and Commercial banks.**

4.10 . SUGGESTED READINGS :

1. T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2. Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3. Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4. Website on Indian Financial markets

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LESSON - 5

CAPITAL MARKETS & ITS' FUNCTIONS

AIMS AND OBJECTIVES :

After studying this chapter, you will be able :

- To understand the capital markets.
- To understand various functions of capital markets
- To compare debt market and equity market

STRUCTURE OF THE LESSON :

5.1. INTRODUCTION :

Financial market: Financial market is a place or a system where financial assets or instruments are created and exchanged by market participants. One of the barometers to measure the economic health of a nation is to look at the efficiency of the financial market of the country. Financial markets play a significant role in performing the resource management in an economy through various financial assets namely equity, debt, currency and other quasi-instruments. Financial markets facilitate the price discovery and provide liquidity of financial assets. Financial market performs the crucial role of capital creation that is acting as a bridge between providers of finance and the seekers of finance. The financial assets, also called financial claims or financial securities are issued by the seekers of finance. They issue the instruments to investors who have surplus money to invest. Between the two parties, there are financial intermediaries who act who act as conduits between the investors and issuers. Thus, there are four important elements of securities markets namely investors, issuers, intermediaries and regulators. The issuers can be government or corporate houses. The government issues gilt-edged securities whereas the corporate issue shares, debentures etc., depending on the time period for which the fund is required, and the financial instruments could be short term and long term. Depending on the participants, the financial markets are classified as primary and secondary market.

The financial markets have two major components:1. Money market, 2. Capital market. The Money market refers to the market where borrowers and lenders exchange shortterm funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability. The Capital market is a market for financial investments that are direct or indirect claims to capital. It is wider than the Securities Market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument. The Capital Market comprises the complex of institutions and mechanisms through which intermediate term funds and long-term funds are pooled and made available to business, government and individuals. The Capital Market also encompasses the process by which securities already outstanding are transferred. The Securities Market, however, refers to the markets for those financial instruments/ claims/obligations that are commonly and readily transferable by sale. The Securities Market has two interdependent and inseparable segments, the new issues (primary) market and the stock (secondary) market. The Primary market provides the channel for sale of new securities. The issuer of securities sells the securities in the primary market to raise funds for investment and/or to discharge some obligation. The Secondary market deals in securities previously issued. The secondary market enables those who hold securities to adjust their holdings in response to charges in their assessment of risk and return. They also sell securities for cash to meet their liquidity needs. The price signals, which subsume all information about the issuer and his business including associated risk, generated in the secondary market, help the primary market in allocation of funds.

Efficient transfer of resources from those having idle resources to others who have a pressing need for them is achieved through financial markets. Stated formally, financial markets provide channels for allocation of savings to investment. These provide a variety of assets to savers as well as various forms in which the investors can raise funds and thereby decouple the acts of saving and investment. The savers and investors are constrained not by their individual abilities, but by the economy's ability, to invest and save respectively. The financial markets, thus, contribute to economic development to the extent that the latter depends on the rates of savings and investment.

5.2. CAPITAL MARKETS :

The capital market generally consists of the long-term financial instruments. The instruments used in the equity segment include equity shares, preference shares, convertible preference shares, non-convertible preference shares, etc; and in the debt segment include debentures, zero coupon bonds, deep discount bonds, etc. Section 85 of the Companies Act, 1956 permits public limited companies (having share capital) to have two kinds of shares namely - equity and preference.

5.2.1. DEFINITION OF CAPITAL MARKET :

According to Arun K. Datta the capital market may be defined as, "the capital market is a complex of institutions investment and practices with established links between the demand for and supply of different types of capital gains".

According to F. Livingston the capital market may be defined as, "In a developing economy, it is the business of the capital market to facilitate the main stream of command over capital to the point of the highest yield. By doing so, it enables, control over resources to pass into the hands of those who can employ them must effectively thereby increasing production capacity and spelling the national dividend."

5.2.2. Elements of a Capital Market :

Individual investors, commercial banks, financial institutions, insurance companies, business corporations, and retirement funds are some significant suppliers of funds in the market. Investors offer money intending to make capital gains when their investment grows with time. In addition, they enjoy perks like dividends, interests, and ownership rights. Companies, entrepreneurs, governments, etc., are fund-seekers. For instance, the government issues debt instruments and deposits to fund the economy and development projects. Usually, long-term investments such as shares, debt, government securities, debentures, bonds, etc., are traded here. In addition, there are also hybrid securities such as convertible debentures and preference shares..Stock exchanges operate the market predominantly. Other intermediaries include investment banks, venture capitalists, and brokers. Regulatory bodies have the authority to monitor and eliminate any illegal activities in the capital market. For instance, the Securities and Exchange Commission overlooks the stock exchange operations. The capital market and money market are not the same. Securities exchanged in the former would typically be a long-term investment with over a year lock-in period. Short-term investments trade in the money markets and include a certificate of deposits, bills of exchange, promissory notes , etc.

i. Individual investors : A personal investor is an individual investor that invests their capital in a business company, or any investment opportunity for that matter, for their own personal gain. They do not represent a group, nor do they invest only in small ventures particularly, but everywhere they see a chance of investment.

ii. Commercial banks : The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit(CDs) and savings accounts to individuals and small businesses.

iii. Financial institutions : Financial institutions are businesses that provide different types of financial services to customers. They use the funds that customers provide, then distribute funds to individuals and businesses who need them. Thus, they connect savers and spenders to facilitate transactions in the financial markets. For example, these businesses make it possible for borrowers to obtain loans using the funds that savers have made available.

iv. Insurance companies : insurance company a financial institution that provides a range of INSURANCE policies to protect individuals and businesses against the RISK of financial losses in return for regular payments of PREMIUMS.An insurance company operates by pooling risks amongst a large number of policyholders.

v. Business corporations : What is business corporation is a common question asked by many people wanting to incorporate their business. Specifically, a corporation is a business structure that operates as a separate and distinct legal entity. It is owned by shareholders and managed by a board of directors who appoint officers to oversee the business's daily operations.

vi. Retirement funds : A Retirement Income Fund (RIF) is an investment product available to anyone as a conservative means of saving for retirement. A RIF is generally a mutual fund that is well diversified in large and mid-cap stocks and bonds. A RIF balances its portfolio to allow for moderate gains using a conservative approach to attempt to retain value while providing income to investors.

vii. Investment banks : Investment banking is a special segment of banking operation that helps individuals or organisations raise capital and provide financial consultancy services to them. They act as intermediaries between security issuers and investors and help new firms to go public. They either buy all the available shares at a price estimated by their experts and resell them to public or sell shares on behalf of the issuer and take commission on each share.

viii. Venture capitalists : A venture capitalist (VC) is a private equity investor that provides capital to companies with high growth potential in exchange for an equity stake. This could be funding startup ventures or supporting small companies that wish to expand but do not have access to equities markets.

ix. Brokers : A broker is an individual or firm that acts as an intermediary between an investor and a securities exchange. Because securities exchanges only accept orders from individuals or firms who are members of that exchange, individual traders and investors need the services of exchange members. Brokers provide that service and are compensated in various ways, either through commissions, fees, or through being paid by the exchange itself. Investopedia regularly reviews all of the top brokers and maintains a list of the best online brokers and trading platforms to help investors make the decision of what broker is best for them.

5.3. FUNCTIONS OF CAPITAL MARKET :

It mobilizes parties' savings from cash and other forms to financial markets. It bridges the gap between people who supply capital and people in need of money. Any initiative requires cash to materialize. Financial markets are central to national and economic development as they provide rich sources of funds. For example, the World Bank collaborates with global capital markets to mobilize funds to achieve its goals, such as poverty elimination. The International Bank for Reconstruction and Development (IBRD) has assisted over 70 countries by raising nearly $ 1 trillion since the first bond in 1947. Likewise, a report suggested that the European Union companies need to turn to this market to manage their pandemic balance sheet as banks alone will not suffice. For the participants, the exchange instruments possess liquidity , i.e., they can be converted into cash and cash equivalents. Also, the trading of securities becomes easier for investors and companies. It helps minimize transaction and information costs. With higher risks, investors can gain more profits. However, there are many products for those with a low-risk appetite. In addition, there are some tax benefits obtained from investing in the stock market. Usually, the market securities can work as collateral for getting loans from banks and financial institutions.

Capital market plays a vital role in the development by mobilising the savings to the needy corporate sector. In recent years there has been a substantial growth in the Capital Market. The Capital Market involves in various functions and significance. They are presented below: i) Coordinator, ii) Motivation to savings ,iii) Transformation to investments, iv. Enhances economic growth, v) \Stability, vi) Advantages to the investors , vii) Barometer

5.3.i) Coordinator :

The Capital Market functions as coordinator between savers and investors. It mobilises the savings from those who have surplus fund and divert them to the needy persons or organisations. Therefore, it acts as a facilitator of the financial resource. In this way it plays a vital role in transferring the surplus resources to deficit sectors. It increases the productivity of the industry which ultimately reflects in GDP and national income of the country. It increases the prosperity of the nation.

5.3.ii) Motivation of Savings :

The Capital Market provides a wide range of financial instruments at all times. India has a vast number of individual savers and the crores of rupees are available with them. These resources can be attracted by the capital market with nature. The banks and non-banking financial institutions motivate the people to save more and more. In less developed countries, there is no efficient capital market to tap the savings. In underdeveloped countries there are very little savings due to various factors. In those countries they invest mostly in unproductive sector.

5.3.iii) Transformation of Investment :

The Capital Market is a place where the savings are mobilised from various sources, is at the disposal of businessmen and the government. It facilitates lending to the corporate sector and the government. It diverts the savings amount towards capital formation of the corporate sector. It creates assets by helping the industry. Thus, it enhances the productivity and leads to industrialisation. The industrial development of the country depends upon the dynamic nature of the capital market. It also provides facilities through banks and non-banking financial institutions. The development of financial institutions made the way easy to capital market. The capital has become more mobile. The interest rate fall led to an increase in the investment.

5.3.iv) Enhances Economic Growth :

The development of the Capital Market is influenced by many factors like the level of savings with the public, per capita income, purchasing capacity, and the general condition of the economy. The capital market smoothens and accelerates the process of economic growth. The

Capital Market consists of various institutions like banking and non-banking financial institutions. It allocates the resources very cautiously in accordance with the development of needs of the country. The balanced and proper allocation of the financial resources leads to the expansion of the industrial sector. Therefore, it promotes the balances regional development. All regions should be developed in the country.

5.3.v) Stability :

The Capital Market provides a stable security price in the stock market. It tends to stabilise the value of stocks and securities. It reduces the fluctuations in the prices to the minimum level. The process of stabilisation is facilitated by providing funds to the borrowers at a lower interest rate. The speculative prices in the stock market can be reduced by supply of funds. The flow of funds towards secondary market reduces the prices at certain level. Therefore, the Capital Market provides funds to the stock market at a low rate of interest.

5.3.vi) Advantages to the Investors :

The investors who have surplus funds can invest in longterm financial instruments. In Capital Market, a number of long-term financial instruments are available to the investor at any time. Hence, the investors can lend their money in the Capital Market at reasonable rate of interest. The Capital Market helps the investors in many ways. It is the coordinator to bring the buyer and seller at one place and ensure the marketability of investments. The stock market prices are published in newspapers everyday which enables the investor to keep track of their investments and channelise them into most profitable way. The Capital Market safeguards the interest of the investors by compensating from the stock exchange compensating fund in case of fraud and default.

5.3.vii) Barometer :

The development of the Capital Market is the indicator of the development of a nation. The prosperity and wealth of a nation depends, upon the dynamic capital market. It not only reflects the general condition of the economy but also smoothens and accelerates the process of economic growth. It consists a number of institutions, allocates the resources rationally in accordance with the development needs of the country. A good allocation of resources leads to expansion of trade and industry. It helps both public and private sector.

Generally, the corporate sector requires funds not only for meeting their long-term requirements of funds for their new projects modernisation, expansion and diversification programmes but also for covering their operational needs. Therefore, their requirement of capital is classified as given below: a. Long-term capital. b. Short-term capital c. Venture capital d. Export capital

5.3.vii. a. Long-term capital : Long-term capital represents the amount of capital invested in the form of fixed assets. Fixed assets are such as land, building, plant and machinery necessary for every company at the initial stage of the commencement of the production. Heavy amount of capital is required by the companies when they are going for modernisation or expansion or diversification. Therefore, the requirement of long-term capital is supplied by the capital market. This is also referred to as Fixed Capital. Usually, the corporate sector mobilises the fixed capital from the Capital Market through various long-term maturity financial instruments. Therefore, it provides adequate funds to the corporate sector by offering various financial instruments. They mobilise the funds through issue of Equity shares. Preference shares, debentures, bonds etc.

These financial instruments have a longer maturity period and they are treated by the companies as permanent capital. Some instruments have no maturity until the close down of a business unit. Short-term capital represents the amount of capital invested in current assets. The Current Assets consist of cash, bank balances, inventory, debtors etc.

5.3.vii. b. Short-term capital : The short-term capital is required to meet the need of working capital of the corporate sector. Working capital is required for meeting the operating cost of the business concern. They are required to pay different amounts to different parties as per their schedule. Hence, they procure the working capital from the commercial banks. In India a majority of the corporate sector is funded by the banks through different modes of finance. The working capital is known as circulating capital. An adequate supply of working capital leads to smooth functioning of production of goods. There are some other avenues available to the corporate sector to meet the needs of the working capital.

5.3.vii. c. Venture capital : Venture capital is the capital which invested in highly risky ventures. It is also known as seed capital. It is a quite recent entrant in the capital market. It has great significance in helping technocrat entrepreneurs at the commencement stage of the concern. It has technical expertise. But it lacks finance.

5.3.vii. d. Export capital : Export capital refers for making payment in International Trade. The payment of international trade involves in bills of exchange and other instruments.

5.4. PLAYERS IN THE CAPITAL MARKET :

Capital Market is a market for long-term funds. It requires a well-structured market to enhance the financial capability of the country. The market consists of a number of players. They are categorized as: 1. Companies 2. Financial Intermediaries 3. Investors

5.4.1. COMPANIES :

Company forms of businesses have become immensely popular over the years. Their development has led to the creation of so many new types of companies. Companies are to be classified on the basis of liabilities, members and on the basis of control. Companies on the Basis of Liabilities. When we look at the liabilities of members, companies can be limited by shares, limited by guarantee or simply unlimited.

a) Companies Limited by Shares : Sometimes, shareholders of some companies might not pay the entire value of their shares in one go. In these companies, the liabilities of members is limited to the extent of the amount not paid by them on their shares. This means that in case of winding up, members will be liable only until they pay the remaining amount of their shares.

b) Companies Limited by Guarantee : In some companies, the memorandum of association mentions amounts of money that some members guarantee to pay. In case of winding up, they will be liable only to pay only the amount so guaranteed. The company or its creditors cannot compel them to pay any more money.

c) Unlimited Companies : Unlimited companies have no limits on their members' liabilities. Hence, the company can use all personal assets of shareholders to meet its debts while winding up. Their liabilities will extend to the company's entire debt.

d). Companies on the basis of members :

i) One Person Companies (OPC) : These kinds of companies have only one member as their sole shareholder. They are separate from sole proprietorships because OPCs are legal entities distinct from their sole members. Unlike other companies, OPCs don't need to have any minimum share capital.

ii) Private Companies : Private companies are those whose articles of association restrict free transferability of shares. In terms of members, private companies need to have a minimum of 2 and a maximum of 200. These members include present and former employees who also hold shares.

iii) Public Companies : In contrast to private companies, public companies allow their members to freely transfer their shares to others. Secondly, they need to have a minimum of 7 members, but the maximum number of members they can have is unlimited.

e) Companies on the basis of Control or Holding :

In terms of control, there are two types of companies.

i) Holding and Subsidiary Companies : In some cases, a company's shares might be held fully or partly by another company. Here, the company owning these shares becomes the holding or parent company. Likewise, the company whose shares the parent company owns becomes its subsidiary company. Holding companies exercise control over their subsidiaries by dictating the composition of their board of directors. Furthermore, parent companies also exercise control by owning more than 50% of their subsidiary companies' shares.

ii) Associate Companies : Associate companies are those in which other companies have significant influence. This "significant influence" amounts to ownership of at least 20% shares of the associate company. The other company's control can exist in terms of the associate company's business decisions under an agreement. Associate companies can also exist under joint venture agreements.

f) Companies in terms of Access to Capital :

When we consider the access a company has to capital, companies may be either listed or unlisted.

i) Listed companies : Listed companies have their securities listed on stock exchanges. This means people can freely buy their securities. Hence, only public companies can be listed, and not private companies.

ii) Unlisted companies : Unlisted companies, on the other hand, do not list their securities on stock exchanges. Both, public, as well as private companies, can come under this category.

g) Other Types of Companies :

i) Government Companies : Government companies are those in which more than 50% of share capital is held by either the central government, or by one or more state government, or jointly by the central government and one or more state government.

ii) Foreign Companies : Foreign companies are incorporated outside India. They also conduct business in India using a place of business either by themselves or with some other company.

iii) Charitable Companies : Certain companies have charitable purposes as their objectives. These companies are called Section 8 companies because they are registered under Section 8 of Companies Act, 2013. Charitable companies have the promotion of arts, science, culture, religion, education, sports, trade, commerce, etc. as their objectives. Since they do not earn profits, they also do not pay any dividend to their members.

iv) Dormant Companies : These companies are generally formed for future projects. They do not have significant accounting transactions and do not have to carry out all compliances of regular companies.

v) Nidhi Companies : A Nidhi company functions to promote the habits of thrift and saving amongst its members. It receives deposits from members and uses them for their own benefits.

vi) Public Financial Institutions : Life Insurance Corporation, Unit Trust of India and other such companies are treated as public financial institutions. They are essentially government companies that conduct functions of public financing.

5.4.2. FINANCIAL INTERMEDIARIES :

According to the dominant economic view of monetary operations, [9] the following institutions are or can act as financial intermediaries: Banks, Mutual savings banks, Savings banks, Building societies, Credit unions A financial intermediary means an institution that acts as a middleman between two parties in order to help financial transactions. Financial intermediaries are highly specialized and they connect market participants with each other. Financial intermediaries include i) banks, ii) investment banks, iii) credit unions, iv) insurance companies, v) pension funds, vi) brokers and exchanges, vii) clearinghouses, viii) dealers, ix) mutual funds, etc.

i) Banks : Banks are the most popular financial intermediaries in the world as they are highly regulated by the government and play an important role in economic stability. Bank's different kinds of specialties include savings, investing, lending, and many other sub-categories. Banks accept deposits from the public and creates credit products for borrowers.

ii) Investment Banks : Investment banks are specialized in large and complex financial transactions. Investment banks provide advice to their corporate clients in issuing new capital, in issuing a wide range of securities, and in mergers and acquisitions. They also assist their clients in obtaining debt financing and with potential takeover targets.

iii) Credit Unions : The credit union is a member-owned type of bank that is governed by a board of directors who are elected by the members. The credit union helps members by offering credit at a competitive rate. The difference between typical banks and credit unions is that credit unions are for serving their members necessarily with no profit motive. Besides lending money, credit unions may also look after credit-related activities.

iv) Pension Funds : Another popular financial intermediary is a pension fund which is for full-time employees. The pension fund is used by employees to save for their retirement by investing. After retirement, employees get all the contributions, interest, and realized gains.

v) Insurance Companies : There are different types of financial intermediaries that help individuals and companies offset the risks for a premium. Insurance companies offer risk mitigation at a low cost. Insurance companies are highly regulated but sometimes they suffer from fraud and moral hazard.

vi) Mutual Funds : A mutual fund is an institution that pools money from many investors and invests the money in different securities. A mutual fund is a popular choice among investors because they offer features like professional management, diversification, affordability, and liquidity.

vii) Stock Exchanges : Another financial intermediary is a stock exchange that acts as a market where stock buyers connect with stock sellers. The stock exchange acts as a large platform that facilitates every transaction of people. Like other financial intermediaries, they earn revenues by adding transaction fees and interest rates.

viii) Clearing Houses : Clearinghouse acts as a middleman that arranges the final settlement of trade in future markets. Clearinghouse provides security and efficiency for financial market stability. It acts as an intermediary between a buyer and seller to ensure the process of trade is smooth. Clearinghouse imposes margin requirements to mitigate risk. Basically, clearinghouses provide extra security by assuring that the transaction will occur smoothly so that investors can trade freely.

ix) Financial Advisors : A financial advisor is a financial intermediary who is responsible for executing trades on behalf of their clients. Financial advisors use their expertise to achieve the financial goals of clients. Investment advice is an important reason to work with financial advisors, but they also assist in every aspect of financial life. They also assist their clients in other areas like budget, savings, insurance, and tax strategies.

x) Dealers : A dealer acts as a principal who buys and sells securities for their own account. In the security market, a dealer buys security for its own account and makes a profit by selling the security. Dealers assist in creating liquidity in the market. Dealers should be registered with the Securities and Exchange Commission (SEC) and must comply with the requirements.

xi) Securitization : Securitization transfers liquid assets or a group of assets into security. Securitization distributes risk by aggregating assets in a pool and then issuing securities backed by the assets. Financial intermediaries securitize many assets such as bank loans, car loans, mortgages, and credit card receivables. Financial intermediaries divide the securities into different categories which have different rights to cash flows from the asset pool.

xii) Arbitrageurs : They make a profit from market imperfections by taking advantage of the price difference between two or more markets. Usually, they attempt to make a profit from market inefficiencies. It is the act of buying a product in one market and selling it in another market at a high price. The transactions should occur at the same time to avoid market risk because the prices may change before the transactions are complete. Arbitrageurs are experienced investors and they play an important role in the operation of capital markets because their efforts in utilizing price inefficiencies keep prices more accurate.

5.4.3. INVESTORS :

An investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors rely on different financial instruments to earn a rate of return and accomplish important financial objectives like building retirement savings, funding a college education, or merely accumulating additional wealth over time. A wide variety of investment vehicles exist to accomplish goals, including (but not limited to) stocks, bonds, commodities, mutual funds, exchange-traded funds (ETFs), options, futures, foreign exchange, gold, silver, retirement plans, and real estate. Investors can analyze opportunities from different angles, and generally prefer to minimize risk while maximizing returns.

Investors typically generate returns by deploying capital as either equity or debt investments. Equity investments entail ownership stakes in the form of company stock that may pay dividends in addition to generating capital gains. Debt investments may be as loans extended to other individuals or firms, or in the form of purchasing bonds issued by governments or corporations which pay interest in the form of coupons. Investors use different financial instruments to earn a rate of return to accomplish financial goals and objectives. Investment securities include stocks, bonds, mutual funds, derivatives, commodities, and real estate. Investors can be distinguished from traders in that investors take long-term strategic positions in companies or projects. Investors build portfolios either with an active orientation that tries to beat the benchmark index or a passive strategy that attempts to track an index. Investors may also be oriented toward either growth or value strategies.

5.4.3.a) Understanding Investors :

The three types of investors in a business are pre-investors, passive investors, and active investors. Pre-investors are those that are not professional investors. These include friends and family that are able to commit a small amount of capital towards your business. Passive investors are those that are professional investors that commit capital but do not play an active role in managing the business. An example would be angel investors. Active investors are those that commit capital but are also actively involved in the business. They make decisions on strategy, senior management, and more. Examples include venture capitalists and private equity firms. Investors make money in two ways: appreciation and income. Appreciation occurs when an asset increases in value. An investor purchases an asset in the hopes that its value will grow and they can then sell it for more than they bought it for, earning a profit. Income is the regular payment of funds from the purchase of an asset. For example, a bond pays fixed payments at regular intervals.

To be a successful investor, a certain set of skills are required. These include diligence, patience, acquisition of knowledge, risk management, discipline, optimism, and the setting of goals. An investor is an individual or entity that utilizes its capital or the capital of others with the goal of receiving a return. Investors can range from a person buying stocks at home on their online brokerage account to multi-billion dollar funds investing globally. The end objective is always the same, to seek some return (profit) in order to build wealth. Investors commit their capital to a wide variety of investment vehicles, such as stocks, bonds, real estate, mutual funds, hedge funds, businesses, and commodities. Investors encounter risk when they commit capital and walk a balance between managing risk and return.

Investors are not a uniform bunch. They have varying risk tolerances, capital, styles, preferences, and time frames. For instance, some investors may prefer very low-risk investments that will lead to conservative gains, such as certificates of deposits and certain bond products. Other investors, however, are more inclined to take on additional risk in an attempt to make a larger profit. These investors might invest in currencies, emerging markets, or stocks, all while dealing with a roller coaster of different factors on a daily basis. Institutional investors are organizations such as financial firms or mutual funds that build sizable portfolios in stocks and other financial instruments. Often, they are able to accumulate and pool money from several smaller investors (individuals and/or firms) in order to make larger investments. Because of this, institutional investors often have far greater market power and influence over the markets than individual retail investors.

5.4.3.b) Passive Investors vs. Active Investors :

Investors may also adopt various market strategies. Passive investors tend to buy and hold the components of various market indexes and may optimize their allocation weights to certain asset classes based on rules such as Modern Portfolio Theory's (MPT) mean-variance optimization. Others may be stock pickers who invest based on fundamental analysis of corporate financial statements and financial ratios—these are active investors. One example of an active approach would be the "value" investors who seek to purchase stocks with low share prices relative to their book values. Others may seek to invest long-term in "growth" stocks that may be losing money at the moment but are growing rapidly and hold promise for the future.

Passive (indexed) investing is becoming increasingly popular, where it is overtaking active investment strategies as the dominant stock market logic. The growth of low-cost target-date mutual funds, exchange-traded funds, and robo-advisors are partly responsible for this surge in popularity. Those interested in learning more about investing, passive & active investors, and other financial topics may want to consider enrolling in one of the best investing courses currently available.

5.4.3.c) Types of Investors :

i) Angel Investors : An angel investor is a high-net-worth private individual that provides financial capital to a startup or entrepreneur. The capital is often provided in exchange for an equity stake in the company. Angel investors can provide a financial injection either once or on an ongoing basis. An angel investor typically provides capital in the early stages of a new business, when risk is high. They often use excess cash on hand to allocate towards high-risk investments.

ii) Venture Capitalists : Venture capitalists are private equity investors, usually in the form of a company, that seek to invest in startups and other small businesses. Unlike angel investors, they do not seek to fund businesses in the early stages to help get them off the ground, but rather look at businesses that are already in the early stages with a potential for growth. These are companies often looking to expand but not having the means to do so. Venture capitalists seek an equity stake in return for their investment, help nurture the growth of the company, and then sell their stake for a profit.

iii) P2P Lending : P2P lending, or peer-to-peer lending, is a form of financing where loans are obtained from other individuals, cutting out the traditional middleman, such as a bank. Examples of P2P lending include crowdsourcing, where businesses seek to raise capital from many investors online in exchange for products or other benefits.

iv) Personal Investors : A personal investor can be any individual investing on their own and may take many forms. A personal investor invests their own capital, usually in stocks, bonds, mutual funds, and exchange-traded funds (ETFs). Personal investors are not professional investors but rather those seeking higher returns than simple investment vehicles, like certificates of deposit or savings accounts.

v) Institutional Investors : Institutional investors are organizations that invest the money of other people. Examples of institutional investors are mutual funds, exchange-traded funds, hedge funds, and pension funds. Because institutional investors raise large amounts of capital from many investors, they are able to purchase large amounts of assets, usually big blocks of stocks. In many ways, institutional investors can influence the price of assets. Institutional investors are large and sophisticated.

vi) Investors vs. Traders : An investor is typically distinct from a trader. An investor puts capital to use for long-term gain, while a trader seeks to generate short-term profits by buying and selling securities over and over again. Investors typically hold positions for years to decades (also called a "position trader" or "buy and hold investor") while traders generally hold positions for shorter periods. Scalp traders, for example, hold positions for as little as a few seconds. Swing traders, on the other hand, seek positions that are held from several days to several weeks. Investors and traders also focus on different types of analysis. Traders typically focus on the technical factors of a stock, known as technical analysis. A trader is concerned with what direction a stock will move in and how to take advantage of that movement. They are not as concerned about whether the value moves up or down. Investors, on the other hand, are more concerned with the long-term prospects of a company, often focusing on its fundamental values. They make investment decisions based on the likelihood of appreciation of a stock's share price.

5.5. STRUCTURE OF CAPITAL MARKET :

The structure of the capital market has undergone vast changes in recent years. The Indian capital market has transformed into a new appearance over the last four and half decades. Now it comprises an impressive network of financial institutions and financial instruments. The market for already issued securities has become more sophisticated in response to the different needs of the investors. The specialised financial institutions were involved in providing long-term credit to the corporate sector. Therefore, the premier financial institutions such as ICICI, IDBI, UTI, LIC and GIC constitute the largest segment. A number of new financial instruments and financial intermediaries have emerged in the capital market, Usually the capital markets are classified in two ways:

5.5. a) On the basis of issuer : On the basis of issuer, the capital markets can be classified again into two types : 1. Corporate securities market. 2. Government securities market.

5.5. b) On the basis of instruments : On the basis of financial instruments, the capital markets are classified into two kinds: 1.Equity market, 2. Debt Market

5.5.1 Equity Market :

History of Equity Markets :

Equity markets come with long-entrenched histories, with debt issuances dating back to the 1300s. The first stock market was established in Belgium in 1531. The exchange dealt primarily with promissory notes and bonds, but not with actual stocks. Throughout the 1600s, the British, Dutch, and French governments gave charters to companies that included ‘East India’ in their monikers. The countries would take stakes in the profits from India and Asia by funding sea voyages that would bring back goods – although it was risky due to the abundance of pirates, poor weather, and faulty navigation. Instead of bearing all the risk for themselves, ship owners would seek out investors to help fund voyages, and in return, provide investors with a percentage of the profits should the voyage be successful. They were the earliest forms of limited liability companies (LLCs) that would last a single voyage. Shipowners could send their ships without bearing the risk for themselves, and investors could diversify their risk by investing in multiple different ships and voyages. The East India companies eventually began paying dividends from the proceeds collected from multiple voyages instead of creating single-time LLCs for each voyage. It was the first form of joint-stock companies in which the companies could demand more capital, build larger fleets, and provide larger returns for investors.

An equity market is a hub in which shares of companies are issued and traded. The market comes in the form of an exchange – which facilitates the trade between buyers and sellers – or over-the-counter (OTC) in which buyers and sellers find each other. The equity market is also referred to as the stock market and is one of the most important leading indicators of the market economy. It also plays a pivotal role in supporting a market-based economy since it is the bridge between providing capital to companies who require it and providing investments for investors who are seeking a return on their investment.

As mentioned, equity markets are the hub that connects buyers and sellers of equities. Equity securities are initially listed on the markets through an initial public offering (IPO) and are subsequently traded among people on the secondary market.The trading can be done either publicly – which are listed on public exchanges – or privately, where the issuances and trades are initiated through dealers instead of a centralized exchange. The use of dealers in the private market is the defining feature of OTC markets.

5.5.2 Top Equity Exchanges :

Some of the most well-known and largest equity markets are :

i) New York Stock Exchange (NYSE) – United States

ii) Nasdaq (NASDAQ) – United States

iii) Japan Exchange Group (JPX) – Japan

iv) London Stock Exchange (LSE) – United Kingdom

v) Shanghai Stock Exchange (SSE) – China

vi) Hong Kong Stock Exchange (HKEX) – Hong Kong

vii) Euronext – European Union

viii) Toronto Stock Exchange – Canada

ix) Bombay Stock Exchange – India

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5.6. Debt Market :

Debt Market is a marketplace or a financial market where buying and selling of debt market financial instruments take place. These financial instruments are fixed-income securities, giving fixed returns to the investors. These securities provide regular interest payments at a fixed rate with principal repayment at the time of maturity. Major Debt Market securities are Bonds, Government Bonds, Debentures, Treasury Bills, Certificates of Deposits, Commercial Papers, etc. In Debt Market, the creditworthiness of the issuer plays a very important role. Credit Rating agencies like Moody's, Standard & Poor's, Fitch, ICRA, etc., give credit ratings to all these debt securities according to their credibility. Investors rely heavily on these ratings before investing in debt securities. Fixed-Income Market or Credit Market is the other name of the Debt Market. The issuer of these securities can be local bodies, municipalities, state government, central government, corporate, etc.

i) Corporate/Companies : Companies often rely on debt instruments to finance their projects, expansion, or growth. Raising money through equity is always not a feasible option; in such a situation, the companies go for Debt Market securities.

ii) Banks and Financial Institutions : Banks and Financial Institutions flourish on the deposits and lending business. Debt Market instruments give Banks and Financial Institutions an opportunity to raise funds for lending. These institutions and banks accept deposits from the public at large at a lower interest rate and, after that, lend money to the borrowers at a higher rate.

iii) State and/or Central Government : The State and/or Central Government raises money through Debt Market instruments to execute its various infrastructural projects and welfare programs. Sometimes the government does not have enough funds even after considering all taxes, income, and other incomes. In such a situation, the government raises funds through the general public. The infrastructural projects once start functioning, they repay the government, and the same funds are given back as returns and redemptions to investors.

iv) Local Panchayats or/and Municipal Corporations or/and Local Body : At even small town or village level, Debt instruments are useful for raising funds. In a similar manner to Central and State governments, these local Municipalities or Village Panchayats use these instruments to collect funds for their infrastructural projects and other welfare programs.

Public Sector Units (PSUs): Public Sector Units (PSUs) have to directly compete with private entities. These Units also use debt instruments to raise funds for their projects and expansion.

5.6.1. Types of Debt Market Instruments :

The debt market is one of the important platforms for raising debt. Debt Market Instruments helps the issuers to procure funds and satisfy their needs. Many entities issue Debt Market instruments, which are as follows:-

i) Bonds : Bonds are mainly of two types, i.e., Government Bonds and Corporate Bonds. Government Bonds hold less risk than Corporate Bonds. Mostly, Corporate Bonds pay a higher interest rate than Government Bonds. There are other Bonds like Municipal Bonds and Institutions Bonds. The Bonds have a fixed coupon rate and pay that interest to the bondholder periodically. And also repay the principal amount at the time of maturity. The interest rates of bonds are variable in the case of Floating Rate Bonds.

ii) Floating Rate Bonds : Floating Rate Bonds provide a variable interest rate that fluctuates according to the changes in the interest rates in the economy. Fixed-Rate Bonds give fixed interest rates, irrespective of any market changes. There are Zero-Coupon Bonds, which does not provide any interest rate periodically or at the time of redemption. Instead, These bonds are issued at a discount to the par value or face value of the bond. And the redemption of such bonds at maturity at the par value of the bond. The difference between the par value and the discount value is the return for the investor, or we can say that is the interest for the bondholders.

iii) Issuance of Corporate Bonds : Issuance of Corporate Bonds sometimes takes place with a call option and put option. In the case of a call option, the company can call back its bonds once a particular time has passed. In the case of a put option, the investors can sell their bonds back to the company after a particular time or date as indicated at the time of issuance.

iv) Government Securities: These are debt instruments, mostly issued by the Central Bank of the country, in the place of the Central or State Government. These securities can be for the long term or short term. These securities give a fixed coupon rate to the investors. The yield of Government securities is mostly considered as a benchmark for return and is even considered as a risk-free rate. Treasury Bills are short-term securities. Long-term Government securities include instruments like Dated Securities or Bonds.

v) Different types of Debentures : Debentures are similar in nature to Bonds; the only difference is the security level. Debentures are riskier in nature. Not only this, Bonds can be issued by the Government and Companies, but Debentures can only be issued by Companies. Debentures can be of different types, which are as follows:-

a) Registered Debentures and Bearer Debentures : The Registered Debenture is there in the company's records. The names of the debt holders and other details are recorded in the company, and the repayment of the debenture is made to that particular name only. These debentures are transferable but need to complete the transfer process. Recording of Bearer Debentures does not take place. The issuer of the Debenture is entitled to make the repayment of the bond amount to whoever holds the debenture certificate.

b) Secured Debentures and Unsecured Debentures : Secured Debentures are backed by collateral security. The Unsecured Debentures have no backing of any collateral security. Secured are less risky in comparison to the Unsecured ones.

c) Redeemable Debentures and Non-Redeemable Debentures : Redeemable Debentures are repaid at the time of maturity only. Repayment of Non- Redeemable Debentures takes place only at the time of liquidation.

d) Convertible Debentures and Non-Convertible Debentures : Convertible Debentures can be converted into equity shares on a future date. Non-Convertible Debentures cannot be converted into equity shareholders on any future date.

e) First Debentures and Second Debentures : At the time of liquidation, First Debentures have the preference over the Second Debentures at the time of repayment.

The above-mentioned list does not include all debt market instruments available in the market. Other instruments are Fixed Deposits, Certificates of Deposits, Commercial Papers, National Savings Certificates, etc.

5.6.2. Types of Risks in Debt Markets :

Debt Markets, in comparison to other markets, are less risky in nature. Irrespective of that, there are a few risks that are difficult to ignore.

i) Credit Risk or Default Risk : One of the biggest risks in this market is the default risk or credit risk of the issuer. It might happen that due to unforeseen situations, the issuer loses its credibility and is not able to repay back the interest and/or principle. Though the debt securities get first preference at the time of liquidation, it is one of the biggest risks for the investors.

ii) Interest Rate Risk : This type of risk prevails almost in all debt market securities. The interest rates of debt instruments continuously fluctuate in the open markets. There are times when there is a high-interest rate in the market, but the investor has invested for a lower fixed interest rate. In such a situation, the investors lose on to higher interest rates and get only the fixed interest rate.

iii) Settlement Risk and Liquidity Risk : Settlement of the debt security at times acts as a risk, as the other party might not fulfill all requirements. There exist counterparty issues at the time of settlement.

iv) Liquidity Risk : Liquidity Risk acts as an area of concern in the case of debt securities. Sometimes premature withdrawals are not an easy task to conduct. Premature withdrawals do not always provide ideal returns on their investments. There can always be other risks associated with the Debt instruments.

5.7. Advantages of Debt Market :

1. The debt market capitalizes and mobilizes the funds in the economy.
2. This market gives a platform to the government, companies, and other bodies to raise funds.
3. Sometimes raising equity becomes very costly for the corporate. In such a situation, raising money through the debt market is the best possible option.

4. This market gives fixed returns to investors with lesser risk. Government Debt Market securities are less risky than Corporate Debt securities.
5. In absence of any other sources of finances, the Central/State Government takes the help of this market. It saves the Government bodies from suffering from any cash crunch.
6. Debt Market securities backed by assets get the preference as compared to other unsecured and business debts at the time of liquidation.
7. The money raised through this market helps the companies to boost their expansion and growth plans.
8. The debt market helps the Government authority to boost infrastructural projects.

5.8. Disadvantages of Debt Market :

1. One of the biggest disadvantages of this market is that it provides fixed returns to investors and completely ignores the inflation rate. The inflation can make the actual return falls down to a record low.
2. The second disadvantage is that in the case of premature withdrawal or sell-off in the market, the investor gets the current market bond's price and not the principal amount invested. It is possible that the company might lose its credibility, and the bond prices might have fallen down.
3. The investors will get a fixed interest rate return only, irrespective of an increase in the interest rate in the market.
4. For issuing authority, it becomes very difficult to get a good credit rating. This becomes the biggest task to meet all requirements of credit rating agencies.

These disadvantages are non-exhaustive in nature. The debt market is one of the important markets place, which keeps the economy running. It channelizes the funds in a productive way and benefits the issuer and the investor. Starting from Government to Corporate uses this market as a source of finance. For investors, it acts as a fixed-regular source of income.

5.9. SUMMARY :

The word "system", in the term "financial system", implies a set of complex and closely connected or interlined institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit and finance-the three terms are intimately related yet are somewhat different from each other. The capital market generally consists of the long-term financial instruments. The instruments used in the equity segment include equity shares, preference shares, convertible preference shares, non-convertible preference shares, etc; the capital markets are divided into equity and debt market. The equity market further divided into primary and secondary market

5.10. TECHNICAL TERMS :

System : A system is a group of interacting or interrelated elements that act according to a set of rules to form a unified whole. A system, surrounded and influenced by its environment, is described by its boundaries, structure and purpose and expressed in its functioning. Systems are the subjects of study of systems theory and other systems sciences.

Financial System :

A financial system is a network of financial institutions, financial Markets ,financial instruments and financial services to facilitate the transfer of funds. The system consists of savers, intermediaries, instruments and the ultimate user of funds.

Capital markets :

Capital markets are where savings and investments are channeled between suppliers and those in need. Suppliers are people or institutions with capital to lend or invest and typically include banks and investors. Those who seek capital in this market are businesses, governments, and individuals.

An instrument :

An instrument is a means by which something of value is transferred, held, or accomplished. In the field of finance, an instrument is a tradable asset, or a negotiable item, such as a security, commodity, derivative, or index, or any item that underlies a derivative. In separate contexts, an instrument can alternatively.

5.11. SELF ASSESSEMENT QUESTIONS :

1) What is capital market? Explain the importance of capital market.
2) Explain different types of capital market?
3) What are the functions of capital market? Explain.
4) Write about **debt market?**
5) Write about **players of capital markets.**
6) Explain the difference between debt market and money market.

5.12. SUGGESTED READINGS :

1) T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2) Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3) Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4) Website on Indian Financial markets.

Dr. Ch. V. RAMAKRISHNA RAO

LESSON - 6

PRIMARY MARKET

AIMS AND OBJECTIVES :

After studying this chapter, you will be able:

- To know about the primary market.
- To understand various Capital market instruments.
- To compare alternative financial instruments on key parameters.

STRUCTURE OF THE LESSON :

6.1. PRIMARY MARKET – INTRODUCTION :

Recently there has been a substantial development of the Indian Capital Market. It comprises various sub-markets. Equity 39 market is more popular in India. It refers to the market for equity shares of existing and new companies. Every company shall approach the market for rising of funds. The equity market can be divided into two categories:

1. Primary Market : The primary market is for trading freshly issued securities, i.e., first-time trading. It enables an initial public offering**. I**t is also known as the new issues market. Here, companies raise funds with the help of preferential allotment, rights issue, electronic IPOs, or the pre-selected issue of securities or private placement. Usually, like an investment bank, the intermediary attaches an initial price to the shares. Once the sale materializes, firms take their shares to the stock exchange to facilitate trading between different investors.

2. Secondary Market : The trading of old securities occurs in the secondary market, which occurs after transacting in the primary market. Both stock markets and over-the-counter trades come under the secondary market. We also call this market the stock market or aftermarket. Examples of secondary markets are the London Stock Exchange, the New York Stock Exchange, NASDAQ, etc. Debt Market represents the market for long-term financial instruments such as debentures, bonds etc

Primary capital markets are those security markets where the equity and debt securities of corporations are offered to the investors for the first time. Important features of primary market are the following:

1. Primary market is the market for new long-term capital.
2. In a primary market, the securities are issued for the first time by the company to investors.
3. In primary market securities are issued by the company directly to the investors.
4. In primary market the company receives the money and issues new security certificates to the investors.
5. In primary market it is difficult to accurately gauge the investor demand for a new security until several days of trading have occurred.
6. Primary market dost not include certain other sources of new long-term external finance, such as loans from commercial banks and other financial institutions.
7. Primary issues are used by companies for setting up new business for expanding or modernising the existing business or for providing permanent working capital.
8. The primary market performs the crucial function of facilitating capital formation in the economy.

6.2. KINDS OF ISSUES IN THE PRIMARY MARKET :

There are different ways for offering new issues in the primary capital market. Primary issues made by Indian Companies can be classified as follows:

a. Public Issue
b. Rights Issue
c. Bonus Issue
d. Private Placement.
Public and rights issues involve a detailed procedure whereas private placements or preferential issues and bonus issues are relatively simple.

6.2.1. PUBLIC ISSUE :

This is one of the important and commonly used methods for issuing new issues in the primary capital market. When an existing company offers its shares in the primary market, it is called public issue. It involves direct sale of securities to the public for a fixed price. In this kind of issue, securities are offered to the new investors for becoming part of shareholders' family of the issuer. If everybody can subscribe to the securities issued by a company, such an issue is termed as a public issue. In terms of the Companies Act of 1956, an issue becomes public if it is allotted to more than 50 persons.

SEBI defined public issue as "an invitation by a company to public to subscribe to the securities offered through a prospectus." Public issue can be further classified into two:

1. Initial Public Offer (IPO)

2. Further Public Offer (FPO)

6.2.1.1. INITIAL PUBLIC OFFER (IPO) :

An IPO is referred simply an offering or flotation of issue of shares to the public for the first time. Initial Public Offer is the selling of securities to the public in the primary market. When an unlisted company makes either a fresh issue of securities or offers its existing securities for sale or both for the first time to the public, it is called an Initial Public Offer (IPO). The sale of securities can either be through book building or through normal public issue. IPOs are made by companies going through a transitory growth period or by privately owned companies looking to become publicly traded. IPO paves the way for listing and trading of the issuer's securities in the stock exchanges. Initial Public Offering can be a risky investment. For the individual investor, it is tough to predict the value of the shares on its initial day of trading and in the near future since there is often little historical data with which to analyse the company.

6.2.1.2 . FURTHER PUBLIC OFFER (FPO) :

When an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public it is called FPO is otherwise called as Follow-on Offer.

6.2.1.3. DIFFERENCES BETWEEN IPO AND FPO :

Often Initial Public Offer (IPO) and Further Public Offer (FPO) are used interchangeably.

When the company offers its shares to the investors for the first time it is called initial public offering (IPO). At the time of IPO, the companies' shares are not listed on any stock exchange. When an existing company subsequently issue more new shares in the primary market, it is called Further Public Issue (FPO) and is not considered to be an IPO.

6.2.2. RIGHTS ISSUE :

When a listed company which proposes to issue fresh securities to its existing shareholders existing as on a particular dated fixed by the issuer (i.e., record date), it is called as right issue. The rights are offered in a particular ration to the number of securities held as on the record date.

The route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders.

6.2.3. BONUS ISSUE :

When an issuer makes an issue of shares to its existing shareholders as on a record date, without any consideration from them, it is called a bonus issue. The shares are issued to the existing shareholders out of company's free reserves or share premium account in a particular ratio to the number of securities held on a record date.

6.2.4. PRIVATE PLACEMENT :

When a company offers its shares to t select group of persons not exceeding 49, and which is neither a rights issue nor a public issue, it is called a private placement. Often a combination of public issue and private placement can be used by the companies for the issue of securities in the primary market. Privately placed securities are often not publicly tradable and may only be bought and sold by sophisticated qualified investors. As a result, the secondary market is not liquid as in the case of a private issue.

There are SEBI guidelines, which regulate the private placement of securities by a company. Private placement is the fastest way for a company to raise equity capital. Private placement can be of two types viz., preferential allotment and qualified institutional placement.

6..3. STEPS IN PUBLIC ISSUE :

The new shares/debentures may be offered either directly to the public through a prospectus or indirectly through an offer for sale involving financial intermediaries or issuing houses.

1. Draft Prospectus
2. Fulfilment of Entry norms (EN)
3. Appointment of underwriters
4. Appointment of Bankers
5. Initiating allotment procedure
6. Brokers to the issue
7. Filing Documents
8. Printing of prospectus and application forms
9. Listing the issue
10. Publication in news papers
11. Allotment of shares
12. Underwriters Liability
13. Operational Listing

6.4. ADVANTAGES OF INITIAL PUBLIC OFFERING (IPO) :

IPO has a number of advantages. IPO helps the company to create a public awareness about the company as these public offerings generate publicity by inducing their products to various investors.

6.4.1. Increase In the Capital :

An IPO allows a company to raise funds for utilising in various corporate operational purposes like acquisitions, mergers, working capital, research and development, expanding plant and equipment and marketing.

6.4.2. Liquidity :

The shares once traded have an assigned market value and can be resold. This is extremely helpful as the company provides the employees with stock incentive packages and the investors are provided with the option of trading their shares for a price.

6.4.3. Valuation :

The public trading of the shares determines a value for the company and sets a standard. This works in favour of the company as it is helpful in case the company is looking for acquisition or merger. It also provides the shareholders of the company with the present value of the shares.

6.4.4. Increased Wealth :

The founders of the companies have an affinity towards IPO as it can increase the wealth of the company, without dividing the authority as in case of partnership. Disadvantages Of IPO It is true that IPO raises huge capital for the issuing company. But, in order to launch an Initial Public Offering (IPO), it is also necessary to make certain investments.

6.5. DISADVANTAGES OF IPO :

1. Setting up an IPO does not always lead to an improvement in the economic performance of the company. A continuing expenditure has to be incurred after the setting up of an IPO by the parent company. A lot of expenses have to be incurred in the form of legal fees, printing costs and accounting fees, which are connected to the registering of an IPO. Such expenses might cost hundreds of US dollars. Apart from such enormous costs, there are other factors as well that should be taken into consideration by the company while introducing IPO.

2. Rules and regulations involved to set up public offerings and this entire process, on the other hand, involve a number of complexities which sometimes require the services of experts in relevant fields.

3. Some companies hire experts to do the needful to ensure a hassle-free execution of the task. After the IPO is introduced, the expenses become a routine in every activity involved. Besides, the CEO of the company would have to spend a lot of time in handling the SEC regulations or sometimes he hires experts to do the same. All these aspects, if not handled with efficiency, prove to be some major drawbacks related to the launch of IPOs.

4. Other disadvantages involve the public company's loss of confidentiality, flexibility, and control. SEC regulations require public companies to relate all operating details to the public, including sensitive information about their markets, profit margins, and future plans.

6.6. BOOK BUILDING :

Book building is a process of price discovery mechanism used by corporates issuing securities. It is a mechanism used to discover the price of their securities. Book building is a common practice in developed countries and has recently been making inroads into emerging market as well, including India. As per the recommendations of Malegan Committee, SEBI introduced the option of book building in public issue in October, 1995. The option of book building was initially available only to those companies when their proposed public issue exceeded Rs. 100 crores. With effect from November 1996, the minimum size of the issue has been removed and any company can make a public issue through the book building process. However, issue of securities to the public through a prospectus for 100 percent book building process shall be available to a company only if their issue of capital shall be Rs. 25 crore and above.

Book building is a price discovery mechanism based on the bids received at various prices from the investors, for which demand is assessed and then the prices of the securities are discovered. In the case of normal public issue, the price is known in advance to the investors and the demand is known at the close of the issue. In case of public issue through book building, demand can be known at the end of everyday but price is known only at the close of the issue. Book building works on the assumption that the underwriting syndicate estimates demand and takes the allocation on their books, before the sale to investor who is a retail one.

Definition :

Securities and Exchange Board of India defined Book Building as "a process undertaken prior to filing of prospectus with the Registrar of Companies by which a demand for the securities proposed to be issued by a body corporate is elicited and built up and the price for which such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document." The objective of book building is to find the highest market clearing price."

6.7. CPAITAL MARKET INSTRUMENTS :

6.7.1. Equity Share Capital :

An equity interest in a company may be said to represent a share of the company's assets and a share of any profits earned on those assets after other claims have been met. The equity shareholders are the owners of the business; they purchase shares, the money is used by the company to buy assets, the assets are used to earn profits, which belong to the ordinary shareholders. After satisfying the rights of preference shares, the equity shares shall be entitled to share in the remaining amount of distributable net profits of the company. The dividend on equity shares is not fixed and may vary from year to year depending upon the number of profits available. The rate of dividend is recommended by the Board of Directors of the company and declared by shareholders in the Annual General Meeting. Equity shareholders have a right to vote on every resolution placed in the meeting and the voting rights shall be in proportion to the paid-up capital. Equity capital can either be (i) With voting rights; or (ii) with differential rights as to dividend, voting or otherwise in accordance with such rules and subject to such conditions as may be prescribed.

6.7.2. Preference Share Capital :

Preference share is a hybrid security because it has features of both ordinary shares and bonds. Preference shareholders have preferential rights in respect of assets and dividends. In the event of winding up the preference shareholders have a claim on available assets before the ordinary shareholders. In addition, preference shareholders get their stated dividend before equity shareholders can receive any dividends. The dividends on preference shares are fixed and they must be declared before a legal obligation exists to pay them. The fixed nature of dividend is similar to that of interest on debentures and bonds. The declaration feature is similar to that of equity shareholders dividends.

The general forms of preference shares are as follows :

i) Cumulative and Non-cumulative Preference Shares : The cumulative preference share gives a right to demand the unpaid dividend of any year, during the subsequent years when the profits are ample.

ii) Cumulative Convertible Preference Shares : The cumulative convertible preference (CCP) share is an instrument that embraces features of both equity shares and preference shares, but which essentially is a preference share. The CCPs are convertible into equity shares at a future specified date at a predetermined conversion rate once it is converted into equity shares, it passes all the characteristics of an equity share.

iii) Participating and Non-participating Preference Shares : Participating preference shares are those shares which are entitled to a fixed preferential dividend and, in addition, carry a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders.

iv) Redeemable and Irredeemable Preference Shares : Subject to an authority in the articles of association, a public limited company may issue redeemable preference shares to be redeemed either at a fixed date or after a certain period of time during the life time of the company. The Companies Act, 1956 prohibits the issue of any preference share which is irredeemable or is redeemable after the expiry of a period of twenty years from the date of issue.

6.7.3. Deferred/Founders Shares : A private company may issue deferred or founder's shares. Such shares are normally held by promoters and directors of the company. That is why they are usually called founders shares. These shares are usually of a smaller denomination, say one rupee each. However, they are generally given equal voting rights with equity shares which may be of higher denomination, say `6 each. Thus, by investing relatively lower amounts, the promoters may gain control over the management of the company. As regards the payment of dividends to holders of such shares, the articles usually provide that these shares will carry a dividend fixed in relation to the profits available after dividends have been declared on the preference and equity shares.

6.7.4. Sweat Equity Shares : Under section 79A of the Companies Act, 1956, a company can issue sweat equity shares to its employees or directors at discount or for consideration other than cash for providing knowhow or making available rights in the nature of intellectual property rights or value addition etc

6.8. MUTUAL FUNDS :

Mutual funds are investment companies that use the funds from investors to invest in other companies or investment alternatives. They have the advantage of professional management, diversification, convenience and special services such as cheque writing and telephone account service. It is generally easy to sell mutual fund shares/units although you run the risk of needing to sell and being forced to take the price offered. Mutual funds come in various types, allowing you to choose those funds with objectives, which most closely match your own personal investment objectives. A load mutual fund is one that has sales charge or commission attached. The fee is a percentage of the initial investment. Generally, mutual funds sold through brokers are load funds while funds sold directly to the public are no-load or low-load. As an investor, you need to decide whether you want to take the time to research prospective mutual funds yourself or pay the commission and have a broker who will do that for you. All funds have annual management fees attached.

Mutual Fund Schemes may be classified on the Basis of its Structure and its Investment Objective. Let us first discuss the classification by Structure:

6.8.1 Open - Ended Mutual Funds:

An open-ended mutual fund is the one whose units can be freely sold and repurchased by the investors. Such funds are not listed on bourses since the Asset Management Companies (AMCs) provide the facility for buyback of units from unit-holders either at the NAV, or NAV-linked prices. Instant liquidity is the USP of open-ended funds: you can invest in or redeem your units at will in a matter of 2-3 days. In the event of volatile markets, open-ended funds are also suitable for investment appreciation in the short-term. This is how they work: if you expect the interest rates to fall, you park your money in an open-ended debt fund. Then, when the prices of the underlying securities rise, leading to an appreciation in your fund’s NAV, you make a killing by selling it off. On the other hand, if you expect the Bombay Stock Exchange Sensitivity Index – the Sensex – to gain in the short term, you can pick up the right open-ended equity fund whose portfolio has scrips likely to gain from the rally, and sell it off once its NAV goes up.

Investment Objectives : How Suitable Are Open-Ended Funds for An Increase in My Investment? Open-ended equity funds are, indeed, suitable for an increase or appreciation in your investment. Again, your choice in an equity fund can vary, depending on your appetite for risk. Sector specific funds like Infotech/Technology or Pharma funds invest only in companies of that particular sector, and are riskier. At the same time, if the scrips of a particular sector are doing well, the returns from investing in a sector specific mutual fund may prove to be worth the risk.

6.8.2. Are Open-Ended Mutual Funds Suitable for Regular Income?

An open-ended debt fund is best suited for income. Debt funds generally give you an option of receiving dividend on a monthly, quarterly, half-yearly or on annual basis To What Extent Do Open-Ended Funds Protect Me Against Inflation? Open-Ended Mutual Funds provide a fair amount of protection against inflation. But funds with an equity portfolio – growth funds –

provide better protection than debt funds because equities, over the long term, provide the best means of beating inflation. Moreover, long-term capital gains are tax exempted.

6.8.3. Risk Considerations. How Assured Can I Be of Getting My Full Investment Back?

You cannot be completely sure of getting your full investment back. It depends on the quality and the kind of portfolio you invest in. In fact, in an equity fund, there are no guarantees at all since the fund trades in the secondary markets, and a crash there could result in a major part of your investment coming to nothing. However, in debt funds, the credit ratings of the constituents of the portfolio are a good indicator to how safe the fund, and, thus, your principal amount are. For instance, if the portfolio consists of mostly government securities, it is the safest.

6.8.4. How Assured Is My Income?

It again depends on the quality of the portfolio of the mutual fund you invest in. The returns from your fund are related to the market. In the simplest sense if the stock market or the debt market is performing well you can expect to receive a good return over your investment in the fund. Some funds give you a dividend or growth option. Also, income is more assured in case of debt funds as compared to equity funds.

6.8.5. Are Open-Ended Mutual Funds rated for their credit quality?

Open-ended equity funds are not credit rated. However, the holdings of debt funds are. The portfolio list of debt funds provides the details of all the instruments held by the fund and their respective credit ratings.

6.8.6. Buying, Selling, and Holding

How Do I Buy an Open-Ended Fund?

Units of Mutual Funds can be purchased through investment service centres of the Asset Management Company (AMC) or through the distributors. Also, some AMC offer units through NSE Brokers also. The price per unit of a mutual fund is linked to the Net Asset Value (NAV) of the fund.

6.8.7. What Is the Duration of Open-Ended Mutual Funds?

Open-ended funds, by definition, have no time duration. They can be purchased or redeemed at any time. Tax Implications Equity Fund Debt Fund Short Term Tax – 6% Short Term Tax – 6% Long Term Tax – NIL Long-Term Tax – 20% Income received from Mutual Funds, according to the latest Budget proposals dividends from Mutual Funds will not be taxed in the hands of the investor. Before the new proposals, dividend from debt funds was subject to a 6 per cent dividend distribution tax plus surcharge. Dividends received from open-ended equity funds were completely tax-free.

6.8.8. Capital gains tax : The difference between the sale consideration and the cost of acquisition of the asset is called capital gain. If the investor sells his units and earns capital gains, he is liable to pay capital gains tax. Capital gains are of two types: Short-term and Long-term capital gains.

Short Term Capital Gains : If the units are held for a period of less than one year they will be treated as short-term capital gains and the investor will be taxed depending on the income tax rate applicable to him.

Long Term Capital Gains : All units held for a period of more than 12 months will be classified as long-term capital assets. The investor has to pay long-term capital gains on the units held by him for period of more than 12 months. In this case the investor of a debt fund will

• Pay tax at a flat rate of 6 % (plus surcharge of the applicable tax rate) on the capital gains without indexation or

• Avail cost indexation on capital gains and pay 20 % tax (plus surcharge of the applicable tax rate) whichever is lower. Indexation means that the purchase price is marked up by an inflation index resulting in lower capital gains and hence lower tax.

$$\text{Inflation Index} = \frac{\text{Inflation index for the year of transfer}}{\text{Inflation index for the year of acquisition}}$$

Can Open-Ended Mutual Funds Be Traded in The Secondary Market?

No, open-ended mutual funds cannot be sold or purchased in the secondary market. They are directly repurchased by the AMC. However, they can be bought from certain brokers who deal in them.

6.8.9. Close – Ended Mutual Funds :

Closed-ended mutual funds have a fixed number of units, and a fixed tenure (3, 5, 6, or 15 years), after which their units are redeemed or they are made open-ended. These funds have various objectives: generating steady income by investing in debt instruments, capital appreciation by investing in equities, or both by making an equal allocation of the corpus in debt and equity instruments.

How Suitable are Closed-Ended Funds for an Increase in My Investment?

Since units of closed-ended funds rise and fall in the market like any other stock, they are well suited for an increase in your investment. However, a mutual fund is more influenced by the value of its own portfolio than any other factor. Units of an equity fund are more frequently traded than a debt fund. Also, the NAV of an equity fund rises and falls at a much faster pace. On the other hand, an equity fund provides healthy appreciation in NAV in the long term.

Risk Considerations :

How Assured Can I Be of Getting My Full Investment Back?

You cannot be completely sure of getting your full investment back. Depending on their investment objective and underlying portfolio, closed-ended funds can be very volatile or be fairly stable. Hence, your principal is not assured. How Assured Is My Income? It depends on the portfolio of your closed-ended fund. A portfolio of debt instruments or shares of some blue-chip companies may provide regular dividends.

Are Closed-Ended Mutual Funds rated for their credit quality?

Closed-end funds are not rated. However, it is important to note that the holdings of a debt fund are generally rated, and this serves as an indicator of the safety of the portfolio.

Buying, Selling, and Holding How Do I Buy a Closed-Ended Fund?

Closed-ended funds tap the market with their initial offers. Alternatively, if the funds are listed, the units can also be picked up from the secondary market.

Can Closed-Ended Mutual Funds be traded in the Secondary Market?

Yes, closedended funds are listed on the stock exchanges and, thus, can be traded in the secondary market. However, the liquidity of closed-ended funds is poor, and they trade on a hefty discount to their NAV in the secondary market.

What is The Liquidity of Closed-Ended Mutual Funds?

The Indian stock markets lack depth and, thus, the closed-ended mutual funds are illiquid where they are listed and trade with a heavy discount to their NAVs. Besides listing, some mutual funds also offer repurchase options in their closed-ended funds at a NAV-linked price after a certain lock-in period.

6.9. TYPES OF MUTUAL FUNDS :

6.9.1. Interval Funds : Interval funds combine the features of open-ended and close-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV related prices. Let us now classify Mutual Fund Schemes on the Basis of its Investment Objective.

6.9.2. Growth Funds : The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a majority of their corpus in equities. It has been proven that returns from stocks, have outperformed most other kind of investments held over the long term. Growth schemes are ideal for investors having a long-term outlook seeking growth over a period of time.

6.9.3. Income Funds : The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and Government securities. Income Funds are ideal for capital stability and regular income.

6.9.4. Balanced Funds : The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in equities and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when the market falls. These are ideal for investors looking for a combination of income and moderate growth.

6.9.5. Load Funds: A Load Fund is one that charges a commission for entry or exit. That is, each time you buy or sell units in the fund, a commission will be payable. Typically, entry and exit loads range from 1% to 2%. It could be worth paying the load, if the fund has a good performance history. The maximum load - as specified by SEBI, entry and exit put together is 7% of the NAV.

6.9.6. No-Load Funds : A No-Load Fund is one that does not charge a commission for entry or exit. That is, no commission is payable on purchase or sale of units in the fund. The advantage of a no-load fund is that the entire corpus is put to work. We can further classify Mutual Fund Schemes on the Basis of specialty.

6.9.7. Industry Specific Schemes: Industry Specific Schemes invest only in the industries specified in the offer document. The investment of these funds is limited to specific industries like InfoTech, FMCG, Pharmaceuticals etc.

6.9.8. Index Scheme S Index Funds attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE Nifty.

6.9.9. Sectoral Schemes: Sectoral Funds are those, which invest exclusively in a specified industry or a group of industries or various segments such as 'A' Group shares or initial public offerings.

6.10. SUMMARY :

There are different ways for offering new issues in the primary capital market. Primary issues made by Indian Companies can be classified into Public Issue, Rights Issue, Bonus Issue and Private Placement. Public and rights issues involve a detailed procedure whereas private placements or preferential issues and bonus issues are relatively simple. Book building is a process of price discovery mechanism used by corporates issuing securities. It is a mechanism used to discover the price of their securities. Book building is a common practice in developed countries and has recently been making inroads into emerging market as well, including India.Mutual funds are investment companies that use the funds from investors to invest in other companies or investment alternatives. They have the advantage of professional management, diversification, convenience and special services such as cheque writing and telephone account service. There are two types of funds viz., open end and close ended funds.

6.11. TECHNICAL TERMS :

Public Issue :

Public issue or public offering refers to the issue of shares or convertible securities in the primary market by the company's promoters, so as to attract new investors for a subscription. In a public issue, the shares are offered for sale in order to raise capital from the general public, for which the company issues a prospectus.

Rights Issue :

A rights issue is an offer to existing shareholders to subscribe for new shares in proportion to their existing shareholding. Rights issues can have a big effect on a company's share price because of the new shares being issued. This is known as dilution and occurs when the issued shares are admitted to the London Stock Exchange.

Bonus Issue :

A bonus issue is an offer given to the existing shareholders of the company to subscribe for additional shares. Instead of increasing the dividend payout, the companies offer to distribute additional shares to the shareholders. For example, the company may decide to give out one bonus share for every ten shares held.Private

Placement:

As per the Section 42 of the Companies Act, 2013, private placement means any offer or invitation to subscribe or issue of securities to a selected group of persons by a company (other than by way of public offer) through private placement offer-cum-application form, which satisfies the conditions specified in section 42 of the Companies Act, 2013.

6.12. SELF ASSESSEMENT QUESTIONS :

1) What is primary market? Explain the importance of primary market.
2) Explain different types of mutual funds?
3) What are the different types of preference shares? Explain.
4) Write about mutual funds?
5) Write about types of debentures?
6) Explain the difference between debt market and money market.

6.13. SUGGESTED READINGS :

1) T.R. Jain R. L. Sarma – Indian Financial System – VK Global Publisher
2) Gala Jithendra – Guide to Indian Markets, Bugging Stock Publishing House
3) Saha Siddhartha - Indian Financial System and Markets, McGraw Hill
4) Website on Indian Financial markets

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LESSON - 7

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) & NATIONAL STOCK EXCHANGE (NSE)

AIMS AND OBJECTIVES :

After studying this lesson student should be able to:

- Know the organizations of SEBI & NSE
- Understand the features & Functions of SEBI & NSE
- Importance of Establishment and Incorporation of Board
- List of Departments In SEBI& List of All SEBI Regulations
- Salient Features of Trading System at NSE

STRUCTURE OF THE LESSON :

7.1. INTRODUCTION :

The Securities and Exchange Board of India was constituted as a non-statutory body on April 12, 1988 through a resolution of the Government of India. The Securities and Exchange Board of India was established as a statutory body in the year 1992 and the provisions of the Securities and Exchange Board of India Act, 1992 (15 of 1992) came into force on January 30, 1992. The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"

Securities and exchange Board of India has headquarters in Mumbai, and has regional offices in New Delhi, Kolkata, Chennai and Ahmedabad. SEBI has also opened local offices in Jaipur, Bangalore, Guwahati, Bhubaneswar, Patna, Kochi and Chandigarh. Ajay Tyagi was appointed as the chairman on 10th January 2017 and took over as the head on 1st March 2017 by replacing U.K. Sinha. The SEBI has 7 board members with the following structure. The Chairman who is nominated by the Union Government of India. Two members from the Union Finance Ministry. One member from the Reserve Bank of India. The remaining 5 members are nominated by the Union Government of India, out of them. SEBI has to be responsive to 3 groups which constitute the market: The issuer of securities, The investor, The market intermediaries. SEBI has also commenced regulating the commodity derivatives market under the Securities Contract Regulation Act (SCRA) 1956 with effect from September 28 2015, and the Forward Contracts Regulation Act (FCRA) 1952 got replaced with effect from September 29 2015.

7.2. Definition of SEBI :

SEBI is a market regulator which tries to create a balance in the day to day stock market activities and for this, there are regulatory frameworks established by SEBI. There are 17 exchanges currently operational in India and all exchanges, including NSE and BSE are regulated by SEBI guidelines.

The Securities and Exchange Board of India (SEBI) is the most important regulator of securities markets in India. SEBI is the counterpart of the Securities and Exchange Commission (SEC) in the U.S. Its stated objective is “to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto.”

The Securities and Exchange Board of India (SEBI) is the leading regulator securities markets in India, analogous to the Securities and Exchange Commission in the U.S.
SEBI has wide-ranging regulatory, investigative, and enforcement powers, including the ability to impose fines on violators. Some criticize SEBI for that they say is a lack of transparency and direct accountability to the public for an institution with such enormous powers.

7.2.1. Creation of the SEBI :

The Securities and Exchange Board of India was established in its current incarnation in April 1992, following the passage of the Securities and Exchange Board of India Act by the nation's parliament. It supplanted the Controller of Capital Issues, which had regulated the securities markets under the Capital Issues (Control) Act of 1947, passed just months before India gained independence from the British. The SEBI headquarters is located in the business district at the Bandra-Kurla Complex in Mumbai. It also has regional offices in the cities of New Delhi, Kolkata, Chennai, and Ahmedabad, and more than a dozen local offices in cities including Bangalore, Jaipur, Guwahati, Patna, Kochi, and Chandigarh.

7.3. OBJECTIVES OF SEBI :

The objectives of the Stock Exchange Board of India are:

7.3.1. Protection to the investors : The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

7.3.2. Prevention of malpractices : This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

7.3.3. Fair and proper functioning : SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

7.4. FUNCTIONS OF SEBI :

The main primary three functions are- Protective Function, Regulatory Function, Development Function

7.4. 1. Protective Functions : As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants. It includes- i) Checking price rigging, ii) Prevent insider trading, iii) Promote fair practices, iv) Create awareness among investors, v) Prohibit fraudulent and unfair trade practices

7.4. 2. Regulatory Functions : These functions are basically performed to keep a check on the functioning of the business in the financial markets. These functions include-i) Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate., ii) Regulation of takeover of companies, iii) Conducting inquiries and audit of exchanges, iv) Registration of brokers, sub-brokers, merchant bankers etc. v) Levying of fees, vi) Performing and exercising powers, vii) Register and regulate credit rating agency

7.4.3. Development Functions : This regulatory authority performs certain development functions also that include but they are not limited to- i) Imparting training to intermediaries, ii) Promotion of fair trading and reduction of malpractices, iii) Carry out research work, iv) Encouraging self-regulating organizations, v) Buy-sell mutual funds directly from AMC through a broker

7.5. POWERS OF SEBI :

7.5. i) Power to regulate and approve any laws: When it comes to stock exchanges, SEBI has the power to regulate and approve any laws related to functions in the stock exchanges.

7.5. ii) Access the books of records and accounts for all the stock exchanges : It has the powers to access the books of records and accounts for all the stock exchanges and it can arrange for periodical checks and returns into the workings of the stock exchanges.

7.5. iii) Conduct hearings and pass judgments : It can also conduct hearings and pass judgments if there are any malpractices detected on the stock exchanges.

7.5. iv) Power to get companies listed and de-listed : When it comes to the treatment of companies, it has the power to get companies listed and de-listed from any stock exchange in the country.

7.5. v) Regulate all aspects of insider trading and announce penalties : It has the power to completely regulate all aspects of insider trading and announce penalties and expulsions if a company is caught doing something unethical.

7.5. vi) List their shares in more than one stock exchange : It can also make companies list their shares in more than one stock exchange if they see that it will be beneficial to investors.

7.5. vii) Power to draft legal rules : Coming to investor protection, SEBI has the power to draft legal rules to ensure the protection of the general public.

7.5. viii) power to regulate the registration of brokers : It also has the power to regulate the registration of brokers and other middlemen who will deal with investors in the market.

7.5.1. Role of SEBI : This regulatory authority acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate the efficient and smooth working of the securities market. SEBI also plays an important role in the economy. To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investors, and financial intermediaries. According to its charter, SEBI is expected to be responsible for three main groups:1. The issuers of securities 2. Investors, 3. Market intermediaries,

The body drafts regulations and statutes in a regulatory capacity, passes rulings and orders in a judicial capacity, and conducts investigations and imposes penalties in an enforcement capacity. SEBI is run by a board of directors, including a chair who is elected by the parliament, two officers from the Ministry of Finance, one member from the Reserve Bank of India, and five members who are also elected by the parliament.

7.5.1.1. Issuers of securities : These are entities in the corporate field that raise funds from various sources in the market. This organization makes sure that they get a healthy and transparent environment for their needs.

7.5.1.2. Investor : Investors are the ones who keep the markets active. This regulatory authority is responsible for maintaining an environment that is free from malpractices to restore the confidence of the general public who invest their hard-earned money in the markets.

7.5.1.3. Financial Intermediaries : These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

7.6. ESTABLISHMENT AND INCORPORATION OF BOARD :

7.6 (1) With effect from such date as the Central Government may, by notification, appoint, there shall be established, for the purposes of this Act, a Board by the name of the Securities and Exchange Board of India.

7.6 (2) The Board shall be a body corporate by the name aforesaid, having perpetual succession and a common seal, with power subject to the Provisions of this Act, to acquire, hold and dispose of property, both movable and immovable, and to contract, and shall, by the said name, sue or be sued.

7.6 (3) The head office of the Board shall be at Bombay.

7.6 (4) The Board may establish offices at other places in India.

7.7. LIST OF DEPARTMENTS IN SEBI :

7.7. 1. Corporation Finance Department: SEBI initiatives in corporate governance are based on the Securities and Exchange Board of India Act and aim to prevent fraudulent practices. The organization is responsible for enforcing rules and regulations to promote orderly development in the stock market. As an investor, you must comply with these rules and follow the code of conduct.

7.7. 2. Corporation Finance Investigation Department: The Corporation Finance Investigation Department is responsible for carrying out preliminary/ detailed investigations on fraud, diversion/ siphoning or misappropriation of funds; material mis-statement in financial statements; fraudulent related party transactions; non-compliance with Objects of the issue of IPO; and suspected diversion of funds, etc.

7.7. 3. Department Economic and Policy Analysis: Department Economic and Policy Analysis (DEPA) Statistics and Publication This division will collect the data from various sources and also verify their accuracy and continuously maintain/ update the data. It would collect, compile and share data within and outside SEBI.

7.7. 4. Department of Debt and Hybrid Securities: The Department of Debt and Hybrid Securities (DDHS) has been entrusted with matters related to Corporate Bonds, listed debt securities, Non-convertible Redeemable preference shares (NCRPS), Real Estate Investment Trust (REITs), Infrastructure Investment Trust (InvITs), Deemed Public Issues of debt securities (DPI) and complaints in respect of aforementioned areas of work.

7.7. 5. Enforcement Department - 2: Enforcement Department - 2 (EFD-2) is responsible for handling Appeals against SEBI orders filed before the Hon'ble Securities Appellate Tribunal (SAT), Appeals filed against the SAT order in the Hon'ble Supreme Court, Criminal Complaints filed by SEBI in appropriate Courts and Settlement Proceedings. EFD-2 Comprises of three divisions, namely:1) SAT Litigation Division2) Prosecution Division3) Settlement Division.

7.7. 6. Enquiries and Adjudication Department: The Enquiries and Adjudication Department would handle quasi-judicial matters and provide timely hearings and initiates adjudication brought by the other Departments against alleged violators who are within SEBI's disciplinary jurisdiction. Investor Complaints Complaint Registration Send Reminder View Complaint Status Toll Free Helpline:

7.7. 7. General Services Department: he General Services Department performs the following activities: Provision of transportation facilities, machinery, equipment and maintenance, and provision of fuel, as well as validating their proper use. The General Services Department performs the following activities:1.Provision of transportation facilities, machinery, equipment and maintenance, and provision of fuel, as well as validating their proper use.2. Provide needed vehicles and spare parts, in co-ordination with the relevant units.3. Provision and allocation of administrative buildings and their maintenance.4. Provision of stationary and furniture for all buildings.5. Receiving and classification of incoming and outgoing mail.6 Organising the authority’s archive and storing documents, through the latest methods,7. Responsible for all administrative services.8.Ensuring security for all buildings, property and facilities.9. Provision of security and safety systems in all Authority facilities, properties, and buildings.10. Supervising the cleaning of all Ashghal buildings.11.Managing the Authority's warehouses.

7.7. 8. Recovery and Refund department: The County of Sacramento Department of Finance, Revenue Recovery (DRR), collects revenue for the County and other government entities, certain Court ordered fines and fees, restitution payments owed to victims of crime, aid over payments, and any other obligation referred to Revenue Recovery. Our service reduces the burden of payment on taxpayers by holding debtors accountable for payment, and collects revenue for the County effectively and efficiently.

7.7. 9. Human Resources Department: A human resources (HR) department performs essential tasks for a business such as recruiting, hiring, training, procuring benefits and acting as a liaison between employees and management. These duties are essential to the operations and success of a business. Read about the functions of an HR department and get answers to frequently asked questions about HR.

7.7. 10. Division of Foreign Portfolio Investors & Custodians: SEBI follows the transparent procedure for processing various applications received from intermediaries. By and large, reply is sent to the applicant within a period of 30 days. Once the requirements are complied with, as advised in our letter, the desired service, such as, grant of registration, cancelation of registration etc. is completed. The applicants may please note that in case they provide incomplete / vague information or supporting documents, wherever required, are not enclosed, this may lead to further correspondence and delay in processing of their applications. In case the application has remained unattended or there is an inordinate delay, the applicant should not hesitate in writing to the respective Division Chief or the Executive Director, whose contact details are mentioned in the website.

7.7. 11. Information Technology Department : Information Technology Department of was set up in year 2000 to implement the Information Technology (IT) Policy of Govt. of National Capital Territory of Delhi. Department of Information Technology is working to put technology to its highest and best use throughout Delhi Government Department/Autonomous Bodies to improve the administration of State programmes and services.

7.7. 12. Integrated Surveillance Department : ntegrated Surveillance Department (ISD) The Integrated Surveillance department is responsible for market surveillance of all segments of Securities market Investor Complaints. Securities and Exchange Board of India is made for protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters.

7.7. 13. Investigations Department : The Investigations department is responsible for: Conducting examination/ investigations related to all segments of securities market including commodity derivative markets as well as all type of violation related to securities market. Providing referrals to the Enforcement Department.

7.7. 14. Investment Management Department : The division also deals with registration and post-registration activities for Portfolio Management Services (PMS). IMD-SEC-1 The divisions handle Inspection and complaints of MF, Scrutiny of CTR, HYTR, System Audit, Processing of offsite alerts, Enforcement Action and updation of enforcement data, Inspection of RTA, Inspection and complaints of PMS.

7.7. 15. Legal Affairs Department : The Department of Legal Affairs has a two tier set up, namely, the Main Secretariat at New Delhi and the Branch Secretariats at Mumbai, Kolkata, Chennai and Bengaluru. The nature of duties discharged can be broadly classified into two areas-Advice work and Litigation work. The Department is also administratively in-charge of the Income Tax Appellate Tribunal and the Law Commission of India. The Department is also administratively concerned with all the matters relating to the Indian Legal Service. It is further connected with the appointment of Law Officers namely the Attorney General of India, the Solicitor General of India and the Additional Solicitor Generals of India. With a view to promote studies and research in law and for improvement in legal profession, this Department sanctions grant-in-aid to certain institutions engaged in these fields like Indian Law Institute.

7.7. 16. Legal Affairs Department 2 : The Legal Affairs Department 2 (LAD2) is responsible for all the litigations wherein SEBI is a party (except appeals before the Hon'ble Securities

Appellate Tribunal (SAT) and criminal/prosecution matters). Presently, there are three divisions in LAD2 that handle the functions of the Department. Investor Complaints Complaint Registration

7.7. 17.Market Intermediaries Regulation and Supervision Department : Market Intermediaries Regulation and Supervision Department (MIRSD) The Market Intermediaries Regulation and Supervision Department is responsible for the registration, supervision, compliance monitoring and inspections of all market intermediaries in respect of all segments of the markets viz. equity, equity derivatives, currency derivatives, debt and debt related derivatives and commodity derivatives.

7.7. 18. Market Regulation Department : Market Regulation Department (MRD) The Market Regulation Department (MRD) is responsible for formulation of policy and supervision of functioning and operations of Market Infrastructure Institutions (MIIs) such as, Stock Exchanges, Depositories and Clearing Corporations as well as Vault Managers. MRD consists of the following divisions

7.7. 19. Office of International Affairs : The Office of International Affairs (OIA) returns fugitives to face justice, transfers sentenced persons to serve their sentences in their home countries, and obtains essential evidence for criminal investigations and prosecutions worldwide by working with domestic partners and foreign counterparts to facilitate the cooperation necessary to enforce the law, advance public safety, and achieve justice.

7.7. 20. Office of Investor Assistance and Education : Office of Investor Assistance and Education (OIAE) The Office will support SEBI's operations by handling investor complaints centrally and be the focal point of SEBI's investor education effort. The Office would be the single point interface with investors and would receive complaints relating to all departments, forward to the concerned departments, follow up and respond to investors.

7.7. 21. Office of the Chairman : The Chairman is an elected person with managerial powers. The Chairman of the Board may be elected or re-elected directly at the general meeting or from among the members of the Board by voting, for a period established by the Charter of the company. The Chairman directs the activities of the board.

7.7. 22. Regional Offices : Regional Offices - Bureau of Indian Standards Central Regional Office, Eastern Regional Office, Northern Regional Office, Southern Regional Office, Western Regional Office Central Regional Office, Eastern Regional Office, Northern Regional Office, Southern Regional Office, Western Regional Office overview हिन्दी AA Home About Us The Bureau

7.7. 23. Vigilance Department : Vigilance Department (Vigilance Dept.) A. Vigilance Administration: The Central Vigilance Commission (CVC), an apex organisation for maintaining probity in public life, provides necessary guidelines for effectively carrying out vigilance administration in all departments/ organisations of the Government of India including autonomous bodies through various circulars/

7.8. List of All SEBI Regulations (Updated) :

Issued Year	SEBI Regulations (updated)
1) 2021	Notification repealing Securities and Exchange Board of India (Central Database of Market Participants) Regulations, 2003
2) 2021	Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2021 [Last amended on August 3, 2021]
3) 2021	Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021 [Last amended on November 09, 2022]
4) 2021	Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021
5) 2021	Securities and Exchange Board of India (Underwriters) (Repeal) Regulations, 2021
6) 2021	Securities and Exchange Board of India (Vault Managers) Regulations, 2021
7) 2020	Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 [Last amended on August 22, 2022]
8) 2019	Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 [Last amended on November 09, 2022]
9) 2018	Securities and Exchange Board of India (Appointment of Administrator and Procedure for Refunding to the Investors) Regulations, 2018
10) 2018	Securities and Exchange Board of India (Buy-back of Securities) Regulations 2018 [Last amended on August 03, 2021]
11) 2018	Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 [Last amended on February 23, 2022]
12) 2018	Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 [Last amended on November 21, 2022]
13) 2018	Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 [Last amended on January 14, 2022]
14) 2018	Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 [Last amended on November 15, 2022]
15) 2015	Securities and Exchange Board of India (Issue and Listing of Municipal Debt Securities) Regulations, 2015 [Last amendment on August 03, 2021]
16) 2015	Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 [Last amended on December 05, 2022]

17) 2015 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 [Last amended on November 24, 2022]
18) 2014 Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014 [Last amended on November 09, 2022]
19) 2014 Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 [Last amended on November 09, 2022]
20) 2014 Securities and Exchange Board of India (Research Analysts) Regulations, 2014 [Last amended on August 03, 2021]
21) 2013 Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 [Last amended on August 03, 2021]
22) 2012 Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 [Last amended on November 15, 2022]
23) 2011 Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 [Last amended on November 09, 2022]
24) 2011 Securities and Exchange Board of India {KYC (Know Your Client) Registration Agency} Regulations, 2011 [Last amended on January 28, 2022]
25) 2009 SEBI (Investor Protection and Education Fund) Regulations, 2009 [Last amended on March 6, 2017]
26) 2008 Securities and Exchange Board of India (Intermediaries) Regulations, 2008 [Last amended on August 01, 2022]
27) 2008 Securities and Exchange Board of India (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 [Last amended on August 03, 2020]
28) 2007 SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 [Last amended on February 07, 2014]
29) 2004 SEBI (Self Regulatory Organisations) Regulations, 2004 [last amended on March 6, 2017]
30) 2003 SEBI (Ombudsman) Regulations, 2003 [Last Amended on Nov 09, 2006]
31) 2003 SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 [Last amended on January 25, 2022]
32) 2001 SEBI (Procedure for Board Meetings) Regulations, 2001
33) 2001 Securities and Exchange Board of India (Employees' Service) Regulations, 2001 [Last amended on June 22, 2022]
34) 2000 Securities and Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000 [Last amended on November 09, 2022]
35) 1999 Securities and Exchange Board of India (Collective Investment Scheme) Regulations, 1999 [Last amended on May 10, 2022]
36) 1999 Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 [Last amended on January 24, 2022]
37) 1996 Securities and Exchange Board of India (Custodian) Regulations, 1996 [Last

amendment on April 25, 2022]

38) 1996 Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Last amended on November 16, 2022]

39) 1994 Securities and Exchange Board of India (Bankers to an Issue) Regulations, 1994 [Last amended on August 03, 2021]

40) 1993 Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993 [Last amended on April 11, 2022]

41) 1993 Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 - [Last amended on August 03, 2021]

42) 1992 Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992 [Last amended on August 03, 2021]

43) 1992 Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 [Last amended on February 23, 2022]

7. 9. NATIONAL STOCK EXCHANGE (NSE) :

The National Stock Exchange of India Ltd. was set up with the primary idea of facilitating computerised trading in Debt Market Instruments. This was incorporated in November 1992 by Industrial Development Bank of India and other all India Financial Institutions and because recognised Stock Exchange from April 26, 1993 to provide Nation-wide Stock Trading facilities. The National Stock Exchange has a fully automated screen-based trading system and operates on the principles of an order driven market.

National Stock Exchange is the outcome of the recommendations of Shri M.J. Pherwani Committee. It is expected to operate as Model Stock Exchange and to provide a Nationally integrated stock market system facilitating an easy flow of transactions and resources on a cost-effective manner.

7.9.1 Promoters :

Following are the Leading Financial Institutions that promoted the National Stock Exchange :

a. Industrial Development Bank of India.

b. Industrial Finance Corporation of India.

c. Industrial Credit and Investment Corporation of India.

d. Life Insurance Corporation of India.

e. General Insurance Corporation of India.

f. SBI Capital Markets Limited

g. Stock Holding Corporation of India Ltd.

h. Infrastructural Leasing and Financial Services Ltd.

7.9.2. Market Segments of N.S.E. :

The National Stock Exchange was intended to establish a viable and vibrant debt market which was in an underdeveloped stage. It provides the traditional retail market for securities and also operates a wholesale Debt Market (which may be termed as Money Market Segment). The National Stock Exchange as conceived consists of three naturally exclusive segments.

1. Whole Sale Debt Market Segment
2. Capital Market Segment
3. Futures and Options Trading

7.10. SALIENT FEATURES OF TRADING SYSTEM AT NSE :

The National Stock Exchange has a fully automated screen-based trading system. It operates on the principle of an order driven market providing complete flexibility to the members in the kind of orders that can be placed by them. The total systems solutions adopted by the NSE involves a technology which is the State of Art. The NSE does not have trading floors as in Conventional Stock Exchanges. The trading entirely is screen based with automated order matching.

The screen provides entire market information at the press of a button which the existing telephone trade or trading floor cannot provide instantaneously. At the same time the system provides for concealment of the identity of market operators. The trading system of the NSE is known as National Stock Exchange of Automated Trading. The NSE is connected through a VSAT (Very Small Earth Based Aperture Terminal) or through leased telephone lines.

7.10.1. Listing : The term listing means admission of securities of a company to deal on a recognised stock exchange. The principal objective of listing is to provide liquidity and marketability to listed securities and ensure effective monitoring of trading for the benefits of all participants in the market. A company desiring to get listing at the NSE has to enter into listing agreement and is required to pay the specified listing fees. Thereafter the company is required to comply with all clauses of the Listing Agreement and to send details of Book closure, record dates etc. A copy of Annual report, half-yearly reports and cash flow statements. The securities of any entity may be listed at any of the following stages.

1. At the time of public issue of Shares/Debentures
2. At the time of right issue of Shares/Debentures
3. At the time of Bonus issue.
4. Share issue on Amalgamations

7.10.2. TRADING MECHANISM AT THE NSE :

The NSE is a completely online screen-based trading system accessible to all its trading members on equal time basis. The telecommunications link connecting the trading work station on trading member premises to the NSE's mainframe computer in Mumbai is of crucial importance for the exchange to provide online responses within a few seconds. The permission to applicants selected as trading members to trade on the Exchange acts in groups as Telecom Network expands progressively to cover all eligible trading members. The NSE's VSAT

Telecommunication Network works as a closed user group and is available to its members. For trading on the system, the trading member will also require a work station which he is expected to purchase along with requisite software. The trading system provides enormous flexibility to trading members. While entering the order a trading member can place various conditions on the order.

7.11. National Stock Exchange Benefits : a) To Trading Members :

1. They can provide efficient service to their clients.
2. Their back-office load is reduced considerably.
3. There will be no need to occupy office premises near the exchange unlike at present and thus can load reduced establishment cost.
4. The system will assure best practice to participate in the market.
5. Settlement will be quick and efficient.

7.11.b) To Investors :

1. The investor is assured of best price in the market.
2. Price and brokerage are separately shown on contract notes.
3. Date and Time of trade are indicated.
4. The system is better mentioned and regulated ensuring a fair deal to investors.
5. Safety of securities is enhanced in a depository and there will be no problems, delivery loss, theft or forgery.

7.11.c) To Issuers :

1. By a single listing they can provide nation-wide access to their investors.
2. As a result their listing costs are reduced considerably.
3. Issuers will have high visibility

7.12. SUMMARY

The financial markets play a significant role in the development of economy. Capital market instruments viz., Equity, Preference, Bonds and Debentures provide finance for long term requirement and Money market instruments like T-Bills, Certificate of deposits, commercial papers provide finance for short term requirements. The aim of money market funds is to provide easy liquidity, preservation of capital and moderate income. The Securities and Exchange Board of India was established as a statutory body in the year 1992 and the provisions of the Securities and Exchange Board of India Act, 1992 (15 of 1992) came into force on January 30, 1992.The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto". The National Stock Exchange of India Ltd. was set up with the primary idea of facilitating computerised trading in Debt Market Instruments. This was incorporated in November 1992 by Industrial Development Bank of India and other all India Financial Institutions.

7.13. Technical Terms :

Financial Markets :

Financial market also refers to stock exchanges and commodity exchanges. They may be physical places, such as the London Stock Exchange and New York Stock Exchange, or an electronic system like Nasdaq. These markets are where corporations and governments come to raise cash, businesses reduce risks, and investors aim to make money.

Monetary Policy :

Monetary policy refers to the steps taken by a country's central bank to control the money supply for economic stability. For example, policymakers manipulate oney circulation for increasing employment, GDP, price stability by using tools such as interest rates, reserves, bonds, etc.

Credit policy :

A credit policy is a legal policy prepared by the organization tailored to the better management of credits issued to customers. A complete set of guidelines that forms a structure of the credited amount provided to the customers is a credit policy.

Primary Market :

A primary market is a figurative place where securities make their debut—where new bonds and shares of corporate stock are issued to be sold to investor for the first time. They are sold by the companies, governments, or other entities issuing them, often with the help of investment banks, who underwrite the new issues.

Capital market :

Capital markets are where savings and investments are channeled between suppliers and those in need. Suppliers are people or institutions with capital to lend or invest and typically include banks and investors. Those who seek capital in this market are businesses, governments, and individuals.

7.14. SELF ASSESSMENT QUESTIONS :

1. How the financial markets helps in the development of economy?
2. What are the objectives of SEBI? Discuss about it.
3. Discuss the functions and role of of SEBI in the development of economy.
4. Discuss briefly about the different departments of SEBI.
5. Explain the role & functions of NSE?

7.15. SUGGESTED READINGS :

1. V.A. Avadhani, Marketing of Financial Services, Himalayas Publishers, Mumbai .
2. DK Murthy, and Venugopal, Indian Financial System, IK Int Pub House.
3. Anthony Saunders and MM Cornett, Fin Markets & Institutions, TMH.
4. Punithavathy Pandian, Financial Markets and Services, Vikas, New Delhi.

Dr. Ch. V. RAMAKRISHNA RAO

LESSON - 8

MONEY MARKET

AIMS AND OBJECTIVES :

After studying this lesson students should be able to

- To know the concept of money market.
- To understand money market instruments.
- To acquired knowledge on function of money market.
- To learn Unorganized and Organized markets.
- To obtain knowledge on banks and money market.
- To know the concepts of submarkets and call money.

STRUCTURE OF THE LESSON :

8.1. INTRODUCTION :

Every country with a monetary system of its own has to have some kind of market in which dealers in short-term credit can buy and sell. The need for such facilities arises in much the same way that a similar need does in connection with the distribution of any of the products of a diversified economy to their final users at the retail level. If the retailer is to provide reasonably adequate service to his customers, he must have active contacts with others who specialize in making or handling bulk quantities of whatever is his stock-in-trade. The money market is made up of specialized facilities of exactly this kind. It exists for the purpose of improving the ability of the retailers of financial services—commercial banks, savings institutions, investment houses, lending agencies, and even governments—to do their job. It has little if any contact with the individuals or firms who maintain accounts with these various retailers or purchase their securities or borrow from them.

8.1.1. Money Market : Money markets include markets for such instruments as bank accounts, including term certificates of deposit; interbank loans (loans between banks); money market mutual funds; commercial paper; Treasury bills; and securities lending and repurchase agreements (repos).
The money market is an organized exchange market where participants can lend and borrow short-term, high-quality debt securities with average maturities of one year or less. It enables governments, banks, and other large institutions to sell short-term securities to fund their short-term cash flow needs. Money markets also allow individual investors to invest small amounts of money in a low-risk setting.

The elemental functions of a money market must be performed in any kind of modern economy, even one that is largely planned or socialist, but the arrangements in socialist countries do not ordinarily take the form of a market. Money markets exist in countries that use market processes rather than planned allocations to distribute most of their primary resources among alternative uses. The general distinguishing feature of a money market is that it relies upon open competition among those who are bulk suppliers of funds at any particular time and among those seeking bulk funds, to work out the best practicable distribution of the existing total volume of such funds.

In their market transactions, those with bulk supplies of funds or demands for them, rely on groups of intermediaries who act as brokers or dealers. The characteristics of these middlemen, the services they perform, and their relationship to other parts of the financial mechanism vary widely from country to country. In many countries there is no single meeting place where the middlemen get together, yet in most countries the contacts among all participants are sufficiently open and free to assure each supplier or user of funds that he will get or pay a price that fairly reflects all of the influences (including his own) that are currently affecting the whole supply and the whole demand. In nearly all cases, moreover, the unifying force of competition is reflected at any given moment in a common price (that is, rate of interest) for similar transactions. Continuous fluctuations in the money market rates of interest result from changes in the pressure of available supplies of funds upon the market and in the pull of current demands upon the market.

Money Market is a financial market where short-term financial assets having liquidity of one year or less are traded on stock exchanges. The securities or trading bills are highly liquid. Also, these facilitate the participant's short-term borrowing needs through trading bills. The participants in this financial market are usually banks, large institutional investors, and individual investors.

There are a variety of instruments traded in the money market in both the stock exchanges, NSE and BSE. These include treasury bills, certificates of deposit, commercial paper, repurchase agreements, etc. Since the securities being traded are highly liquid in nature, the money market is considered as a safe place for investment.
The Reserve Bank controls the interest rate of various instruments in the money market. The degree of risk is smaller in the money market. This is because most of the instruments have a maturity of one year or less.

8.1.2. Objectives of Money Market :

Below are the main objectives of the money market:

i) Providing borrowers such as individual investors, government, etc. with short-term funds at a reasonable price. Lenders will also have the advantage of liquidity as the securities in the money market are short-term.
ii) It also enables lenders to turn their idle funds into an effective investment. In this way, both the lender and borrower are at a benefit.
iii) RBI regulates the money market. Therefore, in turn, helps to regulate the level of liquidity in the economy.
iv) Since most organizations are short on their working capital requirements. The money market helps such organizations to have the necessary funds to meet their working capital requirements.
v) It is an important source of finance for the government sector for both national and international trade. And hence, provides an opportunity for the banks to park their surplus funds.

8.1.3. Importance of the Money Market :

The money market is a market for short term transactions. Hence it is responsible for the liquidity in the market. Following are the reasons why the money market is essential:

i) It maintains a balance between the supply of and demand for the monetary transactions done in the market within a period of 6 months to one year..
ii) It enables funds for businesses to grow and hence is responsible for the growth and development of the economy.
iii) It aids in the implementation of monetary policies.
iv) It helps develop trade and industry in the country. Through various money market instruments, it finances working capital requirements. It helps develop the trade in and out of the country.
v) The short term interest rates influence long term interest rates. The money market mobilises the resources to the capital markets by way of interest rate control.

vi) It helps in the functioning of the banks. It sets the cash reserve ratio and statutory liquid ratio for the banks. It also engages their surplus funds towards short term assets to maintain money supply in the market.

vii) The current money market conditions are the result of previous monetary policies. Hence it acts as a guide for devising new policies regarding short term money supply.

viii) Instruments like T-bills, help the government raise short term funds. Otherwise, to fund projects, the government will have to print more currency or take loans leading to inflation in the economy.

8.1.4. Functions of the Money Market :

The money market contributes to the economic stability and development of a country by providing short-term liquidity to governments, commercial banks, and other large organizations. Investors with excess money that they do not need can invest it in the money market and earn interest. Here are the main functions of the money market: 1. Financing Trade 2. Central Bank Policies, 3. Growth of Industries, 4. Commercial Banks Self-Sufficiency

8.1.4.1. Financing Trade :
The money market provides financing to local and international traders who are in urgent need of short-term funds. It provides a facility to discount bills of exchange, and this provides immediate financing to pay for goods and services.
International traders benefit from the acceptance houses and discount markets. The money market also makes funds available for other units of the economy, such as agriculture and small-scale industries.

8.1.4.2. Central Bank Policies : The central bank is responsible for guiding the monetary policy of a country and taking measures to ensure a healthy financial system. Through the money market, the central bank can perform its policy-making function efficiently.

8.1.4.3. Growth of Industries : The money market provides an easy avenue where businesses can obtain short-term loans to finance their working capital needs. Due to the large volume of transactions, businesses may experience cash shortages related to buying raw materials, paying employees, or meeting other short-term expenses. Through commercial paper and finance bills, they can easily borrow money on a short-term basis. Although money markets do not provide long-term loans, it influences the capital market and can also help businesses obtain long-term financing. The capital market benchmarks its interest rates based on the prevailing interest rate in the money market.

8.1.4.4. Commercial Banks Self-Sufficiency : The money market provides commercial banks with a ready market where they can invest their excess reserves and earn interest while maintaining liquidity. Short-term investments, such as bills of exchange, can easily be converted to cash to support customer withdrawals.

8.2. Money Market Instruments :

Money market instruments are financial instruments that help companies, corporations, and government bodies to raise short-term debt for their needs. The borrowers meet their short-term needs at a low cost and the lenders benefit from interest rates and liquidity. Money market instruments include bonds, treasury bills, certificates of deposit, commercial paper, etc.

8.2. 1. Characteristics of Money Market Instruments :

i) It is a financial market and has no fixed geographical location.
ii) It is a market for short term financial needs, for example, working capital needs.
iii) It's primary players are the Reserve Bank of India (RBI), commercial banks and financial institutions like LIC, etc.,
iv) The main money market instruments are Treasury bills, commercial papers, certificate of deposits, and call money.
v) It is highly liquid as it has instruments that have a maturity below one year.
vi) Most of the money market instruments provide fixed returns.

8.3. Types of Instruments Traded in the Money Market :

Several financial instruments are created for short-term lending and borrowing in the money market. They include:

8.3.1. Treasury Bills :

Treasury bills are considered the safest instruments since they are issued with a full guarantee by the United States government. They are issued by the U.S. Treasury regularly to refinance Treasury bills reaching maturity and to finance the federal government's deficits. They come with a maturity of one, three, six, or twelve months.
Treasury bills are sold at a discount to their face value, and the difference between the discounted purchase price and face value represents the interest rate. They are purchased by banks, broker-dealers, individual investors, pension funds, insurance companies, and other large institutions.

8.3.2. Certificate of Deposit (CD) :

A certificate of deposit (CD) is issued directly by a commercial bank, but it can be purchased through brokerage firms. It comes with a maturity date ranging from three months to five years and can be issued in any denomination. Most CDs offer a fixed maturity date and interest rate, and they attract a penalty for withdrawing prior to the time of maturity. Just like a bank's checking account, a certificate of deposit is insured by the Federal Deposit Insurance Corporation (FDIC).

8.3.3. Commercial Paper :

Commercial paper is an unsecured loan issued by large institutions or corporations to finance short-term cash flow needs, such as inventory and accounts payables. It is issued at a discount, with the difference between the price and face value of the commercial paper being the profit to the investor. Only institutions with a high credit rating can issue commercial paper, and it is therefore considered a safe investment. Commercial paper is issued in denominations of $100,000 and above. Individual investors can invest in the commercial paper market indirectly through money market funds. Commercial paper comes with a maturity date between one month and nine months.

8.3.4. Banker's Acceptance :

A banker's acceptance is a form of short-term debt that is issued by a firm but guaranteed by a bank. It is created by a drawer, providing the bearer the rights to the money indicated on its face at a specified date. It is often used in international trade because of the benefits to both the drawer and the bearer. The holder of the acceptance may decide to sell it on a secondary market, and investors can profit from the short-term investment. The maturity date usually lies between one month and six months from the issuing date.

8.3.5. Repurchase Agreements :

A repurchase agreement (repo) is a short-term form of borrowing that involves selling asecurity with an agreement to repurchase it at a higher price at a later date. It is commonly used by dealers in government securities who sell Treasury bills to a lender and agree to repurchase them at an agreed price at a later date. The Federal Reserve buys repurchase agreements as a way of regulating the money supply and bank reserves. The agreements' date of maturity ranges from overnight to 30 days or more.

8.4. Advantages of Investing in Money Market Instruments :

Money market instruments offer higher liquidity in comparison to other fixed income instruments. With no lock-in period, an investor can sell their investments at any time. Furthermore, the rate of return on a money market instrument is marginally higher in comparison to interest on savings accounts.

8.4.1. Disadvantages of Investing in Money Market Instruments :

No doubt the interest rate is higher in comparison to savings bank accounts. However, the rate of interest does not account for the increasing inflation in the economy. While other investment instruments like mutual funds offer a higher return on investment over the long term. Hence, if the investment objective is to seek capital appreciation with inflation-beating returns then money market instruments are not an ideal choice.

8.5 . Banks & Money Market :

8.5.1. Commercial banks : Commercial banks are at the centre of most money markets, as both suppliers and users of funds, and in many markets a few large commercial banks serve also as middlemen. These banks have a unique place because it is their role to furnish an important part of the money supply. In some countries they do this by issuing their own notes, which circulate as part of the hand-to-hand currency. More often, however, it is checking accounts at commercial banks that constitute the major part of the country's money supply. In either case, the outstanding supply of bank money is in continual circulation, and any given bank may at any time have more funds coming in than going out, while at another time the outflow may be the larger. It is through the facilities of the money market that these net excesses and shortages are redistributed, so that the banking system as a whole can at all times provide the means of payment required for carrying on each country's business.

8.5.2. Central banks :

The reserves of the commercial banks, which are continually being redistributed through the facilities of the money market, are in fact mainly deposit balances that these commercial banks have on the books of the central bank or notes issued by the central bank, which the commercial banks keep in their own vaults. As the central bank acquires additional assets, it pays for them by crediting depositors' accounts or by issuing its own notes; thus the potential volume of commercial bank reserves is enlarged. With more reserves, the commercial banks can make additional loans or investments, paying for them by entering credits to depositors' accounts on their books. And in that way the money supply is increased. It may be reduced by reversing the sequence. The central bank can sell some of its marketable assets in the money market or in markets closely interrelated with the money market; payment will be made by drawing down some of the commercial bank reserve balances on its books; and with smaller reserves remaining, the commercial banks will have to sell or reduce some of their investments or their loans. That, in turn, results in a shrinkage of the outstanding money supply. Central bank operations of this kind are called open-market operations.

The central bank may also increase bank reserves by making loans to the banks or to such intermediaries as bill dealers or dealers in government securities. Reduction of these loans correspondingly reduces bank reserves. Although the mechanics of these lending procedures vary widely among countries, all have one feature in common: the central bank establishes an interest rate for such borrowing—the bank rate or discount rate—pivotally significant in the structure of money market rates.

Money market assets may range from those with the highest form of liquidity—deposits at the central bank—through bank deposits to various forms of short-term paper such as treasury bills, dealers' loans, bankers' acceptances, and commercial paper, and including government securities of longer maturity and other kinds of credit instruments eligible for advances or rediscount at the central bank. Although details vary among countries, the touchstone of any money market asset other than money itself is its closeness—i.e., the degree of its substitutability for money. So long as the institutions making use of a money market regard a particular type of credit instrument as a reasonably close substitute—that is, treat it as "liquid"—and so long as the central bank acquiesces in or approves of this approach, the instrument is in practice a money market asset. Thus no single definition or list can apply to the money markets of all countries nor will the list remain the same through the years in the money market of any given country.

8.6. The international money market :

Each central bank usually holds some form of reserve that is acceptable in settling international transactions. International monetary reserves are mainly gold, or "money market assets" in some country whose currency is widely used, such as the United States dollar. The monetary laws of all countries provide for the establishment of some kind of parity between their currencies and those of other countries. This parity may be defined either in terms of gold or in relation to a key currency such as the British pound sterling or the United States dollar, which in turn has a fixed parity with gold. A country maintains the “convertibility” of its currency by standing ready to buy and sell gold or other currencies in exchange for its own at prices within a fixed and rather narrow “spread” above or below the “exchange rate” for its own currency that is implied by the declared parity.

Because world trade continually gives rise to various needs for payment in various currencies, an international money market must exist so that traders with an excess of one currency can use it to buy another currency for which they have a need. Within the scope of convertibility arrangements, this trading in currencies is carried out by skilled intermediaries, usually banks or specialized foreign exchange brokers and dealers. Trading in currencies is extensive both for immediate use (“spot”) and for future (“forward”) delivery. Quotations vary according to changes in supply and demand, over the range between the upper and lower buying and selling prices set by official parity. If no parity has been set quotations may fluctuate widely. If a currency is subject to exchange controls, there may be two or more quotations for different uses of the same nominal currency.

Changes in a country’s balance of payments may affect the usefulness or prestige of its currency. A sustained and substantial balance of payments deficit (outpayments larger than inpayments), for example, will result in continuous large increases in the world supply of its currency, possibly leading to some decline in its acceptability abroad and to a loss of international monetary reserves. At the same time, an outward drain may reduce the reserves of the commercial banks (the base for the domestic money supply), unless the central bank takes offsetting action.

Since 1944 most of the countries that have domestic money markets or that play a role in the international money market have been joined together in the International Monetary Fund, which represents a pooling of part of the foreign exchange reserves (including gold) of more than 100 member countries. Drawings on the pool may be made by member countries to meet some of the reserve drains arising from balance of payments deficits and in amounts related to the quota that each has subscribed.

The internal money markets of a surprisingly high proportion of the countries of the world are quite rudimentary. The work of the money market in these countries is done largely by transfers of deposit balances, government securities, or foreign exchange among a few banks and between them and the central bank. But in nearly all such cases there is genuine discontent with the rigidity of these limited facilities and a desire to develop a structure, as well as instruments and procedures, which would provide the open-market attributes of the arrangements that have evolved in the leading countries.

8.6.1. The Canadian money market :

The Canadian money market was substantially broadened in 1954 with the introduction of day-to-day bank loans against Government of Canada treasury bills and other short-term government and government-guaranteed securities. Treasury bills of 91 days’ and 182 days’ maturity are issued weekly with the occasional offering of a longer maturity of up to one year. Government of Canada bonds and Government of Canada guaranteed bonds are issued at less regular intervals.

Groups involved in the money market are the following: the government, as the issuer of the securities; the Bank of Canada, acting as issuing agent for the government and as a large holder of market material; the chartered banks, as large holders and as distributors and potential buyers and sellers of bills and bonds at all times; the security dealers, as carriers of inventories and traders in such securities; and the public (mainly provincial and municipal governments and larger corporations), as short-term investors.

Treasury bills are sold by competitive tender in which the Bank of Canada, the chartered banks, and a small number of investment dealers participate. Bonds are normally issued at a price at which the yield is in line with outstanding comparable issues.

The central bank, through its tender at the weekly treasury-bill sale, active manipulation of its own bill and bond portfolio, and regulation of the money supply, has workable instruments for active monetary control. For both banks and qualified dealers, the Bank of Canada acts as lender of last resort. The rate is set slightly above the average rate of the last treasury bill auction to discourage regular borrowing.

8.6.2. The German money market :

In what was formerly West Germany, where the money market developed strongly after World War II, transactions have been to a large extent confined to interbank loans. In addition, insurance companies and other nonbank investors are also important lenders of short-term funds. Treasury bills and other short-term bills and notes from government agencies (railways and post) were gaining in importance by the 1960s, whereas in 1955 certain nonmarketable securities (the so-called equalization claims, created during the 1948 currency reform) held by the Bundesbank were transformed into short-term marketable securities in order to obtain suitable market material for the open-market operations of the Bundesbank. Banks are not used to dealing in short-term government securities between each other. They generally either hold these securities to maturity or resell them to the central bank at its buying rates, so that a true money market has not developed.

The market for commercial paper is of some significance, and dealing in it takes place from time to time between banks, especially in times of tight market conditions. Comprehensive regulations have been given through the Bundesbank about the rediscount ability of the several kinds of commercial paper.

The influence of the Bundesbank on the monetary situation through open-market operations by the 1960s was greatly hampered by the vast liquidity of the banking system as a consequence of the persistence of Germany’s favourable balance of payments situation.

8.6.3. The French money market :

The French money market is fairly well established, but its size is restricted by the fact that in France currency still plays an important role in the money supply, whereas by regulations the nonfinancial private sector of the economy is excluded from dealing in the market. Banks as well as a few public or semi-public agencies working in the financial sphere and intermediaries—brokers and discount houses—constitute the market. Transactions take place in commercial paper and in treasury bills. The monetary authorities maintain a special bookkeeping system for all the treasury bills held by banks and other financial institutions, under which such bills are not represented by actual certificates but by entries in special accounts administered by the Banque de France for the treasury.

The central bank's open-market operations, which were normally limited to smoothing out disturbances in the local money market, have gained importance in recent years. Open-market transactions are effected to keep domestic money market rates in line with international rates, in an effort to prevent unwanted capital flows. The possibilities of the central bank's influencing the monetary situation through the money market are limited to the large government needs for short-term funds, no market for long-term government borrowing being established.

8.6.4. The Japanese money market :

In Japan's rapidly growing economy the demand for funds, both short-term and long-term, has been persistently strong. Commercial banks and other financial institutions have therefore had an important role. The monetary authorities (the Ministry of Finance and the Bank of Japan) have been unwilling to allow market forces to equilibrate demand and supply in many financial markets for fear that interest rates would become excessively high. Most interest rates have been set administratively at levels high by international comparison (until the late 1960s) but lower than market forces would have dictated. Monetary policy is implemented by controls on both the availability of credit and its cost.

Under these circumstances, Japan has had a very restricted money market. The market for short-term government securities is negligible; the low, pegged interest rate means that the Bank of Japan is the main buyer and that open-market operations are impossible. Transactions in commercial paper are minimal, being discouraged because they would tend to undermine the structure of interest rates and financial institutions.

Only the call money market is well developed. It is restricted to transactions among financial institutions. The interest rate on call money has been relatively free, and persistently above most other short-term and long-term rates. Although small amounts are lent overnight, most are "unconditional loans" (repayment after one day's notice, with a minimum of two days) or "over-month-end-loans" (repayment on a fixed day the following month). The pattern of flows is rather stable, despite seasonal and cyclical fluctuations. City banks are the major borrowers; they have a strong demand for loans by large enterprises and use call funds as a major source of liquidity. Major lenders are local banks, trust banks, credit associations, and agricultural cooperatives, which collect individual urban and rural savings and are attracted by the high yields, liquidity, and low risk of call loans relative to other uses. Call brokers help make a market, though most funds flow directly from one financial institution to another. About three-quarters of the funds flow through the Tokyo market, and there are also call markets in Ōsaka and Nagoya.

8.6.5. Money markets in developing countries :

Well-developed money markets exist in only a few high-income countries. In other countries money markets are narrow, poorly integrated, and in many cases virtually nonexistent. Despite the many differences among countries, one can say in general that the degree of development of a country's financial system, including its money markets, is directly related to the level of its economy. Most very-low-income countries have limited financial systems in which money markets play no role. In many former colonies, notably in Africa, expatriate commercial banks had substituted for a local money market; the banks met fluctuations in loan demand by changing their balances at head offices in London or elsewhere. More recently, government policies have encouraged these banks to develop domestic channels for temporary surpluses and deficits. Persistent inflation has been another factor inhibiting the growth of money markets in developing countries, notably in Latin America.

Most developing countries, except those having socialist systems, have the encouragement of money markets as a policy objective, if only to provide outlets for short-term government securities. At the same time many of these governments pursue low-interest-rate policies in order to reduce the cost of government debt and to encourage investment. Such policies discourage saving and make money market instruments unattractive.

8.7. Indian Money Market: Organized and Unorganized Sectors :

The organised sector of the Indian money market can be divided into sub-markets: (i) Call Money Market: (ii) Treasury Bill Market: (iii) Repo Market: (iv) Commercial Bill Market:.(v) Certificate of Deposits: (vi) Commercial Paper: (vii) Money Market Mutual Funds: The unorganised market is largely made up of indigenous bankers and non-bank financial intermediaries like chit funds, nidhis, etc. It is unorganised since these institutions are not systematically coordinated by the RBI. Like commercial banks, these financial institutions are not subject to reserve requirements. Nor do these institutions strictly depend on the RBI or banks for financial accommodation. Different components of money market have been shown in a treelike diagram (Fig.1)

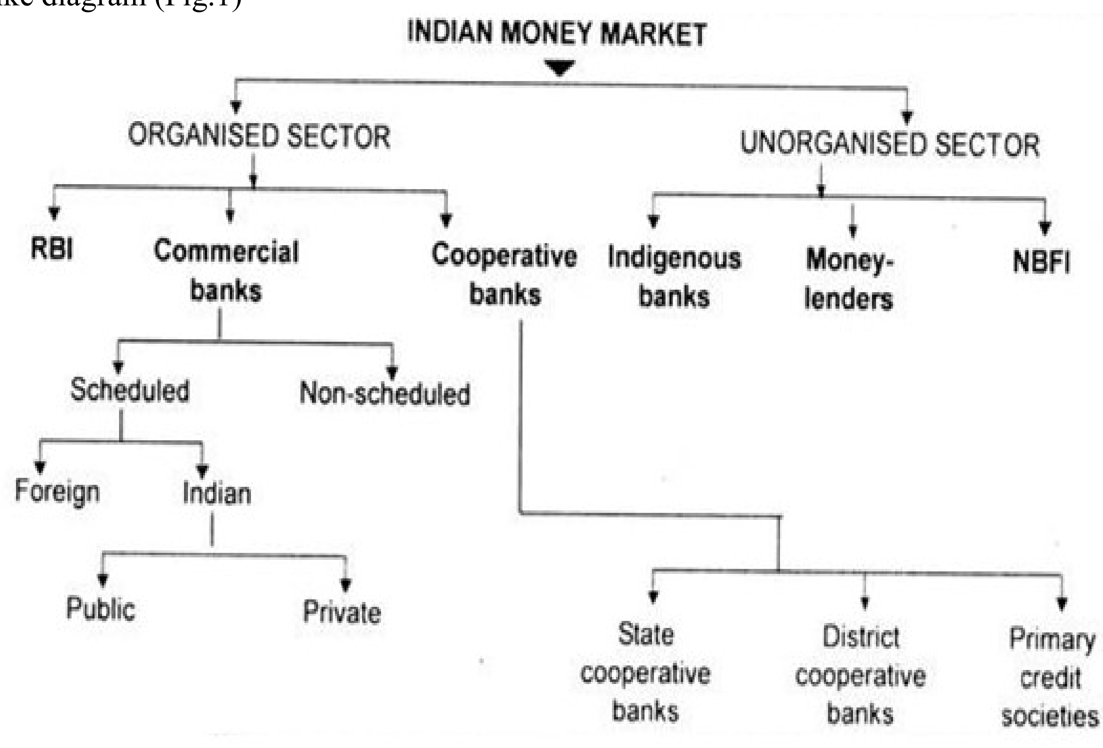


Fig.1 Constituents of India's Money Market

8.7.1. Organized sector : The organized sector of the money market con-sists of the Reserve Bank of India, commercial banks, companies lending money, financial inter-mediaries such as the Life Insurance, Credit and Investments Corporation of India, Unit Trust of India, Land Mortgage Banks, Cooperative Banks, Insurance Companies etc. and call loan brokers, and stock brokers.

8.7.2. Unorganized sector : The unorganised sector of the money market is largely made up of indigenous bankers, money lenders, traders, commission agents etc., some of whom combine money lending with trade and other activities.

8.7.3. The Differences between Organized and Unorganized Sectors : There are several key differences between the organised and unorganised sectors. The first difference is that the organized sector is made up of businesses that are registered with the government and follow its guidelines and regulations.

8.7.3.1. Meaning : The organized sector is more likely to be efficient and productive as they have access to a larger market. They are also typically better funded, with more resources at their disposal.In contrast, the unorganised sector is made up of businesses that are not registered with the government and do not follow its guidelines and regulations. This means they are less efficient and productive, as they have a smaller market. They also typically have fewer resources available to them.

8.7.3.2. Governed by : The organized sector is governed by the government, while the unorganized sector is not. This means that businesses in the organised sector have to follow certain guidelines and regulations.
Businesses in the unorganised sector do not have to follow these guidelines and regulations.

8.7.3.3. Remuneration : The organized sector tends to have better remuneration, meaning employees are typically paid more. This is because businesses in the organised sector can sell their products and services for a higher price.
Businesses in the unorganized sector typically have lower remuneration, meaning employees are paid less.

8.7.3.4. Working Hours : The working hours in the organised sector are typically regular, meaning employees work set hours each week. The working hours in the unorganised sector are often irregular, meaning employees do not work set hours each week.

8.7.3.5. Job Security : The organised sector typically has better job security, as businesses in this sector are more stable. This is because businesses in the organised sector have access to a larger market and can sell their products and services for a higher price.

Businesses in the unorganised sector often have less job security, as they are less stable.

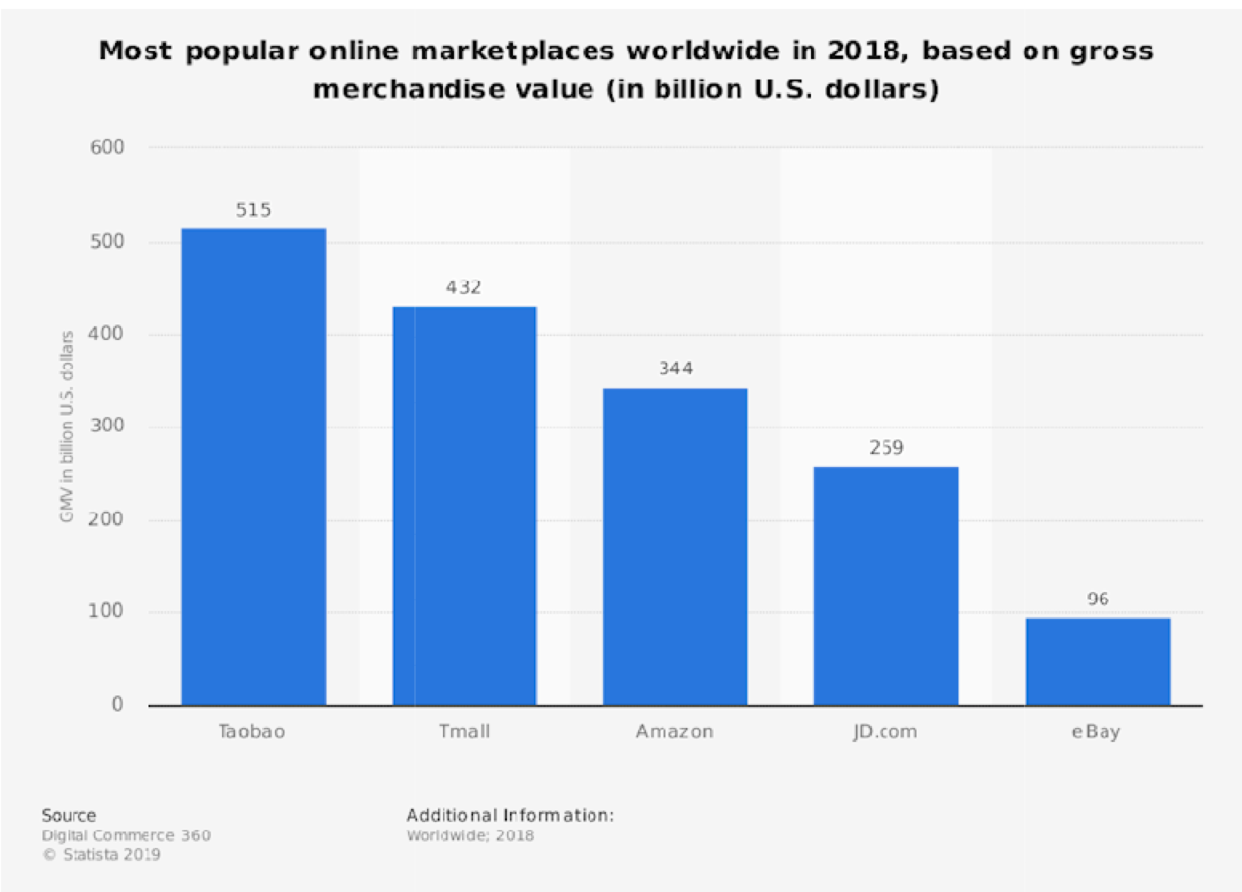
8.7.3.6. Overtime : Employees in the organised sector are more likely to receive overtime pay, as businesses in this sector typically have regular working hours.Employees in the unorganised sector are less likely to receive overtime pay, as businesses in this sector typically have irregular working hours.

8.7.3.7. Benefits and Perquisites : Employees in the organised sector are more likely to receive benefits and perquisites, such as health insurance and paid vacation days. This is because businesses in the organised sector are typically larger and can afford to provide these benefits. Employees in the unorganised sector are less likely to receive benefits and perquisites, as businesses in this sector are typically smaller and cannot afford to provide these benefits.

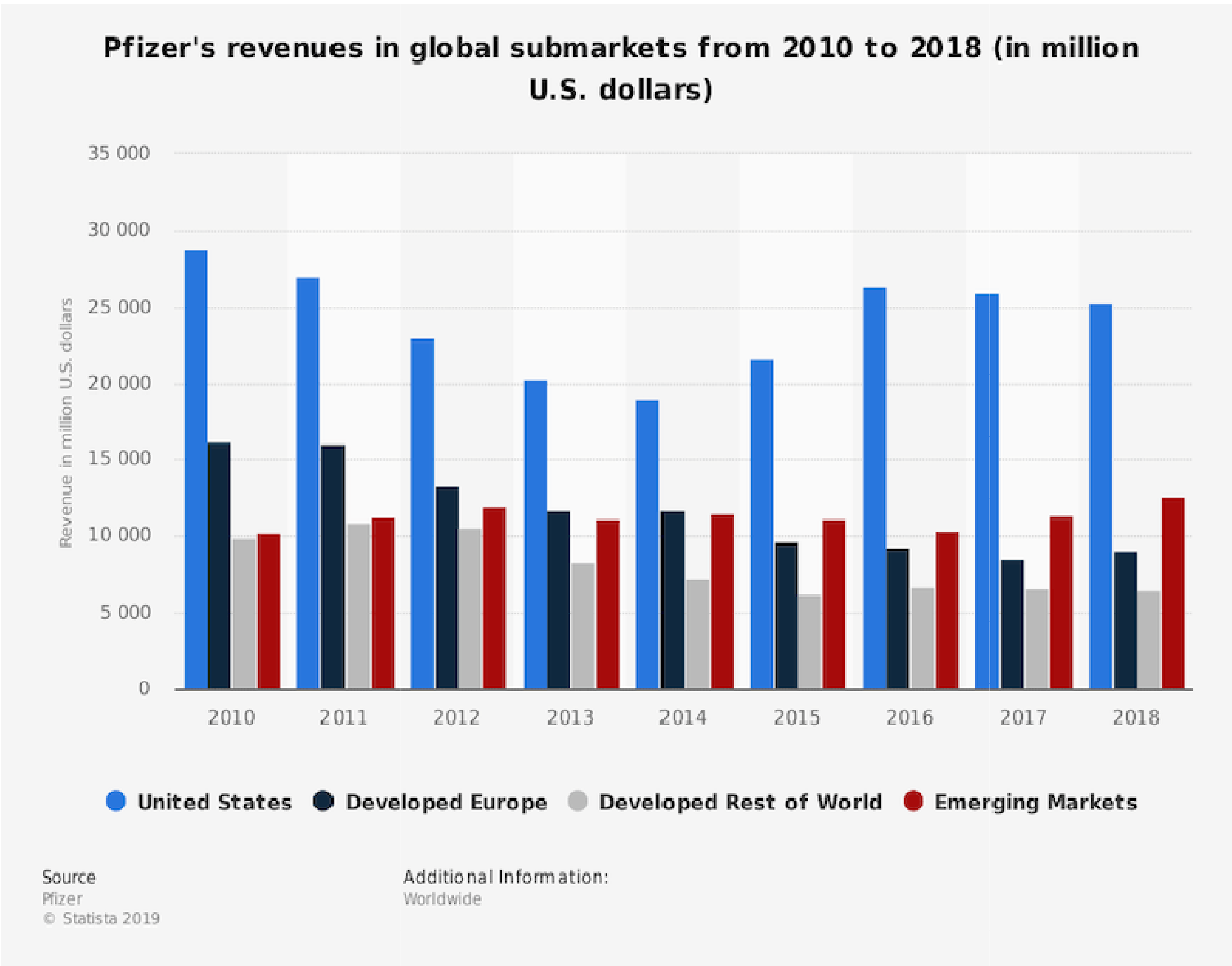
8.8. Markets and Submarkets :

Here is an example answer to the question "Explain what is meant by a market and by sub-markets."

A market is anywhere where buyers and sellers come together to transact with each other. The buyer and seller don't have to be in the same place in order to conduct transactions with each other – many businesses now operate on digital platforms such as Amazon marketplace and eBay. The forces of supply and demand in markets such as agricultural products are crucial in establishing market prices and perhaps reaching an equilibrium i.e. a market-clearing price where supply = demand.



The market for most goods and services can be broken down into sub-markets which tailor to the different needs and wants of groups of consumers. For example the market for new cars might be broken down into the market for electric and hybrid vehicles as well as petrol and diesel-powered cars. In the housing market we can distinguish between residential and commercial property. A global pharmaceutical company might consider sales in each of their submarkets by country.



8.9. CALL MONEY MARKET :

Call money is a short-term, interest-paying loan from one to 14 days made by a financial institution to another financial institution. Due to the short term nature of the loan, it does not feature regular principal and interest payments, which longer-term loans do.

Brokerages use call money as a short-term origin of funding to support margin accounts for the interest of their customers who wish to leverage their investments. The funds can shift quickly between lenders and brokerage firms. For this purpose, it is the second most liquid asset that arises on a balance sheet behind cash.(Image will be Uploaded soon).

8.9.1. What is "Money Market"?

To simplify, money market basically refers to a division of the financial market where financial instruments with high liquidity and short-term maturities are purchased and sold. The participants use it as a way of borrowing and lending for the short term. One of the key elements of the Indian financial markets is the call money market, in which surplus funds (mostly from financial institutions) are traded on a regular schedule.

8.9.2. What is the Call Money Market?

The call money market is an important aspect when there is a surplus of funds in the Indian equity market (mainly from banks) that are sold on a daily basis. The capital market is a market for relatively short-lived capital instruments that can be used as money substitutes. First, the most important feature of a money market is that it is flexible and can be converted into fast cash, even at a relatively cheap price. It also helps to balance lenders' ability to quickly save money by meeting the needs of their customers.The call money market, as an important element of the financial markets, has a few distinctive features: Call currency is a chargeable asset for sleek financial services. Because it is essentially a "cell phone" industry, it is logistically simple when both mortgage companies and borrowers manage it. The best thing is that it offers extra capital and contributes to the growth of a financial statement as a debt restructuring tool.

A constant call money rate helps to smooth out fluctuations in a group's liquid assets from a global perspective, contributing to the financial application's viability. In exchange, a stable macroeconomy serves as a reliable financial services authority or standard-setter. On the local scale, short-term borrowing by institutions enhances the effectiveness of personal finance in two directions. In one sense, call money rate permits banks to maintain a higher repo rate than would otherwise be possible. Call money rate also allows certain financial institutions to raise their amount of diverse money through an additional approach on a long-term premise. As a result, a dynamic and competitive call money rate enhances corporations' public spending expenditures and increases their total productivity and competitiveness.

8.9.3. Money at Call and Short Notice

Money at call and short notice is a part of the call money market. Cash borrowed for one day can be referred to as "call money." This refers to nighttime cash, as opposed to the currency that is loaned for more days and is known as "short notice money." To simple words, money at call and short notice refers to the time when lending company received no collateral for the amount loaned on a specific timeline or on call

Regulated financial institutions (except RRBs), cooperative banks, and last but not least, principal distributors (PDs) are all the participants of call money market in the call and notice money market, acting as both borrowers and lenders.

8.9.4. What is a Call Money Rate?

The call money rate is said to be a rate at which funds for very short term are traded or lended in the money market. It is a kind of financial loan at a particular rate which has to be returned to the lender by the borrower when demanded by him.
Benefits of the Call Money MarketNow let's look at some of the advantages of call money market, which are as follows:

Because lending expenses are more volatile in this sector, they can be returned.
It is conceivable to have financial intermediaries and transfer funds.
It provides a lucrative space for the leftover money.
It helps the institutions such as commercial banks to fulfill their RBI reserve requirements whenever there is a shortage of money.
It aids the management in collecting fairly small sums of money.
Because the members possess a great reputation and the calls are safe.
It's indeed beneficial to the actions of central banks.

8.9.5. Money Market's Disadvantages

The Disadvantages of Call Money Market are as Follows:
It is only found in major industrial and commercial areas.
The call money markets are just not combined.
There's also the issue of money market rates being variable.
Who is involved in the call money market? Is an important thing to know.
The lender can ask for his amount anytime.

8.10. SUMMARY :

Money market, a set of institutions, conventions, and practices, the aim of which is to facilitate the lending and borrowing of money on a short-term basis. The money market is, therefore, different from the capital market, which is concerned with medium- and long-term credit. The definition of money for money market purposes is not confined to bank notes but includes a range of assets that can be turned into cash at short notice, such as short-term government securities, bills of exchange, and bankers' acceptances. Here are the main functions of the money market: 1. Financing Trade 2. Central Bank Policies, 3. Growth of Industries, 4. Commercial Banks Self-Sufficiency

8.11. TECHNICAL TERMS :

Annual report :

The yearly audited record of a corporation or a mutual fund's condition and performance that is distributed to shareholders.

Annualized :

A procedure where figures covering a period of less than one year are extended to cover a 12-month period.

Annualized rate of return :

The average annual return over a period of years, taking into account the effect of compounding. Annualized rate of return also can be called compound growth rate.

Appreciation : The increase in value of a financial asset.

Asset allocation :

The process of dividing investments among cash, income and growth buckets to optimize the balance between risk and reward based on investment needs.

Asset class :

Securities with similar features. The most common asset classes are stocks, bonds and cash equivalents.

Bond fund : A mutual fund that invests exclusively in bonds.

Breakpoint :

The level of dollar investment in a mutual fund at which an investor becomes eligible for a discounted sales fee. This level may be achieved through a single purchase or a series of smaller purchases.

Capitalization :

The market value of a company, calculated by multiplying the number of shares outstanding by the price per share.

Cash equivalent :

A short-term money-market instrument, such as a Treasury bill or repurchase agreement, of such high liquidity and safety that it is easily converted into cash.

Dividend :

A dividend is a portion of a company's profit paid to common and preferred shareholders. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth. Companies are not required to pay dividends.

Dividend yield :

Annual percentage of return earned by a mutual fund. The yield is determined by dividing the amount of the annual dividends per share by the current net asset value or public offering price.

EPS :

The portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

Equities :

Shares issued by a company which represent ownership in it. Ownership of property, usually in the form of common stocks, as distinguished from fixed-income securities such as bonds or mortgages. Stock funds may vary depending on the fund's investment objective.

Equity fund :

A mutual fund/collective fund in which the money is invested primarily in common and/or preferred stock. Stock funds may vary, depending on the fund's investment objective.

Financial materiality :

An event or information that are reasonably likely to impact the financial condition or operating performance of a company and should be considered during the investment decision-making process.

Fixed income fund :

A fund or portfolio where bonds are primarily purchased as investments. There is no fixed maturity date and no repayment guarantee.

8.12. SELF -ASSESSMENT QUESTIONS :

1. Explain money markets and functions of money market?
2. Discuss types of money instruments?
3. What are money markets and banks?
4. Discuss international money markets?
5. What is submarket and explain call money?

8.13. SUGGESTED READINGS :

1. V.A. Avadhani, Marketing of Financial Services, Himalayas Publishers, Mumbai .
2. DK Murthy, and Venugopal, Indian Financial System, IK Int Pub House.
3. Anthony Saunders and MM Cornett, Fin Markets & Institutions, TMH.
4. Punithavathy Pandian, Financial Markets and Services, Vikas, New Delhi.

Dr. Ch. V. RAMAKRISHNA RAO

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LESSON – 9
SUB MARKET

AIMS AND OBJECTIVES :

After studying this lesson students should be able to

- To know the concept of Submarkets
- To understand Commercial bills & treasury bills
- To acquired knowledge on types of treasury bills
- To learn certificate of deposit
- To acquired knowledge on commercial papers

STRUCTURE OF THE LESSON :

9.1 INTRODUCTION : Traditionally, the term market has been defined in economic terms, as per the following examples:"It is usually understood as an organized process by which buyers and sellers exchange goods and services for money." (Chin & Guan, 1996) we use the term (market) to refer to exchanges between buyers and sellers who communicate with each other about the quality and quantity of the product, what buyers are willing and able to pay for a product, and what the sellers must receive in order to produce or sell a product." (Mukherjee, 2005) You will notice that the first definition is quite straightforward and tightly defined as it defines a market simply in terms of the exchange between buyers and sellers. However, the second definition is much broader and is more reflective of a market from a marketing perspective. This second definition also includes the elements of communication (which is marketing promotion), price and profit incentive. Therefore, this second definition is more appropriate for us in the study of marketing.

9.1.1. SUBMARKET : Definition: A submarket is broadly defined as a distinct part of a larger market. In the commercial real estate context, a market is typically a city or an MSA and a submarket is a smaller defined area within the market such as a neighborhood or suburb. The term describes a defined area that is geographically contiguous and does not overlap with other submarkets. Submarket boundaries may be formed from a variety of factors including natural elements such as a river or lake, man-made structures such as a road or park, or socioeconomic boundaries such as school districts or areas high in a certain demographic. Sometimes the term sub-market is utilized in marketing textbooks, particularly those relating to strategy and positioning. As suggested by its name, a sub-market is a smaller part of an overall larger market. Perhaps surprisingly, it is a little difficult to find an accepted definition for a sub-market. This is because the term has slightly different meanings across marketing, economics, law and even real estate. The formal recognition of sub-markets came from a legal case, known as the "The Brown Shoe case" [Brown Shoe Co. v. U.S. 1962], where a sub-market was referred to as 'a relevant market within a relevant market'. As part of their deliberations, they indicated that sub-markets were likely to have products with unique characteristics, distinct customers, distinct pricing, and even specialized retailers. Therefore, a suitable definition for our purposes as students of marketing: A smaller and more defined sector of an overall market, which has a number of differing marketing and structural features, which may include distinct distribution channels, price elasticity, competitive sets, and effective promotional methods.

A submarket is broadly defined as a distinct part of a larger market. In the commercial real estate context, a market is typically a city or an MSA and a submarket is a smaller defined area within the market such as a neighborhood or suburb. The term describes a defined area that is geographically contiguous and does not overlap with other submarkets. Submarket boundaries may be formed from a variety of factors including natural elements such as a river or lake, man-made structures such as a road or park, or socioeconomic boundaries such as school districts or areas high in a certain demographic. While a market such as a city or MSA may have official boundaries as determined by a government agency, real estate submarkets usually have unofficial boundaries as determined by investors or brokers and such boundaries and even submarket names may differ from source to source.

A market is the overall set of buyers (consumers) and sellers (firms) for a broad market need, such as the banking market, or the education market, or the ready-to-eat food market. A sub-market forms part of an overall market, but tends to have some unique operating characteristics. For example, the banking market could be split into the sub-markets of credit cards, home loans, online savings, and so on. Large financial institutions would probably operate in all these sub-markets, whereas smaller and specialist players may only operate in one or two sub-markets. This means that in each sub-market there would be a different competitive set and market structure. Unfortunately, the terminology used in this area is somewhat confusing across different textbooks. Between them they sometimes use the terms 'market', 'sub-market', 'market segment' and 'product-market' interchangeably. Hopefully the following discussion will help clarify the terms.

9.1.2. Examples of Submarkets and Product-markets : Submarkets may also differ by property type, especially when there are "pockets" of a certain property type such as an industrial park or retail corridor. For example, an office building and retail centre located next to each other could be considered to be in different submarkets since the office submarket may have a different set of boundaries than the retail submarket. Analysing submarkets can help identify smaller trends that might not be as visible in the larger area or city. There are maps available for some submarkets to better identify boundaries. Software is also available that allows you to draw submarkets and track activity within those markets. Risks to submarkets are likely to be similar to those in the larger surrounding market. Understanding trends in the larger market, then seeing how they impact the submarket, is called top-down analysis. This type of analysis keeps the larger picture in mind. For that reason, submarkets should not be looked at in isolation. They are part of the larger market and will be affected by risks and trends in the larger market. I0 Education market. ii) Universities, iii) Community colleges, iv) Private schools, v) Religious schools, vi) Vocational colleges, vii) Adult education (hobbies and interests), viii) Tutoring services, ix) Online courses, x) Training providers

9.1.3. Markets, sub-markets and product-markets examples : To help explain this concept of different markets, let's look an example relating to the overall education market. In the diagram below, the overall education market has been into seven different sub-markets. Each of these sub-markets would have different sizes, operates quite differently, have different profitability and growth measures – yet they still form part of the overall education market. Players in each sub-market would probably see other organizations within the same sub-market as their direct competitors, and would probably view the organizations in the other sub markets as indirect competitors. You should note that an individual consumer could easily enter the most of the sub-markets during the course of their educational lifetime. For example, he/she could be a student at a private school and receive tutoring at night, then later that same person could attend university, use online education, attend an adult evening course, and so on.

9.2. COMPONENTS- SUBMARKETS OF INDIAN MONEY MARKET :

The Indian money market it is necessary to understand various components or sub markets within it. They are explained below.1.Call Money Market 2. Commercial Bill Market 3. Treasury Bill Market, 4. Market for Certificate of Deposits (CDs) .5. Market for Commercial Papers (CPs) Short Term Loan Market : It is a market where the short term loan requirements of corporates are met by the Commercial banks. Banks provide short term loans to corporates in the form of cash credit or in the form of overdraft. Cash credit is given to industrialists and overdraft is given to businessmen.

9.2.1. The Call money market : The Call money market is an important part of the Indian Money Market, where surplus funds are traded on a daily basis. The money market is a market for short-term financial assets that are money substitutes. The loans are traded in the call money market and have a shor term duration ranging from 1 to 14 days. In this market, money lent for one day is known as "Call Money" and money lent for more than one day (but less than 15 days) is known as "Notice Money." Term money is money that has been lent for 15 days or more on the interbank market. In this article, let us see the meaning of call money, its features and functions and who can participate in the call money market.

ii) Call Money : i) Call money, also known as "money at call," is a short-term financial loan that must be paid in full and immediately when the lender demands it.ii) Unlike a term loan, which has a fixed maturity and payment schedule, call money does not have to adhere to a set schedule, nor does the lender have to provide any advance notice of repayment. iii) Call money is any type of short-term, interest-bearing loan that the borrower must repay immediately if the lender demands it. iv) Call money allows banks to earn interest on their excess funds, which is known as the call money rate (call loan rate/call rate). v) It consists of overnight money as well as money available on short notice for up to 14 days. vi) The call money market primarily serves to rebalance banks' and other participants' short-term liquidity positions.

iii) Call Money Rate : Call money rate is the rate at which short term funds are borrowed and lent in the money market. The duration of the call money loan is 1 day. Banks resort to these type of loans to fill the asset liability mismatch, comply with the statutory CRR and SLR requirements and to meet the sudden demand of funds. RBI, banks, primary dealers etc are the participants of the call money market. Demand and supply of liquidity affect the call money rate. A tight liquidity condition leads to a rise in call money rate and vice versa.

9.3. COMMERCIAL BILL MARKET :

It is a market for the short term, self liquidating and negotiable money market instrument. Commercial bills are used to finance the movement and storage of agriculture and industrial goods in domestic and foreign markets. The commercial bill market in India is still underdeveloped. A Commercial Bill is a document that results from a legitimate commerce transaction, such as a credit transaction. Commercial Bill is also referred to as a Bill of Exchange. The meaning, types, and benefits of Commercial Bills are all discussed in detail. A bill of exchange, then, is a written order from the creditor to the debtor to pay a specific amount to a specific person after a set period of time. A bill of exchange is a negotiable "self-liquidating" paper. All India Financial Institutions (AIFIs), Non-Banking Finance Companies (NBFCs), Scheduled Commercial Banks, Merchant Banks, Co-operative Banks, and Mutual Funds all issue

CBs, which were first issued in 1990. It took the place of the country's old Bill Market, which had been in operation since 1952.

9.3. a) Features of commercial bills :

i) A bill of exchange is defined by section 5 of the Negotiable Instruments Act of 1881 as follows:"A bill of exchange is a written instrument carrying an unconditional order, signed by the creator, commanding a specific person to pay a certain sum of money solely to, or on the direction of, a specific person or to the bearer of the instrument.
ii) "The seller (drawer) issues commercial bills to the buyer (drawee) for the value of items delivered by him.
iii) These bills have a maturity of 30 days, 60 days, or 90 days. If the seller needs funds, he might prepare a bill and send it to the buyer for approval.
iv) The buyer agrees to pay the debt and guarantees to do so by the due date. He might potentially go to his bank and ask them to accept the bill.
v) The bank charges a fee for accepting the bill and guarantees to pay the amount of the buyer defaults.
vi) The vendor can then sell it in the market once this process is completed. A commercial bill becomes a marketable investment in this manner. Typically, the seller will go to the bank to have the bill discounted.
vii) After deducting the interest for the remaining duration of the bill and service charges from the face amount of the bill, the bank will pay him.
viii) On bills, the interest rate is referred to as the discount rate. The commercial bill market is a vital source of short-term financing for businesses.
However, the instrument has not gained traction due to two factors: the cash credit scheme is still the most common type of bank financing, and large corporate buyers are still unwilling to pay commercial expenses in this manner.

9.3. b) Types of Commercial Bills : The bills market has a wide variety of commercial bills in circulation. They can be grouped into the following categories:

i) Demand Bills : Demand bills are also known as sight bills. As soon as these bills are given to the drawer, they are immediately payable. There is no defined payment time, thus they must be paid on the spot.

ii) Using Bills : Using bills are referred to as time bills. These invoices are due immediately after the time period specified in the bill has expired. The length of time varies depending on the country's established trade customs or use.

iii) Documentary Bills : Documentary bills are bills that must be supported by papers of title to commodities, such as railway receipts, lorry receipts, and bills of lading. These bills are further divided into D/A and D/P categories. When it comes to D/A bills, the documentation that comes with them must be provided to the drawee as soon as they are accepted. D/A bills typically target parties with strong financial positions. On the other hand, in the case of D/P bills, the documents must be turned over to the drawee only after payment. The banker will keep the paperwork on file. Until the bills are paid in full.

iv) Clean bills : Clean bills are bills that are drawn without any associated papers. Documents will be forwarded straight to the Drawee in this circumstance.

v) Inland Bills: Bills drawn on an Indian resident and payable in India are known as inland bills.

v) International Bills : Foreign bills are drawn outside of India and may be payable in India or abroad. They could also enlist the help of an Indian citizen. Bills that originate outside of India are known as foreign bills. They also contain bills drawn on Indian bank accounts but payable outside the country.

vi) Export Bills : Export bills are those issued by Indian exporters to importers outside of India, while import bills are issued by exports to Indian importers in India. Bills affecting indigenous peoples. Indigenous bills are those that are drawn and accepted in accordance with native trade customs. These bills are only popular among local bankers. Hundis is known by several names in India, including Shah Jog, Nam Jog, Jokhani, Termainjog, Darshani, Dhanijog, and so on.

vii) Accommodation Bills : Accommodation bills are bills that do not derive from legitimate commerce transactions. "Kite bills" or "wind bills" are the terms used to describe them. Bills are drawn on each other solely for the purpose of mutual financial accommodation. These bills are discounted with the help of bankers, and the proceeds are split among the group. They are paying on the due dates.

viii) Supply Bills : Supply bills are those that are neither drawn on government agencies by suppliers or contractors for products nor accompanied by papers of title to items. As a result, they aren't regarded as negotiable instruments. These bills are only used to obtain advances from commercial banks by establishing a charge on them.

9.3. c) Operations in Commercial Bills Market : From the operations point of view, the bills market can classify into two categories:

i) Discount Market : The discount market is where financial intermediaries such as commercial banks discount short-term genuine trade bills. When credit transactions occur, the seller issues a bill to the buyer, who accepts it and agrees to pay the agreed-upon amount within the agreed-upon time frame. The seller must wait until the bill matures before receiving payment. However, because a bill market exists, he can get paid right away. The seller can secure immediate payment by discounting the bill with a financial intermediary by paying a tiny amount of money known as the "discount rate" on the maturity date, and the intermediary claims the bill's value from the person who has accepted it. Some financial intermediaries specialize in discounting in some countries. There are specialists in the field of discounting invoices, for example, on the London Money Market. In India, such institutions are glaringly absent. As a result, discounting is a task that commercial banks in India must undertake. The DFHI, on the other hand, was created to help stimulate this market.

ii) Acceptance Market : The acceptance market refers to the market where short-term genuine trade bills are accepted by financial intermediaries. All trade bills cannot discount easily because the parties to the bills may not be financially sound. In case such bills are accepted by financial intermediaries like banks, the bills earn a good name and reputation and such bills can readily be discounted anywhere. In London, there are specialist firms called acceptance houses that accept bills drawn by trades and import greater marketability to such bills. However, their importance has declined in recent times. In India, there are no acceptance houses. The commercial banks undertake the acceptance business to some extent.

iii) Advantages of Commercial Bills :

For trade and industry, the commercial bill market is an important source of short-term cash. It stimulates the money market and creates liquidity. Commercial banks play a vital part in the Indian market because of the following benefits:

Liquidity : Bills are extremely liquid investments. Bills can easily be converted into cash in a pinch by rediscounting them with the central bank. Because bills have a defined tenure, they are self-liquidating. Furthermore, because they are negotiable instruments, they can be freely transferred by simple delivery or endorsement and delivery.

Payment Assurance : Business people draw bills and accept them. In general, business people maintain their promises, and the usage of bills forces them to adhere to tight financial discipline. As a result, bills would be paid on time.

Best Investment : Bills are valid for a maximum of six months. They indicate gains for a set period of time. This allows financial organizations to profitably invest their excess cash by selecting bills of various maturities. Commercial banks, for example, can invest their capital in bills so that the maturity of these bills coincides with the maturity of their fixed deposits.

iv) Drawbacks of Commercial Bills :

Despite these advantages, India's commercial bill market has been very slow to expand. The following are the causes for the slow growth:

Bill Culture isn't Existing **:** Because Indian businesspeople prefer O.D. and cash credit over bill financing, banks typically accept bills for the conversion of cash credits and overdrafts. As a result, bills are unpopular. Rediscounting is not practised by banks. Rediscounting bills between banks in need of funds and those with excess funds is not a common practice. The RBI has allowed financial institutions such as LIC, UTI, GIC, and ICICI to rediscount real qualified trade bills of commercial banks in order to expand the rediscounting capacity. Even back then, bill financing was unpopular.

Duty on Stamps : The usage of bills is discouraged by stamp duty. Furthermore, the required denomination stamp papers are unavailable.

Absence of Secondary market : Bills do not have an active secondary market. The facility of rediscounting is offered in major cities, however, it is too limiting for apex-level financial firms. As a result, the size of the bills market has been significantly reduced.

Identifying Genuine Trade Bills Is Difficult **:** The bills must be verified by the banking institutions to ensure that they are legitimate trade bills and not accommodation bills. Invoices must be examined for this reason. It necessitates greater effort.

Foreign Trade is Restricted **:** Bill markets have sprung up in many affluent countries, mostly to finance international trade. Unfortunately, India's overseas commerce remains limited as a share of national revenue, and this is reflected in the bill market as well.

Acceptance Services Aren't Available : In India, there are no discount or acceptance houses. As a result, specialized services in the fields of discounting and acceptance are not available.

Banks' Perspectives **:** Even the central bank is hesitant to rediscount bills. They have a tendency to keep bills until they reach maturity, which slows down the circulation of bills. Banks, once again, prefer to buy banknotes rather than discount them.

9.4. TREASURY BILL MARKET :

a) Treasury bills : Treasury Bills are money market instruments issued by the Government of India as a promissory note with guaranteed repayment at a later date. Funds collected through such tools are typically used to meet short term requirements of the government, hence, to reduce the overall fiscal deficit of a country. They are primarily short-term borrowing tools, having a maximum tenure of 364 days, available at zero coupons (interest) rate. They are issued at a discount to the published nominal value of government security (G-sec).

b) Government treasury bills : Government treasury bills can be procured by individuals at a discount to the face value of the security and are redeemed at their nominal value, thereby allowing investors to pocket the difference. For example, a 91-day treasury bill with a face value of Rs. 120 can be bought at a discounted price of Rs. 118.40. Upon maturity, individuals are eligible to receive the entire nominal value of Rs. 120, which allows them to realise a profit of Rs. 1.60. Now, take a look at other important treasury bill details.

c) Short term treasury bill **:** A short term treasury bill helps the government raise funds to meet its current obligations, which are in excess of its annual revenue generation. Its issue is aimed at reducing total fiscal deficit in an economy, and also in regulating the total currency in circulation at any given point of time.

The Reserve Bank of India (RBI) also issues such **treasury bills** under its open market operations (OMO) strategy to regulate its inflation level and spending/borrowing habits of individuals. During times of economic boom leading to high and persistent inflation rates in the country, high-value **treasury bills** are issued to the public, which, thereby, reduces aggregate money supply in an economy. It effectively curbs the surging demand rates, and in turn, high prices hurting the poorer sections of the society.

Alternatively, a contractionary OMO regime is undertaken by the RBI during times of recession and economic slowdown through a reduction in **treasury bill** circulation and reduced discounted value of the respective bonds. It disincentives individuals into channelling their resources in this sector, thereby boosting cash flows to the stock markets instead, ensuring a boost in the productivity of most companies. Such a rise in productivity has a positive impact on the GDP and aggregate demand levels in an economy.

Hence, a treasury bill is an integral monetary tool used by the RBI to regulate the total money supply in an economy, along with its fundraising usage.

d) Types of Treasury bill : The distinction between different Treasury bill types is made based on their tenure, as enumerated below:

1) 14-day treasury bill,

2) 91-day treasury bill,

3) 182-day treasury bill,

4) 364-day treasury bill

While the holding period remains constant for all **types of treasury bills** issued (as per the categories mentioned above), face values and discount rates of such bonds change periodically, depending upon the funding requirements and monetary policy of the RBI, along with total bids placed.

e) Features of Treasury Bills :

i) Minimum investment : As per the regulations put forward by the RBI, a minimum of Rs. 25,000 has to be invested by individuals willing to procure a short term treasury bill. Furthermore, any higher investment has to be made in multiples of Rs. 25,00

ii) Zero-coupon securities : G-Sec **treasury bills** don't yield any interest on total deposits. Instead, investors stand to realise capital gains from such investments, as such securities are sold at a discounted rate in the market. Upon redemption, the entire par value of this bond is paid to investors, thereby allowing them to realise substantial profits on total investment.

iii) Trading : The method of investment forms an integral part of essential **treasury bill details**. The RBI, on behalf of the central government, auctions such securities every week (on Wednesday) in the market, depending upon the total bids placed on major stock exchanges. Investors can choose to procure such government assets through depository participant commercial banks, or other registered primary dealers (PDs), wherein the security transfer follows a T+1 settlement process. Alternatively, many open-ended mutual fund schemes also include **treasury bills** in their corpus for individuals willing to invest through such funds.

iv) Yield Rate on Treasury Bills : The percentage of yield generated from a treasury bill can be calculated through the following formula : $Y = (100-P)/P \times 365/D \times 100$, Where Y = Return per cent, P = Discounted price at which a security is purchased, and, D = Tenure of a bill. Let us consider a **treasury bills example** for better understanding. If the RBI issues a 91-day treasury bill at a discounted value of Rs. 98 while the face value of the bill is Rs. 100, the yield on such G-Secs can be determined as follows –Yield = $(100 – 98)/98 \times 365/91 \times 100 = 8.19\%$

f) Advantages of Government Treasury Bills :

i) Risk-free : .Treasury bills are one of the most popular short-term government schemes issued by the RBI and are backed by the central government. Such tools act as a liability to the Indian government as they need to be repaid within the stipulated date.Hence, individuals enjoy comprehensive security on the total funds invested as they are backed by the highest authority in the country, and have to be paid even during an economic crisis.

ii) Liquidity : As stated above, a government treasury bill is issued as a short-term fundraising tool for the government and has the highest maturity period of 364 days. Individuals looking to generate short term gains through secure investments can choose to park their funds in such securities. Also, such G-secs can be resold in the secondary market, thereby allowing individuals to convert their holding into cash during emergencies.

Non-competitive bidding : Treasury bills are auctioned by the RBI every week through non-competitive bidding, thereby allowing retail and small-scale investors to partake in such bids without having to quote the yield rate or price. It increases the exposure of amateur investors to the government securities market, thereby creating higher cash flows to the capital market.

g) Limitations of Treasury bill :

The primary disadvantage of government treasury securities is that they are known to generate relatively lower returns when compared to standard stock market investment tools. **Treasury bills** are zero-coupon securities, issued at a discount to investors. Hence, total returns generated by such instruments remain constant through the tenure of bond, irrespective of economic conditions and business cycle fluctuations.

It comes in contrast to the stock market, wherein market variations heavily influence returns generated by both equity and debt tools. Consequently, in the event of an upswing in the stock market, the yield rate of associated tools is significantly higher than the capital gains generated through G-Sec investments.

h) Who Should Consider Investing in Treasury Bills?

Government treasury bills are an ideal tool to invest in for individuals looking to park surplus funds in a secure investment tool to enjoy substantial yields. The RBI facilitates a non-competitive bidding process for such bonds, allowing individual investors to partake in the same by placing their bid with the respective primary dealer of a scheduled commercial bank. Also, as details regarding the discount rate and par value are published beforehand, individuals enjoy full transparency in the investment process. It also aids in the process of financial planning for robust wealth accumulation. Hence, a treasury bill is one of the most secure forms of investment available in the country. It is not only ideal for risk-averse individuals weary of stock market tools but is also popular for portfolio diversification in the case of experienced investors who allocate a portion of their funds into government securities to dilute the overall risk to their corpus. These sovereign bills play a crucial role in regulating the total money supply in an economy, which, in turn, influences funds pooled into the capital market.

This is a market for sale and purchase of short term government securities. These securities are called as Treasury Bills which are promissory notes or financial bills issued by the RBI on behalf of the Government of India. There are two types of treasury bills. (i) Ordinary or Regular

Treasury Bills and (ii) Ad Hoc Treasury Bills. The maturity period of these securities range from as low as 14 days to as high as 364 days. They have become very popular recently due to high level of safety involved in them.

9.5. MARKET FOR CERTIFICATE OF DEPOSITS (CDS) :

It is again an important segment of the Indian money market. The certificate of deposits is issued by the commercial banks. They are worth the value of Rs. 25 lakh and in multiple of Rs. 25 lakh. The minimum subscription of CD should be worth Rs. 1 Crore. The maturity period of CD is as low as 3 months and as high as 1 year. These are the transferable investment instrument in a money market. The government initiated a market of CDs in order to widen the range of instruments in the money market and to provide a higher flexibility to investors for investing their short term money. 9.7 Certificate of Deposit

A certificate of Deposit is the fixed income financial tool that is governed by the Certificate of Deposit RBI and issued in dematerialized form. Here the withdrawal amount is guaranteed from the very beginning. It could be issued by any Indian financial institution or commercial bank. A certificate of Deposit in India is issued at a discount given at face value. Similar to an FD, the CD aims to denote in writing that you have deposited money in the bank for a fixed period, and the bank would pay you interest - based on the amount and the period of your Deposit.

a) How to Buy a Certificate of Deposit : The process of buying and selling CDs is similar to that of buying and selling shares, and the steps are mentioned below:
Step 1: The seller and the buyer need to agree on the price and the quality of the transaction.
Step 2: The seller will authorize its depository participants through the delivery instructions slip.
Step 3: The slip will be inclusive of the instructions to debit the seller's account and transfer the CD to the account of the buyer.
Step 4: In the case of any confusion, you can also get assistance from a professional.

b) Benefits of a Certificate of Deposit :

i) A certificate of the deposit does not consume capital for market volatility, and it is a completely secure financial instrument with assured amounts at the time of maturity. The money that is deposited would continue to predict an increase. It also offers a lot of larger interest rates on a lump sum investment.
ii) CDs offer you monthly payouts, annual payouts, or also a lump sum payout during withdrawal at maturity. You could choose the tenure and price you want to be invested for, and

though there are certain parameters set by the bank, it will help to tailor the investment instruments to your needs.

There are usually no additional costs or fees that are associated with a CD, and you only pay your investment

9.6. MARKET FOR COMMERCIAL PAPERS (CPS) :

It is the market where the commercial papers are traded. Commercial paper (CP) is an investment instrument which can be issued by a listed company having working capital more than or equal to Rs. 5 cr. The CPs can be issued in multiples of Rs. 25 lakhs. However the minimum subscription should at least be Rs. 1 cr. The maturity period for the CP is minimum of 3 months and maximum 6 months. This was introcuced by the government in 1990. It is a market where the short term loan requirements of corporates are met by the Commercial banks. Banks provide short term loans to corporates in the form of cash credit or in the form of overdraft. Cash credit is given to industrialists and overdraft is given to businessmen.

a) Commercial Papers(CPs) : Commercial paper is an unsecured, short period debt tool issued by a company, usually for the finance and inventories and temporary liabilities. The maturities in this paper do not last longer than 270 days. These papers are like a promissory note allotted at a huge cost and exchangeable between the All-India Financial Institutions (FIs) and Primary Dealers (PDs).

Most of the commercial paper investors are from the banking sector, individuals, corporate and incorporated companies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs), etc. However, FII can only invest according to the limit outlined by the Securities and Exchange Board of India (SEBI). In India, commercial paper is a short-term unsecured promissory note issued by the Primary Dealers (PDs) and the All-India Financial Institutions (FIs) for a short period of 90 days to 364 days.

b) Commercial Paper in India : On 27th March 1989, commercial paper in India was introduced by RBI in the Indian money market. It was initially recommended by Vaghul working Group on the basis of the following points.

i) The registration of commercial papers should only be granted to companies having Rs. 5 cores and above net worth with excellent dividend payment record.

ii) The market should follow the CAS discipline. The RBI should manage the paper amount, entry of the market, and total quantum which can be upgraded in a year

iii) No limitation on the commercial paper market apart from the least size of the note. However, the size of one issue and each lot should not be less than Rs. 1 crore and Rs. 5 lakhs respectively

iv) It should be eliminated from the provision of insecure advances in the state of banks.

v) The company using commercial paper should have minimum 5 cores as net worth, a debt ratio maximum of 105, a debt servicing ratio closer to 2, current ratio minimum 1033, and should be recorded on the stock exchange.

vi) The paper can be made in terms of interest or at a discount rate to face value.

vii) It should not be compelled to stamp duty while issuing and transferring.

c) Features of Commercial Paper :

i) It is a short-term money market tool, including a *promissory note* and a set maturity.

ii) It acts as an evidence certificate of unsecured debt.

iii) It is subscribed at a discount rate and can be issued in an interest-bearing application.

iv) The issuer guarantees the buyer to pay a fixed amount in future in terms of liquid cash and no assets.

v) A company can directly issue the paper to investors, or it can be done through banks/dealer banks.

d) Types of Commercial Paper : According to the Uniform Commercial Code (UCC), commercial papers are divided into four different types.

i) **Draft –** It is written guidance by an individual to another and to pay a stipulated sum to a third party.
ii) **Check –** It is a unique draft where the drawee is a bank.
iii) **Note –** Here, an individual is promised to pay another individual or bank a particular amount.
According to security, there are two types of commercial papers
Unsecured Commercial Papers – These are traditional papers and allotted without any security.
Secured Commercial Papers – It is also known as Asset-Backed Commercial Papers (ABCP) and assured by other financial assets.

e) Advantages of Commercial Paper :

i) Contributes Funds **–** It contributes extra funds as the cost of the paper to the issuing company is cheaper than the loans of the commercial bank.
ii) Flexible **–** It has a high liquidity value and flexible maturity range giving it extra flexibility**.**
iii) Reliable **– It is highly reliable and does not have any limiting condition.**
iv) Save Money – **On commercial paper, companies can save extra cash and earn a good return.**
v) Lasting Source of Funds– Maturity range can be customised according to the firm's requirement, and matured papers can be paid by selling the new commercial paper.

f) Risks of Commercial Paper :

i) Credit rating : It is important to note that due to the promissory nature of the commercial paper, only large corporations with high credit ratings will be able to sell the instrument at a reasonable rate. Such corporations are what is colloquially defined as "blue-chip companies" and are the only ones that enjoy the option of issuing such debt instruments without collateral backing. If a smaller organization were to try to issue commercial paper, it is quite likely that there would not be enough trust on the part of investors to buy the securities. The credit risk, which can be defined as the likelihood that a borrower is unable to repay the loan, will be too high for smaller organizations, and there will be no market for this type of issue.

ii) Liquidity : Another potential risk of commercial paper, although less relevant than with other, longer-term debt instruments, is that of liquidity. Liquidity generally refers to the ability of a security to be converted into cash at a price that reflects its fair value. That is to say, liquidity reflects how easily a security can be bought or sold in the market. In the case of commercial paper, liquidity is less of a concern than credit (default) risk as the debt matures quite rapidly, leaving little room for additional trading on secondary markets. For this reason, such secondary markets are quite small, despite the issue being one of the most used money market debt instruments.

iii) Real-World Example : A real-world example would be that a large corporation, take Microsoft Corp., would like additional low-cost funding to launch a new research and development program. At this point, the company's leadership would weigh their options and possibly conclude that commercial paper is a more attractive source of capital than taking out a line of credit with a financial institution.

9.7. SUMMARY :

Submarkets may also differ by property type, especially when there are "pockets" of a certain property type such as an industrial park or retail corridor. For example, an office building and retail center located next to each other could be considered to be in different submarkets since the office submarket may have a different set of boundaries than the retail submarket. Analyzing submarkets can help identify smaller trends that might not be as visible in the larger area or city. There are maps available for some submarkets to better identify boundaries. Software is also available that allows you to draw submarkets and track activity within those markets. Risks to submarkets are likely to be similar to those in the larger surrounding market. Understanding trends in the larger market, then seeing how they impact the submarket, is called top-down analysis. This type of analysis keeps the larger picture in mind. For that reason, submarkets should not be looked at in isolation. They are part of the larger market and will be affected by risks and trends in the larger market.

The Indian money market it is necessary to understand various components or sub markets within it. They are explained below.1.Call Money Market 2. Commercial Bill Market 3. Treasury Bill Market, 4. Market for Certificate of Deposits (CDs) .5. Market for Commercial Papers (CPs) Short Term Loan Market : It is a market where the short term loan requirements of corporates are met by the Commercial banks. Banks provide short term loans to corporates in the form of cash credit or in the form of overdraft. Cash credit is given to industrialists and overdraft is given to businessmen.

9.8. TECHNICAL TERMS :

Accrued Interest :

The amount of interest a security earns before it is issued. In most cases, securities don't earn interest before they're issued.

Auction Date :

The date when the U.S. Treasury sells a Treasury bill, Treasury note, Treasury bond, or Treasury Inflation-Protected Security (TIPS). Tentative auction dates are released months in advance. A date becomes official when the auction is formally announced; usually, a few days before the auction.

Bank Account Type :

The type of bank account (e.g., checking or savings) used when a payment or debit is processed in TreasuryDirect.

Beneficiary:

The individual designated on the bond who becomes the owner of the bond upon the death of the bond’s owner.

Certification :

Process by which a bank or other financial institution guarantees a signature in the request for payment on a savings bond, reissue, or other request relating to savings bonds.

Closed Book Period:

Before the payment date for a specific Treasury marketable security, the period in which an investor cannot conduct transactions for that security.

Discount Rate :

The rate of return, on an annual basis, on Treasury bills held until they mature. The discount rate is expressed in percentage terms and based on a 360-day year.

Electronic Deposit :

A credit transaction initiated through electronic means (i.e., phone, computer network) by a financial institution or payroll office.

Financial Institution :

An institution (public or private) that collects funds (from the public or other institutions) and invests them in financial assets.

Final Maturity :

The point at which a bond stops earning interest, also known as the final extended maturity date.

Fixed Rate :

An interest rate that stays the same for the entire term of a loan or the entire life of a security.

Interest (Compound) :

Interest upon interest, where accrued interest is added to the principal sum, and the whole treated as new principal, for the calculation of the interest for the next period.

Interest Accrual :

Interest earned by an appreciation-type or accrual-type savings security, such as a Series EE bond, and added to what the bond was worth either at the time it was purchased or at some point thereafter according to applicable regulations.

Treasury bond :

A Treasury bond is a government security issued in a term of 20 years or 30 years. Investors buy Treasury bonds and then are paid interest every six months. When a Treasury bond matures, the owner is paid the bond's par amount. Treasury bonds and U.S. savings bonds are not the same.

9.9. SELF-ASSESSMENT QUESTIONS :

1. Explain commercial bills?
2. Discuss types of commercial bills?
3. Briefly explain advantages and disadvantages?
4. What are treasury bills and explain types of treasury bills?
5. Discuss certificate of deposits?
6. How can acquire commercial papers and types of commercial papers?

9.10. SUGGESTED READINGS :

1. V.A. Avadhani, Marketing of Financial Services, Himalayas Publishers, Mumbai .
2. DK Murthy, and Venugopal, Indian Financial System, IK Int Pub House.
3. Anthony Saunders and MM Cornett, Fin Markets & Institutions, TMH.
4. Punithavathy Pandian, Financial Markets and Services, Vikas, New Delhi.

Dr. MEERAVALI SHAIK

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LESSON – 10

ORGANIZED MONEY MARKETS

AIMS AND OBJECTIVES :

After studying this lesson students should be able to

- To know the concept of organised sector of the money market
- To understand Reserve Bank of India
- To acquired knowledge on Commercial banks
- To learn Financial inter-mediaries
- To acquired knowledge on Co-operative Banks

STRUCTURE OF THE LESSON :

10.1 Introduction to organised sector of the money market

10.2. Reserve Bank of India

10.3. Commercial banks

10.4 Companies lending money

10.5. Life Insurance

10.6. Unit Trust of India

10.7. Mortgage Banks

10.8. Co-operative Banks

10.9. Summary

10.10. Technical terms

10.11. Self-Assessment Questions

10.12. Suggested Readings

10.1. INTRODUCTION :

The organized financial markets are consist of the various banks which are controlled by the Reserve bank of India and the unorganized financial sector are normally controlled by private money lenders or financial companies

Organised financial sector : The organized private sector are controlled by the Reserve bank of India and it consists various national and private banks in the country. Reserve bank of India control the credit facility of the banks and the levels of inflation in the market. The organised sector is affected by any changes in the foreign markets and are bound by number of restrictions on their exchange rates

Unorganized Financial sector: The unorganized financial sector is not under the control of the RBI and they consist of private money lenders, traders and other forms of cooperative societies These sectors are mainly found in the rural areas and they run through the savings and deposits of the people. The unorganized sector is not affected by the external markets and they are only concerned with meeting the financial requirements of the people

10.2. The organized sector of the money market :

The organised sector of the money market consists of the i) Reserve Bank of India, ii) Commercial banks, iii) Companies lending money, iv) Financial inter-mediaries such as the Life Insurance, Credit and Investments Corporation of India, v) Unit Trust of India, vi) Land Mortgage Banks, vii: Co-operative Banks, viii) Insurance Companies etc. and ix) Call loan brokers, and x) Stock brokers.

i) Reserve Bank of India : Reserve Bank of India Act, 1934 is the legislative act under which the Reserve Bank of India was formed. This act along with the Companies Act, which was amended in 1936, were meant to provide a framework for the supervision of banking firms in India. The RBI Act, 1934 gives the lawful ground of the functioning of the Bank, which started operations on April 1, 1935. In 1949, the bank, which was basically built up as shareholders banks, was nationalised. SECTION 3 of the Act demonstrates the foundation of the Reserve Bank of India for taking over the administration of the money from the Central Government and of carrying on the matter of banking as per the provisions of this Act.

RBI Office

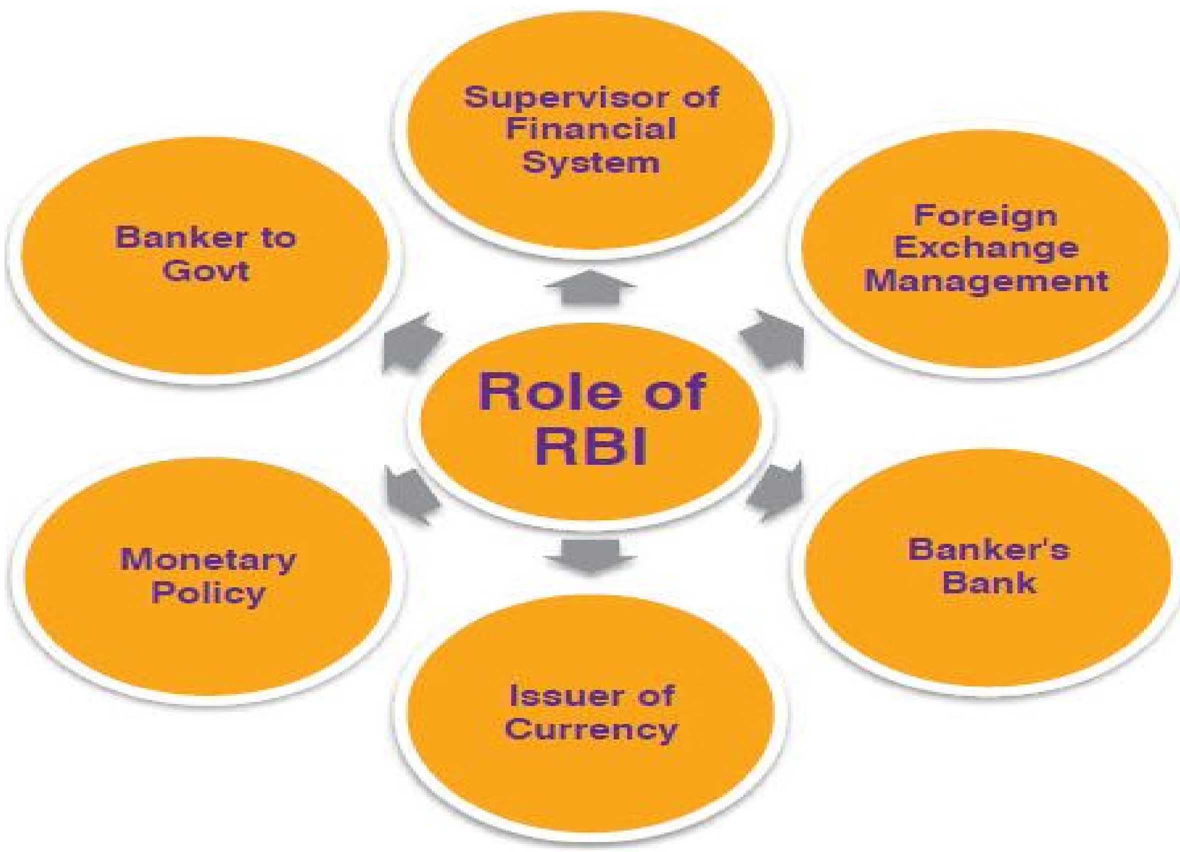
Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for the printing of currency notes and managing the supply of money in the Indian economy. Initially, the ownership of almost all the share capital was in the hands of non-government shareholders. So in order to prevent the centralisation of the shares in few hands, the **RBI was nationalised on January 1, 1949.**

10.3. Functions of Reserve Bank :

Reserve Bank of India (RBI) is the Central Bank of India. RBI was established on 1 April 1935 by the RBI Act 1934. Key functions of RBI are, banker's bank, the custodian of foreign reserve, controller of credit and to manage printing

1**. Issue of Notes :** The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance). The Reserve Bank has adopted the Minimum Reserve System for issuing/printing the currency notes. *Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 Cr. of which at least Rs. 115 cr. should be in gold and remaining in the foreign currencies.*

2. Banker to the Government : The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.

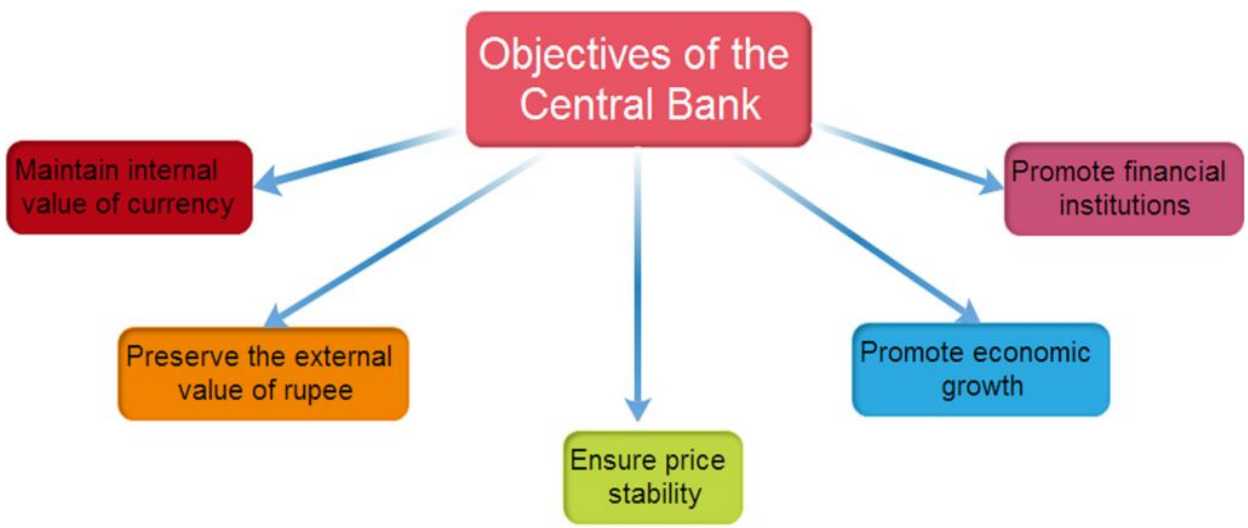


3. Banker's Bank : The Reserve Bank performs the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

4. Controller of the Credit : The RBI undertakes the responsibility of controlling credit created by commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. When RBI observes that the economy has sufficient money supply and it may cause an inflationary situation in the country then it squeezes the money supply through its tight monetary policy and vice versa.

5. Custodian of Foreign Reserves : For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. Currently, India has a Foreign Exchange Reserve of around US$ 487 bn.

6. Other Functions : The Reserve Bank performs a number of other developmental works. These works include the function of clearinghouse arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc)and trade bills, giving loans to the Government buying and selling of valuable commodities etc. It also acts as the representative of the Government in the International Monetary Fund (I.M.F.) and represents the membership of India.



The new department constituted in RBI : On July 6, 2005, a new department, named financial market department in reserve bank of India was constituted for surveillance on financial markets. This newly constituted dept. will separate the activities of debt management and monetary operations in the future. This department will also perform the duties of developing and monitoring the instruments of the money market and also monitoring the government securities and foreign money markets. So it can be concluded that as soon as our country is growing the role of RBI is going to be very crucial in the upcoming years.

ii) Commercial banks :

A commercial bank is a financial institution which accepts deposits from the public and gives loans for the purposes of consumption and investment to make profit. It can also refer to a bank, or a division of a large bank, which deals with corporations or large/middle-sized business to differentiate it from a retail bank and an investment bank. Commercial banks include private sector banks and public sector banks. A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit. The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate.

10.4. Function of Commercial Bank : The functions of commercial banks are classified into two main divisions.

(a) Primary functions :

i) Accepts deposit : The bank takes deposits in the form of saving, current, and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary requirements of the commercial transactions.

ii) Provides loan and advances : Another critical function of this bank is to offer loans and advances to the entrepreneurs and business people, and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains a small number of deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit, short-run loans, and more such banks.

iii) Credit cash : When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows the bank to create money.

(b) Secondary functions :

i) Discounting bills of exchange : It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.

ii) Overdraft facility : It is an advance given to a customer by keeping the current account to overdraw up to the given limit.

iii) Purchasing and selling of the securities : The bank offers you with the facility of selling and buying the securities.

iv) Locker facilities : A bank provides locker facilities to the customers to keep their valuables or documents safely. The banks charge a minimum of an annual fee for this service.

v) Paying and gathering the credit : It uses different instruments like a promissory note, cheques, and bill of exchange.

10.5. Types of Commercial Banks : There are three different types of commercial banks.

Private bank : It is a type of commercial banks where private individuals and businesses own a majority of the share capital. All private banks are recorded as companies with limited liability. Such as Housing Development Finance Corporation (HDFC) Bank, Industrial Credit and Investment Corporation of India (ICICI) Bank, Yes Bank, and more such banks.

Public bank : It is a type of bank that is nationalised, and the government holds a significant stake. For example, Bank of Baroda, State Bank of India (SBI), Dena Bank, Corporation Bank, and Punjab National Bank.

Foreign bank : These banks are established in foreign countries and have branches in other countries. For instance, American Express Bank, Hong Kong and Shanghai Banking Corporation (HSBC), Standard & Chartered Bank, Citibank, and more such banks.

Examples of Commercial Banks : Few examples of commercial banks in India are as follows:

1. State Bank of India (SBI) 2. Housing Development Finance Corporation (HDFC) Bank
3. Industrial Credit and Investment Corporation of India (ICICI) Bank 4. Dena Bank
5. Corporation Bank

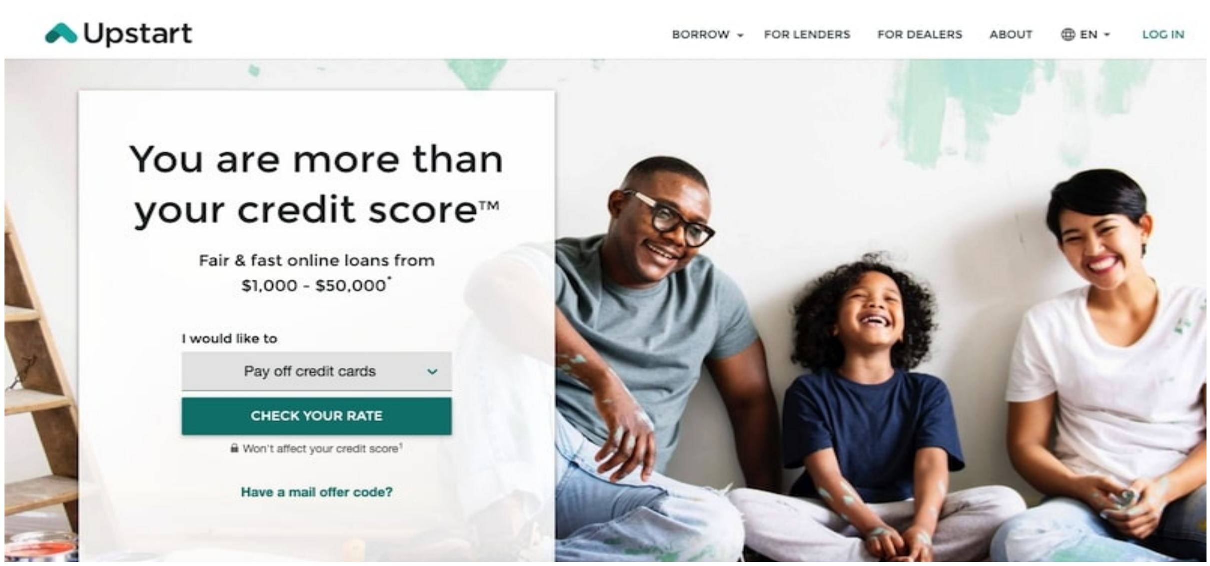
iii) Companies Lending Money :

Personal loans can help you avoid payday loans and save you money if you're able to secure a lower interest rate. They can also improve your credit score with every on-time payment you make. Since personal loans are for a fixed borrowing amount, you can't add to the balance like you can with credit cards. This makes it easier to get out of debt and stay out. As you will find out, you may be able to refinance your debt with a personal loan and get a lower interest rate. We looked at each lender's interest rates, eligibility requirements, fees, time to receive funds, and the availability of repayment terms and discounts. List of Top Personal Loan Companies: 1. Upstart,

2. Upgrade, 3. Lending Club, 4. Earnest, 5. Best Egg, 6. PersonalLoans.com, 7. Marcus by Goldman Sachs, 8. SoFi, 9. Happy Money (Previously Payoff), 10. Peer form

We've researched some of the best personal loan companies out there, just for you. The companies mentioned below offer great loan options and don't have hidden fees.i) Overall Best Personal Loans: Upstart,2.Best Personal Loan For Excellent Credit: SoFi, 3. Best Personal Loans For Average Credit: Upgrade. Note that with some of the best personal loans you may have to pay an origination fee or application fees. However, you can still easily save thousands of dollars compared to high-interest loans and high credit card interest rates. Varies depending on the level of education

1. Upstart : Young professionals that need a personal loan and have a minimal credit score history should consider Upstart. It offers some of the best personal loans of $1,000 to $50,000 in three and five-year repayment terms. This could help you to consolidate credit card debt or student loans. You could also get a loan to start a business or pay for personal expenses. Upstart takes your education, area of study, and job history into consideration when you apply for a loan. There is no minimum credit score required to get a personal loan from Upstart. This differs from other lenders only accept applicants with fair credit scores. If you are approved, you can have funds in as fast as one business day. Loan amounts vary based on your unique profile. Since launching, Upstart has funded more than $3.2 billion in personal loans. Here's another cool fact about Upstart; it was founded by ex-Google employees. They used their knowledge to build the first lending platform that uses artificial intelligence and machine learning to price credit and automate the borrowing process.

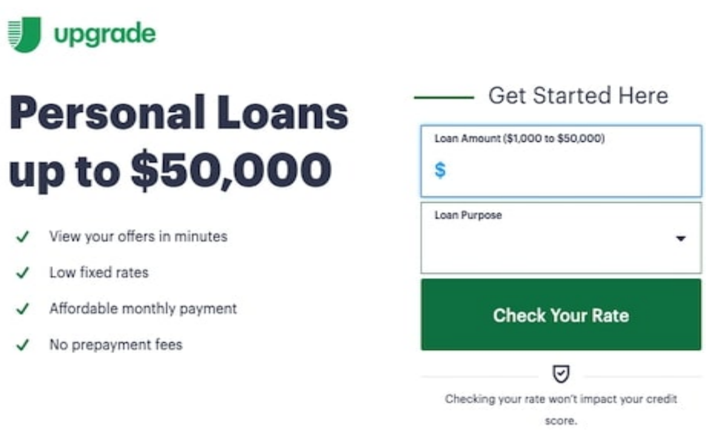


Upstart Highlights:

Loan Terms:	3-5 years
Max Loan:	$50,000
APR:	4.37% – 35.99%
Minimum Credit Score:	None
Trustpilot:	4.9/5

2. Upgrade :

Upgrade is a newer company founded by two former executives of Lending Club. With a $1,000 borrowing minimum and a low APR, Upgrade is one of the most affordable lenders.You have the option to apply for a three or five-year unsecured personal loan.Loan amounts can vary, but applicants may get loan funds of up to $35,000 using Upgrade. If all goes well, it will work on delivering the money to your bank account the next day.Like most lenders, Upgrade evaluates credit scores when granting or rejecting loan requests. To be eligible for a personal loan from Upgrade, you'll need a minimum credit score of at least 560. This means you need fair credit score to qualify.Upgrade even lets you customize your payment due date. This feature makes it one of the most flexible lenders on this list.While you can't get secured loans from this personal loan lender, it offers some of the best personal loan rates that can help you with consolidating debt.Ultimately, this is one of the best online lenders that will accept most people regardless of their credit history as long as they have a fair credit score.

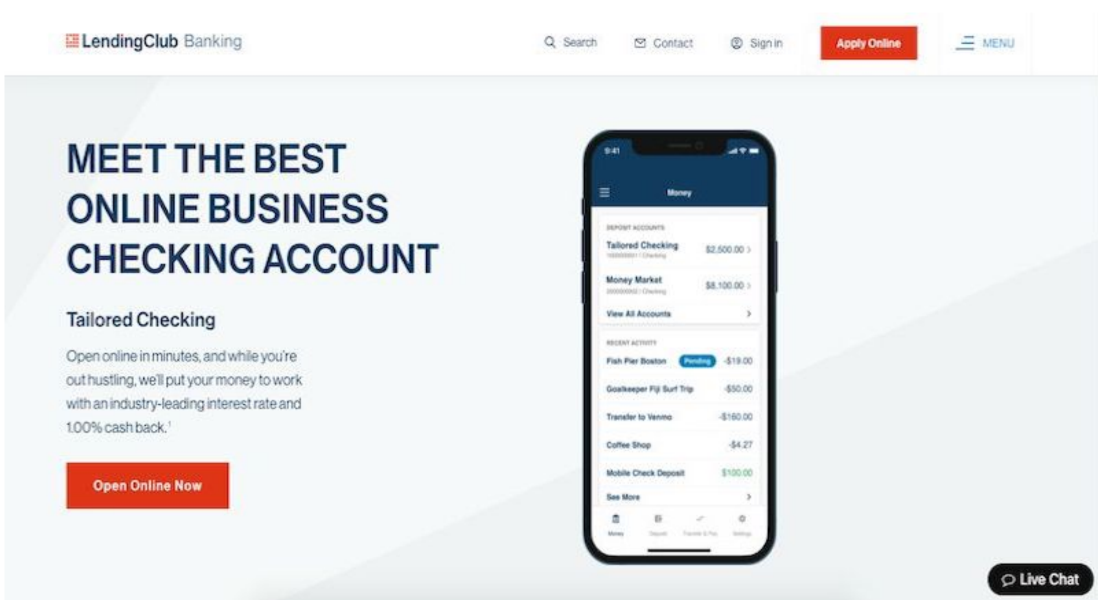


Upgrade Highlights:

Loan Terms:	3-5 years
Max Loan:	$35,000
APR:	7.46% – 35.47%
Minimum Credit Score:	560
Trustpilot:	4.7/5

3. Lending Club:

LendingClub is a P2P lender that can offer lower interest rates and possibly give you a better chance of approval than a bank would. LendingClub offers fixed-rate personal loan amounts of $1,000 to $40,000 for either 36 months (three years) or 60 months (five years). When you apply, LendingClub performs a soft credit check so your credit score will not be affected by applying for a loan. The entire approval process takes about seven days. You'll need to be prepared to pay an origination fee of 5% to get a personal loan from this online lender. You can use LendingClub to apply for personal loans, small business loans and auto refinancing. If you are looking for an unsecured loan and you don't need a high loan amount, Lending Club is worth evaluating.



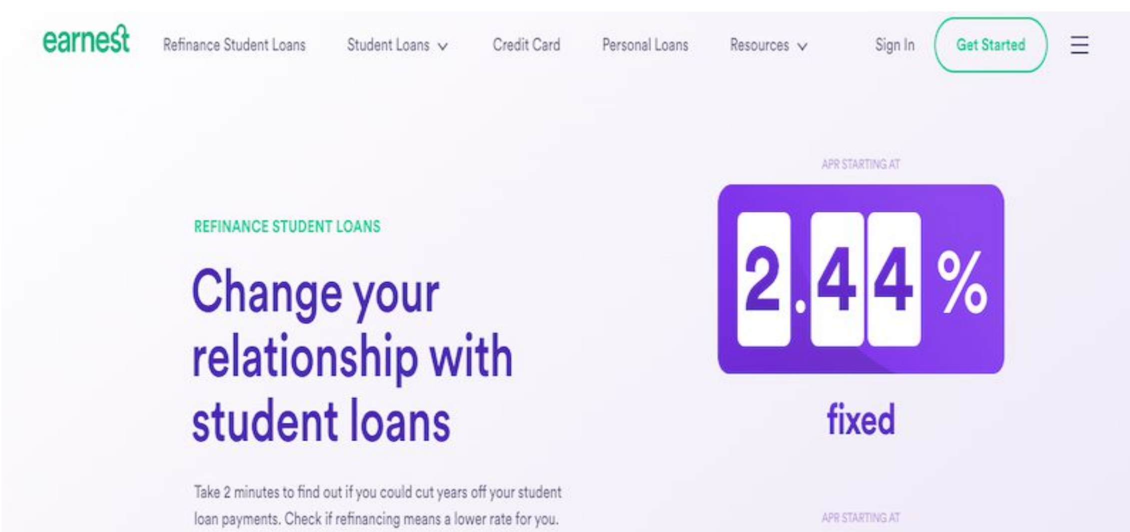
Lending Club Highlights :

Loan Terms:	3-5 years
Max Loan:	$40,000
APR:	7.04% – 35.89%
Minimum Credit Score:	NA
Trustpilot:	4.8/5
Origination fees:	Up to 5%

4. Earnest :

Some lenders rely solely on your credit report and credit history to approve or deny your application. However, Earnest does not. This uses lender doesn't look at credit scores or credit history to evaluate applicants. This means it won't automatically reject people with lower credit scores. Instead, it looks at "deep data" like your job history, income potential, college experience, and saving patterns to get you the lowest interest possible.

Loan amounts can based on your borrower profile. Earnest additionally offers student loan refinancing with variable rates and gives discounts for autopay. It also offers some of the best personal loans with fixed rates with three to five year terms. If you want to get a personal loan from a lender that offers low rates, Earnest is worth considering. Their rates are as low as 2.44%. Bonus: Earnest will let you get an estimated interest rate without affecting your credit score or credit history.



Earnest Highlights :

Loan Terms:	3-5 years
Max Loan:	$250,000
APR:	As low as 2.44%
Minimum Credit Score:	NA
Trustpilot:	4.7/5

5. Best Egg :

Best Egg offers next-day deposit once they approve your application. This might be the first time you've ever heard about Best Egg. It's important to know they have an A+ Better Business Bureau rating. With a $2,000 minimum borrowing requirement, it can be really easy to qualify for a personal loan if you only have a small balance. Additionally, Best Egg starts with a soft credit inquiry that won't hurt your credit score. You can get personal loans from Best Egg for credit card consolidation, home improvement and more. No matter what you need personal loan funds for, Best Egg is worth reviewing. Trustpilot TrustScore as of June 2020. Best Egg personal loans, including the Best Egg Secured Loan, are made by Cross River Bank, a New Jersey State Chartered Commercial Bank, Member FDIC, Equal Housing Lender or Blue Ridge Bank, a Nationally Chartered Bank, Member FDIC, Equal Housing Lender. "Best Egg" is a trademark of Marlette Holdings, Inc., a Delaware corporation. All uses of "Best Egg" refer to "the Best Egg personal loan", "the Best Egg Secured Loan", and/or "Best Egg on behalf of Cross River Bank or Blue Ridge Bank, as originator of the Best Egg personal loan," as applicable.

You need a minimum 700 FICO® score and a minimum individual annual income of $100,000 to qualify for our lowest APR. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

Best Egg Highlights :

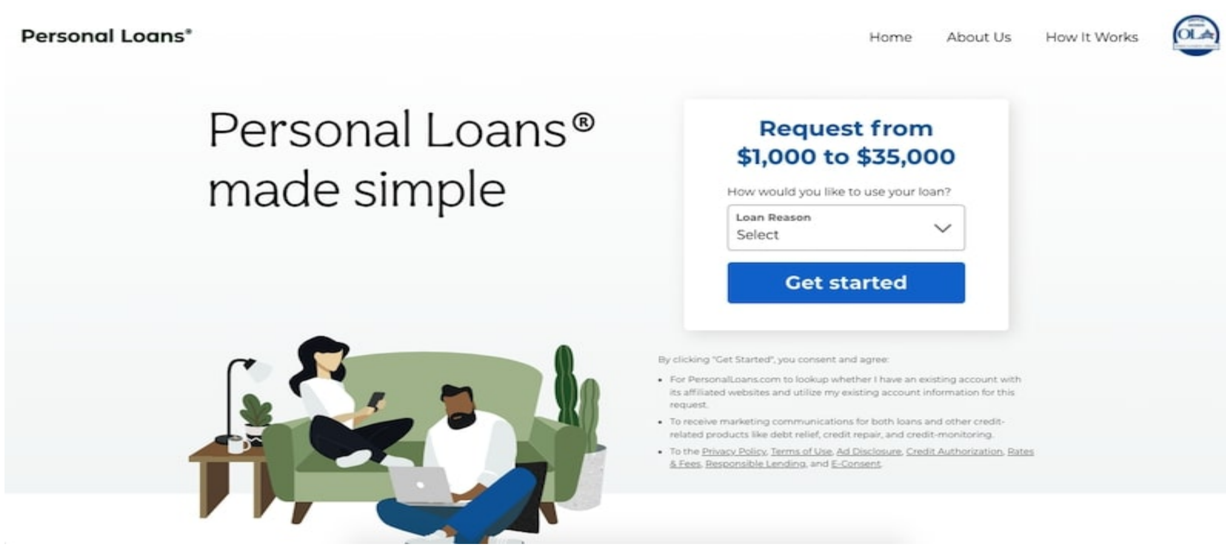
Loan Terms:	3-5 years
Max Loan:	$35,000
APR:	5.9 – 35.99%
Minimum Credit Score:	NA
Trustpilot:	4.6/5

Best Egg Disclosure :

— The term, amount, and APR of any loan we offer to you will depend on your credit score, income, debt payment obligations, loan amount, credit history and other factors. Your loan agreement will contain specific terms and conditions. About half of our customers get their money the next day. After successful verification, your money can be deposited in your bank account within 1-3 business days. The timing of available funds upon loan approval may vary depending upon your bank's policies. Loan amounts range from $2,000– $50,000. Residents of Massachusetts have a minimum loan amount of $6,500 ; New Mexico and Ohio, $5,000; and Georgia, $3,000. For a second Best Egg loan, your total existing Best Egg loan balances cannot exceed $50,000. Annual Percentage Rates (APRs) range from 4.99%–35.99%. The APR is the cost of credit as a yearly rate and reflects both your interest rate and an origination fee of 0.99%–5.99% of your loan amount, which will be deducted from any loan proceeds you receive. The origination fee on a loan term 4-years or longer will be at least 4.99%. Your loan term will impact your APR, which may be higher than our lowest advertised rate.

6. PersonalLoans.com:

PersonalLoans.com is not a lender but is a search engine for personal loan companies. This search engine can help you find personal loans as small as $1,000. You can also specify your loan term to be as short as 90 days or up to six years. Lenders in PersonalLoans.com's network offer personal loans up to $35,000. This amount of money can help you consolidate debt, finance a purchase or help with other financial needs.



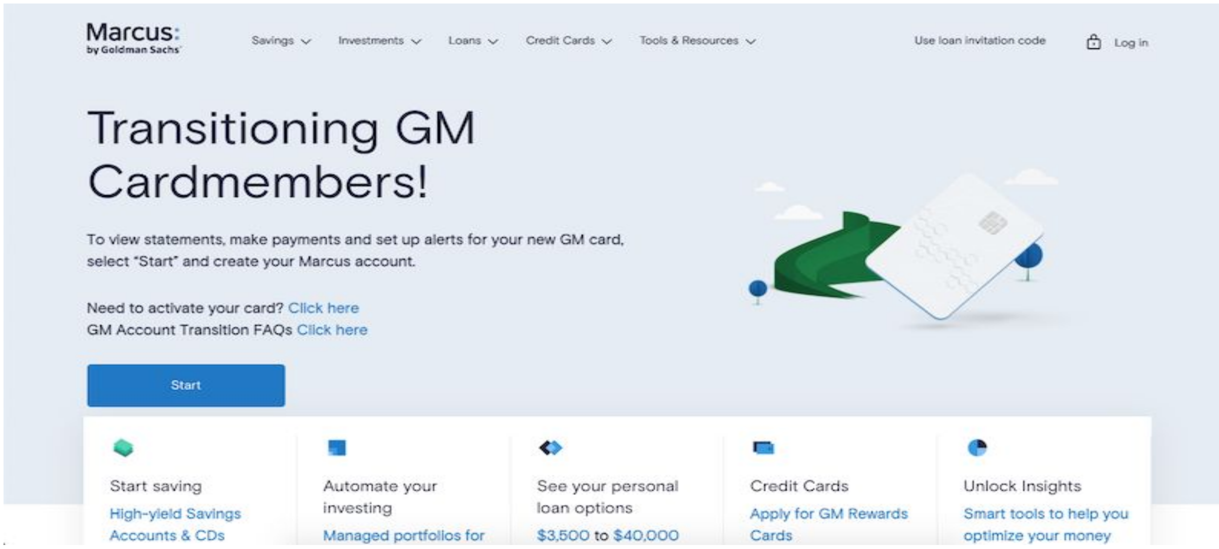
PersonalLoans.com Highlights :

Loan Terms:	90 days to 6 years
Max Loan:	$35,000
APR:	5.99 – 35.99%
Minimum Credit Score:	NA
Trustpilot:	4.6/5

To begin finding your personal loan offer, all you have to do is submit a request with some basic information. You'll need to share your bank account information, for instance. You'll also need to share your income and credit score Multiple lenders will review your information quickly. Provided you meet a lender's minimum credit score requirement, you could be presented with a great loan opportunity within just a few minutes! Whether you need to consolidate credit card debt, need unsecured or secured loans, require higher loan amounts or are trying to avoid taking out a payday loan, PersonalLoans.com can help you find the right solution for your situation.

7. Marcus by Goldman Sachs :

Financial powerhouse Goldman Sachs created Marcus to "help people achieve financial well-being", according to their website. They offer personal loans that can be used for debt consolidation, home improvements and more. Loan amounts from this lender range from a minimum loan amount of $3,500 up to maximum amount of $40,000. Applicants don't need excellent credit to get approved by this lender. Instead, you'll need a fair credit score of at least 600 to get approved for a personal loan. Their website says there are never any fees with a



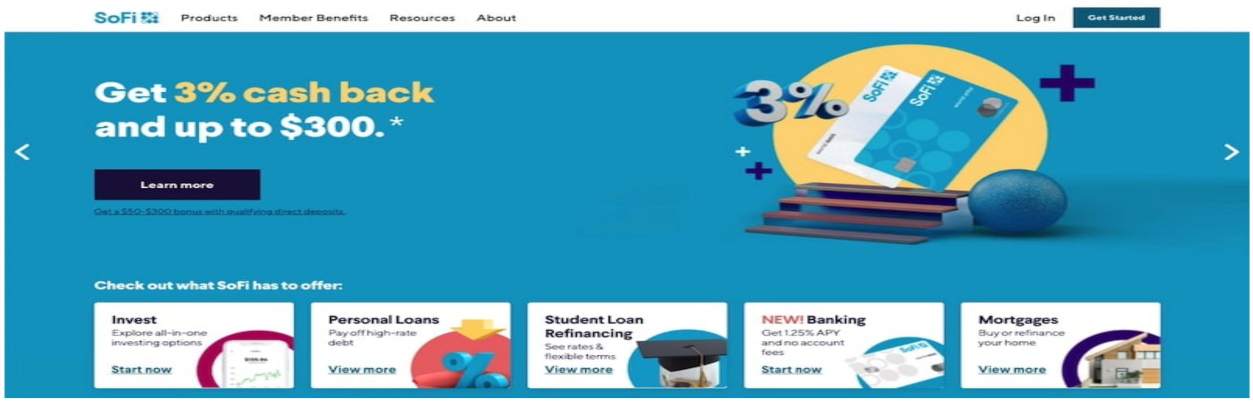
Marcus Highlights:

Loan Terms:	3-5 years
Max Loan:	$40,000
APR:	6.99% – 19.99%
Minimum Credit Score:	660
Trustpilot:	3.3/5

Marcus loan. That means no application fee, no origination fees or no fees for early repayment. There aren't even any late fees with Marcus, although you should still pay your loan on time to protect your credit rating. Marcus offers personal loans lasting from 36 months up to 72 months. It's important to note that interest rates with Marcus are generally higher if you stretch out your term. Also, the better your credit, the lower the interest rate you'll qualify for.

8. SoFi :

SoFi is another top pick because of its low-interest rates and generous lending terms. With SoFi's personal loans, you can borrow loan amounts between $5,000 and $100,000 for up seven years. It also offers low fixed interest rates if you set your payment up on autopay. This is one of the online lenders that requires applicants to have a good credit score. To get unsecured loans from SoFi, you'll need a score of at least 680. SoFi has other benefits, too. Hopefully, you will never need to use this benefit, but SoFi does offer unemployment protection. If you lose your job through no fault of your own, you may apply for this protection. SoFi will suspend your monthly SoFi loan payments and provide job placement assistance during your forbearance period.



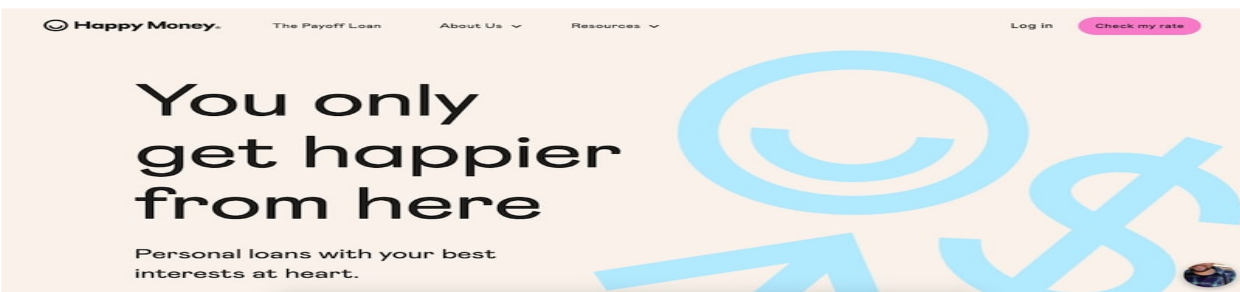
Sofi Highlights :

Loan Terms:	2-7 years
Max Loan:	$100,000
APR:	4.99% – 19.63%
Minimum Credit Score:	680
Trustpilot:	4.0/5
Origination Fee:	None

However, interest will continue to accrue and will be added to your principal balance at the end of each forbearance period, to the extent permitted by applicable law. Benefits are offered in three-month increments, and capped at 12 months, in aggregate, over the life of the loan. To be eligible for this assistance you must provide proof that you have applied for and are eligible for unemployment compensation. Plus you must actively work with their Career Advisory Group to look for new employment. If the loan is co-signed, the protection from unemployment applies if both the borrower and cosigner lose their job and meet conditions. This benefit is unheard of for private loans. Other lenders require you to continue making the minimum monthly payment regardless of your employment status. In fact, the only other similar benefit offered is a federal student loan forbearance request that allows you to pause payments penalty-free. SoFi lets you borrow money for: Student loan refinancing, Medical resident student loan refinancing, Home mortgages, Personal loans. And, you will never pay origination fees or penalties for prepayment.

9. Happy Money (Previously Payoff) :

When it comes to the best personal loans for debt consolidation, Happy Money (formerly Payoff) specializes in credit card debt consolidation loans. The lender has refinanced more than $100 million so far. This online lender offers personal loans to people who have a credit score of at least 600 and need debt consolidation loans for things like credit card debt, student loans and more. The only fee you will pay for personal loans from this provider is an origination fee. You won't pay typical fees with Happy Money. For instance, other online lenders might charge more if you make a payment by paper check. However, with Happy Money payments made by snail mail never cost extra. Happy Money offers lower loan amounts than other personal loan lenders. However, it's still a great provider that is worth considering.



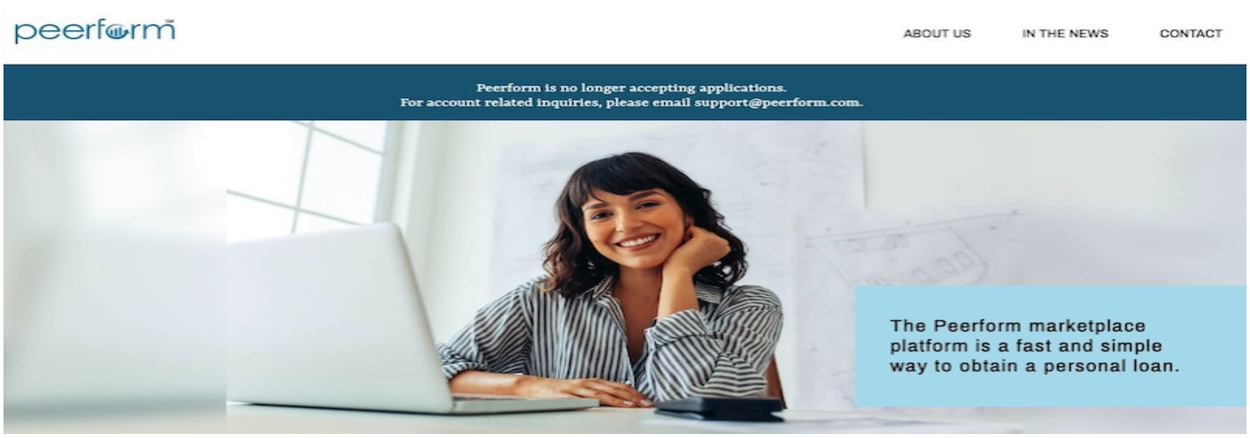
Happy Money Highlights :

Loan Terms:	2-5 years
Max Loan:	$40,000
APR:	5.99% – 24.99%
Minimum Credit Score:	600
Trustpilot:	4.5/5
Origination Fee:	None

Payoff also offers job loss support to restructure your payments if you lose your job. This benefit is becoming more common, but it is still a rarity among private lenders.

10. Peerform :

Peerform is one of the few P2P platforms that lend to borrowers who have a credit score as low as 600. If you have average credit, you may not qualify for their top category APR, but you can still potentially get a lower interest rate than at a bank. P2P lenders like Peerform have been so successful in recent years because they have made loan and debt consolidation easier. Borrowers can more easily responsibly refinance their current debt and avoid the bank for new financing too.



This lender offers unsecured loans with fixed rates. It is one of the best personal loan options for needs like credit card consolidation. With Peerform, loan amounts range from $4,000 up to a maximum loan amount of $25,000 per loan. If you are looking for unsecured personal loans for debt consolidation and need lower loan amounts, Peerform is worth considering.

Peerform Highlights:

Loan Terms:	3-5 years
Max Loan:	25,000
APR:	5.99% – 29.99%
Minimum Credit Score:	600
Trustpilot:	3.5/5

Related Post : Stilt Loans Review: Personal Loans For Immigrants And Visa Holders

How Do These Personal Loan Companies Compare?

Company	Trustpilot
Upstart	4.9
Upgrade	4.7
LendingClub	4.8
Earnest	4.7
Best Egg	4.6
PersonalLoans.com	4.6
Marcus By Goldman Sachs	3.3
SoFi	4.0
Payoff	4.5
Peerform	3.5

Many people think their only option to save money on high-interest debt is to use a debt consolidation agency. In reality, that's one of the most expensive ways to refinance your debt. Consider applying for a personal loan. You can easily reduce your interest rate by 15 percentage points and save thousands of dollars. Until now, personal loans might have been the best-kept secret that high-interest lenders didn't want you to know. All loans made by WebBank, Member FDIC. Your actual rate depends upon credit score, loan amount, loan term, and credit use and history The APR ranges from 6.95% to 35.89%. For example, you could receive a loan of $6,000 with an interest rate of 7.99% and a 5.00% origination fee of $300 for an APR of 11.51%. In this example, you will receive $5,700 and will make 36 monthly payments of $187.99. The total amount repayable will be $6,767.64.

Your APR will be determined based on your credit at time of application. *The origination fees range from 1% to 6%; the average origination fee is 5.2% (as of 12/5/18 YTD).* There is no down payment and there is never a prepayment penalty. Closing of your loan is contingent upon your agreement of all the required agreements and disclosures on the www.lendingclub.com website. All loans via LendingClub have a minimum repayment term of 36 months or longer. Upstart range of available rates varies by state. Rates range from 6.53% – 35.99%. The average 3-year loan on Upstart will have an APR of X% and 36 monthly payments of $Y per $1,000 borrowed. There is no down payment and no prepayment penalty. The average APR on Upstart is calculated based on 3-year rates offered in the last 1 month. Your APR will be determined based on your credit, income, and certain other information provided in your loan application. Not all applicants will be approved. For Upstart loan ranging from $1,000-$50,000; your loan amount will be determined based on your credit, income, and certain other information provided in your application. Not all applicants will qualify for the full amount.

Loans are not available in West Virginia or Iowa. (IF LOAN AMOUNT ISN'T ALREADY VARIED BY STATE: The minimum loan amount in MA is $7,000. The smallest loan amount available in Ohio is $6,000. The loan minimum in NM is $5,100. The minimum amount for loans in GA is $3,100.). Upstart Trustpilot rated 5 out of 5 based on 5,686 reviews and ranked 3 out of 172 in the category Non-Bank Financial Service on Trustpilot as of 2/10/20. Upstart full range of available rates varies by state. The average 3-year loan on Upstart will have an APR of X% and 36 monthly payments of $Y per $1,000 borrowed. There is no down payment and no penalty for prepayment. The average APR on Upstart is calculated based on 3-year rates offered in the last 1 month. Your APR will be determined based on your credit, income, and certain other information provided in your loan application. Not all applicants will be approved. All loans available through FreedomPlus.com are made by Cross River Bank, a New Jersey State Chartered Commercial Bank, Member FDIC, Equal Housing Lender. All loan and rate terms are subject to eligibility restrictions, application review, credit score, loan amount, loan term, lender approval, and credit usage and history. Eligibility for a loan is not guaranteed.

Loans are not available to residents of all states – please call a FreedomPlus representative for further details. The following limitations, in addition to others, shall apply: FreedomPlus does not arrange loans in: (i) Arizona under $10,500; (ii) Massachusetts under $6,500, (iii) Ohio under $5,500, and (iv) Georgia under $3,500. Repayment periods range from 24 to 60 months. The range of APRs on loans made available through FreedomPlus is 4.99% to a maximum of 29.99%. APR. The APR calculation includes all applicable fees, including the loan origination fee. For Example, a four year $20,000 loan with an interest rate of 15.49% and corresponding APR of 18.34% would have an estimated monthly payment of $561.60 and a total cost payable of $7,948.13. To qualify for a 4.99% APR loan, a borrower will need excellent credit on a loan for an amount less than $14,000.00, and with a term equal to 24 months. Adding a co-borrower with sufficient income; using at least eighty-five percent (85%) of the loan proceeds to directly pay off qualifying existing debt; or showing proof of sufficient retirement savings, could help you qualify. Fixed rates from 5.99% APR to 17.53% APR (with AutoPay). SoFi rate ranges are current as of June 4, 2020 and are subject to change without notice. Not all rates and amounts available in all states.See Personal Loan eligibility details. Not all applicants qualify for the lowest rate. If approved for a loan, to qualify for the lowest rate, you must have a responsible financial history and meet other conditions.

Your actual rate will be within the range of rates listed above and will depend on a variety of factors, including evaluation of your credit worthiness, income, and other factors. See APR examples and terms. The SoFi 0.25% AutoPay interest rate reduction requires you to agree to make monthly principal and interest payments by an automatic monthly deduction from a savings or checking account.The benefit will discontinue and be lost for periods in which you do not pay by automatic deduction from a checking or savings account. AutoPay is not required to obtain a loan.Lightstream Disclosure: *Payment example: Monthly payments for a $25,000 loan at 6.89% APR with a term of 12 years would result in 144 monthly payments of $255.63.

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IV.FINANCIAL INTERMEDIARIES

a) Life insurance
b) Credit and Investments Corporation of India
c) Unit Trust of India
d) Land Mortgage Banks
e) Cooperative Banks
f) Insurance Companies

V) CALL LOAN BROKERS :

Call Loan: A type of loan where the lender can demand repayment from the borrower at any time. A call loan is a type of loan where the lender can demand repayment from the borrower at any time. It is different from other loans because it is repayable on demand instead of being repaid based on a fixed schedule. Call loans are usually offered by banks to brokerage houses, which use the loans as short-term financing for their clients' margin accounts. The bank that provides the loan are able to demand repayment from the brokerage houses at any time. Therefore, call loans are also known as broker loans or broker overnight loans.
The interest rate on a call loan is referred to as the call loan rate or the broker's call. It is what the bank would charge the brokerage house for the loan. It is accrued and calculated on a daily basis.

Examples of Using a Call Loan : Besides offering loans to brokerage houses, another example is used in margin trading. Individuals who are involved with margin trading would open a margin account with a stockbroker. Using the margin account, individuals are able to borrow money from the broker in order to purchase stocks.
The money is lent to the borrowers as a call loan, so the broker will be able to demand repayment of the loan anytime, specifically when the stock price declines substantially in order to ensure that the broker can be able to acquire all its money back. The risk in margin trading is that the broker is allowed to sell some of the borrowers' stocks to repay the loan if the borrower is unable

to repay on demand. As a result, the borrower faces risks when the stock price drops significantly because the losses are magnified. Not only does the borrower lose from the decline in value of the stock, but the borrower also must sell it to create funds that are needed to repay back the loan to the broker. Besides issuing loans to other brokerage houses, banks also issue call loans to other banks as well. A bank may want to borrow a sum of money from another bank in order to cover short-term financial obligations and temporarily increase its liquidity

.

Important Considerations When Getting a Call Loan

Using call loans is a risky method of financing for brokerage houses and investors who are involved with margin trading. Interest can be accrued quickly every day and loans can be demanded by the lender at any time. Sometimes, brokerage houses that get call loans from banks may use the proceeds to purchase securities. The securities are used as collateral for the loan if the brokerage house becomes insolvent or cannot repay back the loan upon the banks' request. When a lender wants to demand repayment from the borrower, such as a bank demanding payment from a brokerage house, the borrower will be given a certain period of time to repay it back to the lender. During this timeframe, the brokerage house will need to collect and organize the money for repayment. Although the lender can request repayment at any time, the loan can also be canceled at any time as well. This is because the loan can be repaid by the borrower with no penalty for prepayment.

vi) Stock brokers :

A stockbroker is a financial professional who executes orders in the market on behalf of clients. A stockbroker may also be known as a registered representative (RR) or an investment advisor. Most stockbrokers work for a brokerage firm and handle transactions for a number of individual and institutional customers. Stockbrokers are often paid on a commission basis although compensation methods vary by employer. Brokerage firms and broker-dealer companies are also sometimes referred to generically as stockbrokers. These include both full-service brokers and discount brokers, who execute trades but do not offer individualized investing advice. Most online brokers are discount brokers, at least at their basic levels of service, in which trades are executed for free or for a small set-price commission. Many online brokers now offer premium-level services with higher fees. Investopedia maintains lists of the best online brokers and best robo-advisors to help you find a broker that fits your needs. A stockbroker is a financial professional who buys and sells stocks at the direction of clients. Most buy and sell orders are now made through online discount brokers. This automated process reduces fees. Wealthy individuals and institutions continue to use full-service brokers, who offer advice and portfolio management services as well as completing transactions.

Understanding the Role of a Stockbroker

Buying or selling stocks requires access to one of the major exchanges such as the New York Stock Exchange (NYSE) or the NASDAQ. To trade on these exchanges you must be a member of the exchange or belong to a member firm. Member firms and many of the individuals who work for them are licensed as brokers or broker-dealers by the Financial Industry Regulatory Authority (FINRA). While it is possible for an individual investor to buy stock shares directly from the company that issues them, it is much simpler to work with a stockbroker.

Until recent years, it was prohibitively expensive to get access to the stock markets. It was cost-effective only for high net-worth investors or for large institutional investors, such as the managers of pension funds. They used full-service brokers and could pay hundreds of dollars for executing a trade. However, the rise of the internet and related advances in technology paved the way for discount brokers to provide online services with cheap, fast, and automated access to the markets. More recently, apps like Robinhood and SoFi have catered to micro-investors, allowing even fractional share purchases. Most accounts in the markets today are managed by the account owners and held by discount brokers.

Stockbrokers in the 21st Century

Brokers who are employed by discount broker firms may work as over-the-phone agents (known as voice brokers) available to answer brief questions, or as branch officers in a physical location. They also may consult with clients subscribing to premium tiers of the online broker. A comparatively smaller number of stockbrokers work for investment banks or specialized brokerage firms. These companies handle large and specialized orders for institutional clients and high-net-worth individuals (HNWI).

Another recent development in broker services is the introduction of roboadvisers, algorithmic investment management carried out via web or mobile app interface. There is minimal individual interaction, keeping fees low. Mobile phone apps like Robinhood and SoFi cater to micro-investors, allowing even fractional share purchases.

Educational Requirements for Stockbrokers :

A bachelor's degree in finance or business administration is typically required for stockbrokers. A strong understanding of financial laws and regulations, accounting methods, principles of economics and currency, financial planning, and financial forecasting all are useful for working in the field. Global credentials are also becoming increasingly sought-after as signals of legitimacy and financial acumen. Examples include the certified financial planner (CFP) and chartered financial analyst (CFA) designations. Most successful stockbrokers have exceptional interpersonal skills and are able to maintain strong sales relationships-in addition to market knowledge and investing skills.

Licensing Requirements for Stockbrokers :

In the U.S., registered brokers must hold the FINRA Series 7 and Series 63 or 66 licenses, and be sponsored by a registered investment firm. Floor brokers in the U.S. must also be members of the stock exchange where they work. In Canada, would-be stockbrokers should be currently employed by a brokerage firm and are required to complete the Canadian Securities Course (CSC), Conduct and Practices Handbook (CPH), and the 90-day Investment Advisor Training Program (IATP).

In Hong Kong, applicants must be working for a licensed brokerage firm and pass three exams from the Hong Kong Securities Institute (HKSI). Those who pass the exam must still be approved by the financial regulatory body to receive a license.

In Singapore, becoming a trading representative requires passing four exams, Modules 1A, 5, 6, and 6A, administered by the Institute of Banking and Finance. The Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX) have licensing authority.

In the United Kingdom, stockbroking is heavily regulated and brokers must achieve qualifications from the Financial Conduct Authority (FCA). Precise qualifications depend on the specific duties required of the broker as well as the employer Every country has its own credentialing requirements for stockbrokers.

What do stockbrokers do?

Stockbrokers serve as intermediaries between markets (e.g. exchanges) and the investing public. Brokers take order from customers and try to fill them at the best price possible. In return, they earn a fee known as a commission. Today, many stockbrokers have transitioned to financial advisors or planners as online brokerage platforms allow users to enter their own orders via the web or mobile app.

What's the difference between a discount and full-service broker?

Traditionally, a discount broker would only engage in buying and selling on behalf of customers, while a full-service broker would provide a broader breadth of financial services such as research, advice, portfolio management, and so on. Today, as online brokerages have forced commissions down to zero, discount brokers have distinguished themselves by also providing research and other services in addition to pure execution.
The unorganised sector of the money market is largely made up of i) indigenous bankers, ii) money lenders, iii) traders, iv) commission agents etc., some of whom combine money lending with trade and other activities.

10.7. SUMMARY :

The organised sector of the money market consists of the i) Reserve Bank of India, ii) Commercial banks, iii) Companies lending money, iv) Financial inter-mediaries such as the Life Insurance, Credit and Investments Corporation of India, v) Unit Trust of India, vi) Land Mortgage Banks, vii: Co-operative Banks, viii) Insurance Companies etc. and ix) Call loan brokers, and x) Stock brokers.

10.8. TECHNICAL TERMS :

Reserve Bank of India :

Reserve Bank of India Act of 1934 that led to the establishment of the Reserve Bank and set in motion various actions that led to the start of operations in 1935. Since then, RBI's functions and role have gone through numerous changes as the nature of the Indian financial sectors and economy changed. Initiating as a private shareholders' bank.

Commercial banks :

The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit(CDs) and savings accounts to individuals and small businesses.

Companies lending money :

The more services a company offers at a single bank, the more likely a customer is to return to the bank for additional services. Banks lend money to companies to encourage them to use business checking and savings accounts, financial advisory services, tax preparation services and even investment banking services in a different branch of the bank.

10.9. SELF-ASSESSMENT QUESTIONS :

1. What is organised sector? Explain about different types of Organized sector.
2. Discuss various functions of Reserve Bank of India
3. What is UTI? What are the merits and demerits of UTI?
4. What are the difference between commercial banks and cooperative banks?
5. What are the difference between mortgage banks and development banks?

10.10. SUGGESTED READINGS :

1. V.A. Avadhani, Marketing of Financial Services, Himalayas Publishers, Mumbai .
2. DK Murthy, and Venugopal, Indian Financial System, IK Int Pub House.
3. Anthony Saunders and MM Cornett, Fin Markets & Institutions, TMH.
4. Punithavathy Pandian, Financial Markets and Services, Vikas, New Delhi.

Dr. MEERAVALI SHAIK

LESSON – 11

FINANCIAL INTERMEDIARIES

AIMS AND OBJECTIVES :

After studying this lesson students should be able to

- To know the concept of Financial Intermediaries
- To understand Life insurance & Insurance Companies
- To acquired knowledge about Credit and Investments Corporation of India
- To learn Unit Trust of India and Mortgage Banks and Cooperative Banks

STRUCTURE OF THE LESSON :

11.1. INTRODUCTION :

Financial intermediaries : A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment bank, mutual fund, or pension fund. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and economies of scale involved in banking and asset management. Although in certain areas, such as investing, advances in technology threaten to eliminate the financial intermediary, disintermediation is much less of a threat in other areas of finance, including banking and insurance. Financial intermediaries serve as middlemen for financial transactions, generally between banks or funds. These intermediaries help create efficient markets and lower the cost of doing business. Intermediaries can provide leasing or factoring services, but do not accept deposits from the public.

A non-bank financial intermediary does not accept deposits from the general public. The intermediary may provide factoring, leasing, insurance plans, or other financial services. Many intermediaries take part in securities exchanges and utilize long-term plans for managing and growing their funds. The overall economic stability of a country may be shown through the activities of financial intermediaries and the growth of the financial services industry. Financial intermediaries move funds from parties with excess capital to parties needing funds. The process creates efficient markets and lowers the cost of conducting business. For example, a financial advisor connects with clients through purchasing insurance, stocks, bonds, real estate, and other assets. Banks connect borrowers and lenders by providing capital from other financial institutions and from the Federal Reserve. Insurance companies collect premiums for policies and provide policy benefits. A pension fund collects funds on behalf of members and distributes payments to pensioners. Mutual funds provide active management of capital pooled by shareholders. The fund manager connects with shareholders through purchasing stock in companies he anticipates may outperform the market. By doing so, the manager provides shareholders with assets, companies with capital, and the market with liquidity.

11.1.b) Benefits of Financial Intermediaries : Financial intermediaries offer the benefit of

i) Pooling risk,

ii) Reducing cost, and

iii) Providing economies of scale, among others.

Through a financial intermediary, savers can pool their funds, enabling them to make large investments, which in turn benefits the entity in which they are investing. At the same time, financial intermediaries pool risk by spreading funds across a diverse range of investments and loans. Loans benefit households and countries by enabling them to spend more money than they have at the current time.

11.1.c) Example of a Financial Intermediary : In July 2016, the European Commission took on two new financial instruments for European Structural and Investment (ESI) fund investments. The goal was to create easier access to funding for startups and urban development project promoters. Loans, equity, guarantees, and other financial instruments attract greater public and private funding sources that may be reinvested over many cycles as compared to receiving grants. One of the instruments, a co-investment facility, was to provide funding for startups to develop their business models and attract additional financial support through a collective investment plan managed by one main financial intermediary. The European Commission projected the total public and private resource investment at approximately €15 million (approximately $17.75 million) per small- and medium-sized enterprise.

11.1.d) Financial Intermediaries : A) Life insurance, B) Credit and Investments Corporation of India, C) Unit Trust of India, D) Land Mortgage Banks, E) Cooperative Banks, F) Insurance Companies. The said above financial intermediaries have discussed as follows:

11.2. LIFE INSURANCE :

11.2. a) Life Insurance : Life insurance is a contract between an insurer and a policy owner. A life insurance policy guarantees the insurer pays a sum of money to named beneficiaries when the insured dies in exchange for the premiums paid by the policyholder during their lifetime. The life insurance application must accurately disclose the insured's past and current health conditions and high-risk activities to enforce the contract. a) Life insurance is a legally binding contract that pays a death benefit to the policy owner when the insured dies. b) For a life insurance policy to remain in force, the policyholder must pay a single premium upfront or pay regular premiums over time. c) When the insured dies, the policy's named beneficiaries will receive the policy's face value, or death benefit. d) Term life insurance policies expire after a certain number of years. Permanent life insurance policies remain active until the insured dies, stops paying premiums, or surrenders the policy.e) A life insurance policy is only as good as the financial strength of the company that issues it. State guaranty funds may pay claims if the issuer can't.

11.2. b) Types of Life Insurance : Many different types of life insurance are available to meet all sorts of needs and preferences. Depending on the short- or long-term needs of the person to be insured, the major choice of whether to select temporary or permanent life insurance is important to consider.

11.2.b) 1. Term life insurance : Term life insurance lasts a certain number of years, then ends. You choose the term when you take out the policy. Common terms are 10, 20, or 30 years. The best term life insurance policies balance affordability with long-term financial strength.

i) Decreasing term life insurance is renewable term life insurance with coverage decreasing over the life of the policy at a predetermined rate.

ii) Convertible term life insurance allows policyholders to convert a term policy to permanent insurance.

iii) Renewable term life insurance provides a quote for the year the policy is purchased. Premiums increase annually and are usually the least expensive term insurance in the beginning.

11.2. b) 2. Permanent Life Insurance : Permanent life insurance stays in force for the insured's entire life unless the policyholder stops paying the premiums or surrenders the policy. It's typically more expensive than term.

i) Whole life insurance is a type of permanent life insurance that accumulates cash value. Cash-value life insurance allows the policyholder to use the cash value for many purposes, such as a source of loans or cash or to pay policy premiums.

ii) Universal Life (UL) is a type of permanent life insurance with a cash value component that earns interest. Universal life features flexible premiums. Unlike term and whole life, the premiums can be adjusted over time and designed with a level death benefit or an increasing death benefit.

iii) Indexed universal (IUL) is a type of universal life insurance that lets the policyholder earn a fixed or equity-indexed rate of return on the cash value component.
iv) Variable universal life insurance allows the policyholder to invest the policy's cash value in an available separate account. It also has flexible premiums and can be designed with a level death benefit or an increasing death benefit.

11.2. c) Term vs. Permanent Life Insurance : Term life insurance differs from permanent life insurance in several ways but tends to best meet the needs of most people. Term life insurance only lasts for a set period of time and pays a death benefit should the policyholder die before the term has expired. Permanent life insurance stays in effect as long as the policyholder pays the premium. Another critical difference involves premiums—term life is generally much less expensive than permanent life because it does not involve building a cash value. Before you apply for life insurance, you should analyze your financial situation and determine how much money would be required to maintain your beneficiaries' standard of living or meet the need for which you're purchasing a policy.

For example, if you are the primary caretaker and have children 2 and 4 years old, you would want enough insurance to cover your custodial responsibilities until your children are grown up and able to support themselves. You might research the cost of hiring a nanny and a housekeeper or using commercial child care and cleaning services, then perhaps add some money for education. Include any outstanding mortgage and retirement needs for your spouse in your life insurance calculation. Especially if the spouse earns significantly less or is a stay-at-home parent. Add up what these costs would be over the next 16 or so years, add more for inflation, and that's the death benefit you might want to buy—if you can afford it. Burial or final expense insurance is a type of permanent life insurance that has a small death benefit. Despite the names, beneficiaries can use the death benefit as they wish.

11.2. d) How Much Life Insurance to Buy : Many factors can affect the cost of life insurance premiums. Certain things may be beyond your control, but other criteria can be managed to potentially bring down the cost before applying. After being approved for an insurance policy, if your health has improved and you've made positive lifestyle changes, you can request to be considered for change in risk class. Even if it is found that you're in poorer health than at the initial underwriting, your premiums will not go up. If you're found to be in better health, then you can expect your premiums to decrease.

11.2. d) Step 1: Determine How Much You Need : Think about what expenses would need to be covered in the event of your death. Things like mortgage, college tuition, and other debts, not to mention funeral expenses. Plus, income replacement is a major factor if your spouse or loved ones need cash flow and are not able to provide it on their own. There are helpful tools online to calculate the lump sum that can satisfy any potential expenses that would need to be covered.

11.2. d) Step 2 : Prepare Your Application :

i) Age : This is the most important factor because life expectancy is the biggest determinant of risk for the insurance company.

ii) Gender : Because women statistically live longer, they generally pay lower rates than males of the same age.

iii) Smoking : A person who smokes is at risk for many health issues that could shorten life and increase risk-based premiums.

iv) Health : Medical exams for most policies include screening for health conditions like heart disease, diabetes, and cancer and related medical metrics that can indicate risk.

v) Lifestyle : Dangerous lifestyles can make premiums much more expensive.

vi) Family medical history : If you have evidence of major disease in your immediate family, your risk of developing certain conditions is much higher.

vii) Driving record : A history of moving violations or drunk driving can dramatically increase the cost of insurance premiums.

viii) Life Insurance Buying Guide : Life insurance applications generally require personal and family medical history and beneficiary information. You will also likely need to submit to a medical exam. You will need to disclose any preexisting medical conditions, history of moving violations, DUIs, and any dangerous hobbies such as auto racing or skydiving.

Standard forms of identification will also be needed before a policy can be written, such as your Social Security card, driver's license, or U.S. passport.

11.2. Step 3 : Compare Policy Quotes : When you've assembled all of your necessary information, you can gather multiple life insurance quotes from different providers based on your research. Prices can differ markedly from company to company, so it's important to take the effort to find the best combination of policy, company rating, and premium cost. Because life insurance is something you will likely pay monthly for decades, it can save an enormous amount of money to find the best policy to fit your needs.

11.2. Benefits of Life Insurance : There are many benefits to having life insurance. Below are some of the most important features and protections offered by life insurance policies.

i) Most people use life insurance to provide money to beneficiaries who would suffer a financial hardship upon the insured's death.

ii) Wealthy individuals, the tax advantages of life insurance, including the tax-deferred growth of cash value, tax-free dividends, and tax-free death benefits, can provide additional strategic opportunities.

iii) Avoiding Taxes **:** The death benefit of a life insurance policy is usually tax-free.1 Wealthy individuals sometimes buy permanent life insurance within a trust to help pay the estate taxes that will be due upon their death. This strategy helps to preserve the value of the estate for their heirs.

iv) Tax avoidance is a law-abiding strategy for minimizing one's tax liability and should not be confused with tax evasion, which is illegal.

11.2. Who Needs Life Insurance? Life insurance provides financial support to surviving dependents or other beneficiaries after the death of an insured policyholder. Here are some examples of people who may need life insurance:

11.2 i) Parents with minor children. If a parent dies, the loss of their income or caregiving skills could create a financial hardship. Life insurance can make sure the kids will have the financial resources they need until they can support themselves.

11.2. ii) Parents with special-needs adult children. For children who require lifelong care and will never be self-sufficient, life insurance can make sure their needs will be met after their parents pass away. The death benefit can be used to fund a special needs trust that a fiduciary will manage for the adult child's benefit.

11.2. iii) Adults who own property together. Married or not, if the death of one adult would mean that the other could no longer afford loan payments, upkeep, and taxes on the property, life insurance may be a good idea. One example would be an engaged couple who take out a joint mortgage to buy their first house.

12.2. iv) Seniors who want to leave money to adult children who provide their care. Many adult children sacrifice time at work to care for an elderly parent who needs help. This help may also include direct financial support. Life insurance can help reimburse the adult child's costs when the parent passes away.

11.2. v) Young adults whose parents incurred private student loan debt or cosigned a loan for them. Young adults without dependents rarely need life insurance, but if a parent will be on the hook for a child's debt after their death, the child may want to carry enough life insurance to pay off that debt.

11.2. vi) Children or young adults who want to lock in low rates. The younger and healthier you are, the lower your insurance premiums. A 20-something adult might buy a policy even without having dependents if there is an expectation to have them in the future.

11.2. vii) Stay-at-home spouses. Stay-at-home spouses should have life insurance as they have significant economic value based on the work they do in the home. According to Salary.com, the economic value of a stay-at-home parent would have been equivalent to an annual salary of $162,581 in 2018.

11.2. viii) Wealthy families who expect to owe estate taxes. Life insurance can provide funds to cover the taxes and keep the full value of the estate intact.

11.2. ix) Families who can't afford burial and funeral expenses. A small life insurance policy can provide funds to honor a loved one's passing.

11.2. x) Businesses with key employees. If the death of a key employee, such as a CEO, would create a severe financial hardship for a firm, that firm may have an insurable interest that will allow it to purchase a life insurance policy on that employee.

11.2. xi) Married pensioners. Instead of choosing between a pension payout that offers a spousal benefit and one that doesn't, pensioners can choose to accept their full pension and use some of the money to buy life insurance to benefit their spouse. This strategy is called pension maximization.

11.2. xii) Those with preexisting conditions. Such as cancer, diabetes, or smoking. Note, however, that some insurers may deny coverage for such individuals, or else charge very high rates. Each policy is unique to the insured and insurer. It's important to review your policy document to understand what risks your policy covers, how much it will pay your beneficiaries, and under what circumstances.

11.2. xiii) Considerations Before Buying Life Insurance :

Research policy options and company reviews. Because life insurance policies are a major expense and commitment, it's critical to do proper due diligence to make sure the company you choose has a solid track record and financial strength, given that your heirs may not receive any death benefit for many decades into the future. Investopedia has evaluated scores of companies that offer all different types of insurance and rated the best in numerous categories.

Life insurance can be a prudent financial tool to hedge your bets and provide protection for your loved ones in case of death should you die while the policy is in force. However, there are situations in which it makes less sense—such as buying too much or insuring those whose income doesn't need to be replaced. So it's important to consider the following.

What expenses couldn't be met if you died? If your spouse has a high income and you don't have any children, maybe it's not warranted. It is still essential to consider the impact of your potential death on a spouse and consider how much financial support they would need to grieve without worrying about returning to work before they're ready. However, if both spouses' income is necessary to maintain a desired lifestyle or meet financial commitments, then both spouses may need separate life insurance coverage.

If you're buying a policy on another family member's life, it's important to ask—what are you trying to insure? Children and seniors really don't have any meaningful income to replace, but burial expenses may need to be covered in the event of their death. Beyond burial expenses, a parent may also want to protect their child's future insurability by purchasing a moderate-sized policy when they are young. Doing so allows that parent to ensure that their child can financially protect their future family. Parents are only allowed to purchase life insurance for their children up to 25% of the in-force policy on their own lives.

Could investing the money that would be paid in premiums for permanent insurance throughout a policy earn a better return over time? As a hedge against uncertainty, consistent saving and investing—for example, self-insuring—might make more sense in some cases if a significant income doesn't need to be replaced or if policy investment returns on cash value are overly conservative.

11.2. xiv) How Life Insurance Works : A life insurance policy has two main components—a death benefit and a premium. Term life insurance has these two components, but permanent or whole life insurance policies also have a cash value component.

i) Death benefit. The death benefit or face value is the amount of money the insurance company guarantees to the beneficiaries identified in the policy when the insured dies. The insured might be a parent, and the beneficiaries might be their children, for example. The insured will choose the desired death benefit amount based on the beneficiaries' estimated future needs. The insurance company will determine whether there is an insurable interest and if the proposed insured qualifies for the coverage based on the company's underwriting requirements related to age, health, and any hazardous activities in which the proposed insured participates.

ii) Premium. Premiums are the money the policyholder pays for insurance. The insurer must pay the death benefit when the insured dies if the policyholder pays the premiums as required, and premiums are determined in part by how likely it is that the insurer will have to pay the policy's death benefit based on the insured's life expectancy. Factors that influence life expectancy include the insured's age, gender, medical history, occupational hazards, and high-risk hobbies.3 Part of the premium also goes toward the insurance company's operating expenses. Premiums are higher on policies with larger death benefits, individuals who are at higher risk, and permanent policies that accumulate cash value.

iii) Cash Value. The cash value of permanent life insurance serves two purposes. It is a savings account that the policyholder can use during the life of the insured; the cash accumulates on a tax-deferred basis. Some policies may have restrictions on withdrawals depending on how the money is to be used. For example, the policyholder might take out a loan against the policy's cash value and have to pay interest on the loan principal. The policyholder can also use the cash value to pay premiums or purchase additional insurance. The cash value is a living benefit that remains with the insurance company when the insured dies. Any outstanding loans against the cash value will reduce the policy's death benefit. The policy owner and the insured are usually the same person, but sometimes they may be different. For example, a business might buy key person insurance on a crucial employee such as a CEO, or an insured might sell their own policy to a third party for cash in a life settlement.

11.2. xv) Life Insurance Riders and Policy Changes :

Many insurance companies offer policyholders the option to customize their policies to accommodate their needs. Riders are the most common way policyholders may modify or change their plans. There are many riders, but availability depends on the provider.

The policyholder will typically pay an additional premium for each rider or a fee to exercise the rider, though some policies include certain riders in their base premium.

The accidental death benefit rider provides additional life insurance coverage in the event the insured's death is accidental.

The waiver of premium rider relieves the policyholder of making premium payments if the insured becomes disabled and unable to work.

The disability income rider pays a monthly income in the event the policyholder becomes unable to work for several months or longer due to a serious illness or injury.
Upon diagnosis of terminal illness, the accelerated death benefit rider allows the insured to collect a portion or all of the death benefit.

The long-term care rider is a type of accelerated death benefit that can be used to pay for nursing-home, assisted-living, or in-home care when the insured requires help with activities of daily living, such as bathing, eating, and using the toilet.

A guaranteed insurability rider lets the policyholder buy additional insurance at a later date without a medical review.

11.2. xvi) Borrowing Money : Most permanent life insurance accumulates cash value that the policyholder can borrow against. Technically, you are borrowing money from the insurance company and using your cash value as collateral. Unlike with other types of loans, the policyholder's credit score is not a factor. Repayment terms can be flexible, and the loan interest goes back into the policyholder's cash value account. Policy loans can reduce the policy's death benefit, however.

11.2. xvi) Funding Retirement : Policies with a cash value or investment component can provide a source of retirement income. This opportunity can come with high fees and a lower death benefit, so it may only be a good option for individuals who have maxed out other tax-advantaged savings and investment accounts. The pension maximization strategy described earlier is another way life insurance can fund retirement. It's prudent to reevaluate your life insurance needs annually or <u>after significant life events, such as divorce</u>, marriage, the birth or adoption of a child, or major purchases, such as a house. You may need to update the policy's beneficiaries, increase your coverage, or even reduce your coverage.

11.2. xvii) Qualifying for Life Insurance : Insurers evaluate each life insurance applicant on a case-by-case basis, and with hundreds of insurers to choose from, almost anyone can find <u>an affordable policy</u> that at least partially meets their needs. In 2018 there were 841 life insurance and annuity companies in the United States, according to the Insurance Information Institute. On top of that, many life insurance companies sell multiple types and sizes of policies, and some specialize in meeting specific needs, such as policies for people with chronic health conditions. There are also brokers who specialize in life insurance and know what different companies offer. Applicants can work with a broker free of charge to find the insurance they need. This means that almost anyone can get some type of life insurance policy if they look hard enough and are willing to pay a high enough price or accept a perhaps less-than-ideal death benefit.

Insurance is not just for the healthy and wealthy, and because the insurance industry is much broader than many consumers realize, getting life insurance may be possible and affordable even if previous applications have been denied or quotes have been unaffordable. In general, the younger and healthier you are, the easier it will be to qualify for life insurance, and the older and less healthy you are, the harder it will be. Certain lifestyle choices, such as using tobacco or engaging in risky hobbies such as skydiving, also make it harder to qualify or lead to higher rates.

11.2. xviii) Who needs life insurance? Life insurance is most useful for people who need to provide security for a spouse, children, or other family members in the event of their death. Life insurance death benefits, depending on the policy amount, can help beneficiaries pay off a mortgage, cover college tuition, or help fund retirement. Permanent life insurance also features a cash value component that builds over time.

11.2. xix) What Affects Your Life Insurance Premiums?

- Age (younger is less expensive)
- Gender (female tends to be less expensive)
- Smoking (smoking increases premiums)
- Health (poor health can raise premiums)
- Lifestyle (risky activities can increase premiums)
- Family medical history (chronic illness in relatives can raise premiums)
- Driving record (good drivers save on premiums)

11.2. xx) What Are the Benefits of Life Insurance?

- Payouts are tax-free. Death benefits are paid as a lump sum and are not subject to federal income tax because they are not considered income for beneficiaries.
- Dependents don't have to worry about living expenses. Most policy calculators recommend a multiple of your gross income equal to seven to 10 years that can cover

major expenses like mortgages and college tuition without the surviving spouse or children having to take out loans.

- Final expenses can be covered. Funeral expenses can be significant and can be avoided with a burial policy or with standard term or permanent life policies.
- Policies can supplement retirement savings. Permanent life policies such as whole, universal, and variable life insurance can offer cash value in addition to death benefits, which can augment other savings in retirement.

11.2. xxi) Qualify for Life Insurance : Life insurance is available to anyone, but the cost or premium level can vary greatly based on the risk level an individual presents based on factors like age, health, and lifestyle. Life insurance applications generally require the customer to provide medical records and medical history and submit to a medical exam. Some types of life insurance such as guaranteed approval life don't require medical exams but generally have much higher premiums and involve an initial waiting period before taking effect and offering a death benefit.

11.2. xxi) Life Insurance Work : Life insurance policies all offer a death benefit in exchange for paying premiums to the insurance provider during the term of the policy. One popular type of life insurance—term life insurance—only lasts for a set amount of time, such as 10 or 20 years during which the policyholder needs to offset the financial impact of losing income. Permanent life insurance also features a death benefit but lasts for the life of the policyholder as long as premiums are maintained and can include cash value that builds over time.

11.3. CREDIT AND INVESTMENTS CORPORATION OF INDIA/ INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) :

Industrial Credit and Investment Corporation of India (ICICI) was established in 1955 as public limited company under Indian Company Act, for developing medium and small industries of private sector. Initially its equity capital was owned by companies, institutions and individuals but at present its equity capital has been owned by public sector institutions like—Banks, LIC, CIC and its associate companies. In March 2002, the ICICI was merger with the ICICI Bank and created a first universal bank in India. With this merger, ICICI does not exist any more as a development financial institution.

11.3. a) Objectives : The important objectives of the ICICI are as follows:

(i) To provide loans to industrial projects in private sector.

(ii) To stimulate the promotion of new industries.

(iii) To assist the expansion and modernization of existing industries.

(iv) To provide Technical and managerial aid to increase production.

11..3. b) Financial Assistance of ICICI : To achieve its objectives, ICICI provides financial assistance in various forms such as:

(i) Long term and medium term loans both in terms of rupee and foreign currency.

(ii) Participating in equity capital and in debentures.

(iii) Underwriting new issues of shares and debentures.

(iv) Guarantee to suppliers of equipment and foreign loaners.

11.3. c) Activities of ICICI : The activities of ICICI are discussed below :

1. Project Finance : The project finance is provided to industries for the cost of establishment, modernization or expansion of manufacturing and processing activities in the form of rupee and foreign loans, underwriting, subscription to shares and debentures and guarantees to supply of equipment and foreign donors. The rupee loan is given for the purchase of equipment and machinery, construction and preliminary expenses. The foreign currency loans are provided for the purchase of imported capital equipment.

2. Leasing : The leasing operations of the ICICI commenced in 1983. Leasing assistance is given for computerization, modernization/replacement, equipment of energy conservation, export orientation, pollution control etc.

3. Project Advisory Services : The Project advisory services are provided to the Central and State Governments and public sector and private sector companies. Advice to the governments is provided on policy reforms and on value chain analysis and to private sector companies on strategic management.

4. Facilities for Non-resident Indians : The information regarding on facilities and incentives given by the Government of India to the non-resident Indians for judicious investing in India are offered.

5. Provision of Foreign Currency Loans : The ICICI has a provision of foreign currency loans and advances to enable Indian Industrial concerns to secure essential capital goods from foreign countries.

6. Other Institutions Promoted : (a) ICICI promoted the Housing Development Finance Corporation (HDFC) to provide long-term finance to individuals in middle and lower income groups, co-operations, etc., for the construction and purchase on ownership basis of residential houses all over the country.

(b) Credit Rating Information Services of India Ltd. (CRISIL) set up by ICICI in association with Unit Trust of India (UTI) to provide credit rating services to the corporate sector.

(c) Technology Development and Information Company of India Ltd. (TDICI), promoted by ICICI, to finance the transfer and Up gradation of technology and provide technology information.

(d) Programme for the Advancement of Commercial Technology (PACT) set up with a grant of US $10 million provided by USAID (United States Aid) to assist market-oriented R&D activity, jointly undertaken by Indian and US companies, ICICI has been entrusted with the administration and management of PACT.

(e) Programme for Acceleration of Commercial Energy Research (PACER) funded by USAID with a grant of US $ 20 million to support selected research and technology development proposals in Indian energy sector PACER was also launched by ICICI.

11. 4. UNIT TRUST OF INDIA(UTI) :

Unit Trust of India was first Set up in 1st February 1964 under the Unit Trust of India Act, 1963. It is a statutory public sector investment institution having the main objective to encourage and mobilize the savings of the community and canalize them into productive corporate investment. A unit trust is an investment plan in which the funds are pooled together and then invested. The fund which is pooled is then unitized and the investor who is one party to the unit trust is called a unitholder, holding a certain number of units. A second party i.e the manager is responsible for the day-to-day running of the trust and for investing the funds. The trustee, governed by the Trust Companies Act 1967, is the third party, and their role is to monitor the manager's performance against the trust's deed. The deed outlines the objectives and vital information about the trust. Also, the assets of the trust are held in the name of the trustee and then they are held "in trust" for the unitholders.

11.4.1. Objectives of Unit Trust of India (UTI) : Unit Trust of India Provides to the investor a safe return of the investment whenever they require funds. UTI provides daily price record and advertises it in the newspapers.

Thus, two prices are quoted on a daily basis, the purchase price and the sale price of the units. This price may fluctuate daily, but the fluctuations are nominal on a monthly basis.

The price varies between the month of July and the month of June. The purchase price of the various units is the lowest in the month of July.

An investor who wants to make an investment may purchase his units at this time of the year and receive the lowest offer price for the units.

The basic objective of the UTI is to offer both small and large investors the means of acquiring shares in the properties resulting from the steady, industrial growth of the country.

11. 4.2. Primary Objectives of UTI :

- to promote and pool the small savings from the lower and middle-income persons who cannot have direct access to the stock exchange, and
- to provide them with an opportunity to share the benefits of prosperity resulting from rapid industrialization in India.

Source: freepik.com

11..4.3. Functions of UTI :

i) Mobilize the saving of the relatively small investors.

ii. Channelize these small savings into productive investments.

iii) Distribute the large scale economies among small income groups.

iv) Encourage savings of lower and middle-class people.

v) Sell nits to investors in different parts of the country.

vi) Convert the small savings into industrial finance.

vii) To give investors an opportunity to share the benefits and fruits of industrialization in the country.

viii) Provide liquidity to units.

ix) Accept discount, purchase or sell bills of exchange, warehouse receipt, documents of title to goods etc.,

x) To grant loans and advances to investors.

xi) To provide merchant banking and investment advisory service to investors.

xii) Provide leasing and hire purchase business.

xiii) To extend portfolio management service to persons residing in other countries.

xiv) To buy or sell or deal in foreign currency.

xv) Formulate a unit scheme or insurance plan in association with GIC.

xvi) Invest in any security floated by the RBI or foreign bank.

11.4.4. Specify various advantages of a UTI?

The advantages of Unit Trust are :

i) The investment is safe and divides the risk over a wide range of securities.

i) The investors will be getting a regular and good income, as it distributes 90 percent of its income.

ii) Dividends up to Rs. 1,000 received by the individual investors are exempt from income-tax.

iii) There is a high degree of liquidity of investment as one can sell the units back to the trust at any time at a specific price.

iv) You have experts who are doing the hard work for you.

v) There are various unit trusts to choose from.

vi) Investor's resources are pooled with other investors, allowing you to make investments impossible as an individual investor.

vii) It also helps Investor's to easily diversify your investments.

viii) An investor gets the benefits of greater economies of scale, such as reduced transaction costs.

11. 5. LAND MORTGAGE BANKS :

A land mortgage bank is a financial institution that specializes in lending money for the purchase of land. Land mortgage banks are different from banks in that they focus their lending on a specific type of loan, and they are usually smaller and have a more personal relationship with their customers. The first land mortgage bank was established in 1874 in the United States. These banks allowed farmers to borrow money to buy land, which they would then pay back over time with interest. The idea quickly caught on, and by the early 1900s there were nearly 200 land mortgage banks in the United States. These banks played an important role in the development of the American West, as they helped finance the purchase of land for homesteading and farming. Today, land mortgage banks continue to exist, although they are not as common as they once were.

It is possible, just as you can obtain a mortgage for a home, for the same reasons as a mortgage for a home. The type of loan you can obtain for land, on the other hand, will differ from that of a home, and, like anything else related to new home construction, you must consider a variety of factors. Land banks acquire land from the local government through the auction or sale of tax-delinquent or foreclosed properties. In some cases, land banks are state-legal entities that own and manage the properties they acquire. Land bank makes it a point to ensure that its customers' accounts and personal information are secure, and the bank's systems have the highest level of security. The bank also advises the public to be cautious when dealing with phishing scams and other forms of online banking fraud.

In India, there are six types of mortgages: simple mortgages, usufructuary mortgages, English mortgages, mortgage by conditional sale, mortgage by title deed deposit, and anomalous mortgages. More information can be found here. It is a type of loan that is used to purchase or maintain real estate such as land, houses, and other structures. In exchange for allowing them to pay the lender over time in a series of payments of principal and interest, the borrowers agree to pay the lender on a regular basis. The property will be used as security for the loan if the property is forfeited.

11.5.1. What Is A Land Bank Loan?

A land bank loan is a loan that is used to purchase land. The loan is typically used to purchase vacant land or land that is not being used for its intended purpose. The loan is used to purchase the land so that it can be developed or used for a specific purpose. A land bank is an excellent way to obtain cheap or free land for your city. They are purchasing a property at current low prices (before anyone else has a chance to evaluate the value) and waiting for the city to grow to them. They are able to profit from the increase in land prices as a result of this. Furthermore, land banks can be a valuable tool for stabilizing property values. A land bank can stabilize and prevent a property from becoming an eyesore or a nuisance by purchasing it. It may also help to increase property values, which could benefit the entire city as a whole.

11.5.2. Why are Land Mortgages Different?

The complexity of a land loan is typically higher than that of a standard mortgage. One of the reasons is that you cannot (usually) purchase land with no money down and use your home as a collateral for the land loan. A number of different types of land loans are available in addition to land loans.

It is critical to consider both the mortgage and the deed of trust when purchasing a home. You can lower your borrowing costs by taking out a deed of trust if your credit score is good and your debt-to-income ratio is low. Make sure you have a qualified lender to work with so you can get the best deal.

11.5.3. Why Are Land Loans Riskier? In comparison to traditional homes, land is viewed as a riskier form of collateral. In this case, if the property at issue is truly vacant land (with no other structures or assets of value present), the lender would be the only one with access to the property as a bank-collateral.

11.5.4. When Was The First Land Mortgage Bank Established In India?

In 1920, a mortgage bank founded by co-operatives in Punjab was established in Jhind, near Amritsar. ~~Land Mortgage Bank Loan):~~ A land mortgage bank loan is a loan that is secured by the value of a parcel of land. This type of loan is typically used to finance the purchase of land for the purpose of building a home or other structure on the property. The loan is typically repaid over a period of years, with the borrower making monthly payments to the lender.

If an applicant has a good job, he or she may be able to get a loan against property for up to $1 million. Individuals working as self-employed can borrow up to Rs. 5 crore, while individuals with a salaried status can only borrow up to Rs. 5 crore. A land mortgage typically requires a deposit of at least 20% of the property's appraised value, though this varies depending on the lender.

11.5.5. When Was The First Land Mortgage Bank Established

The Land Mortgage Bank (ан ор отеена) is a real estate loan company in Hungary. The Lviv joint-stock bank was established in 1910 to assist peasants in purchasing land and improving their farms. It was the first Ukrainian bank established in Galicia.

11.5.6. The Benefits of Mortgage Banking : The financial institution that provides mortgage banking has an important role to play in the lives of consumers. It will help expedite the mortgage process and ensure that borrowers receive the loan they require if they have direct access to capital. Mortgage banks can also make a significant return on their investment in the secondary market by servicing and selling loans. When using a mortgage bank, it is critical to remember a few things. Begin by speaking with a qualified lender. The second thing you should be aware of is the interest rate charged by the bank. Finally, you should plan on making monthly payments and repaying the loan as soon as possible.

11.5.7. Banks That Offer Land Loans : There are many banks that offer land loans for those who are looking to finance a piece of property. This type of loan is typically used for agricultural or commercial purposes, but can also be used for residential purposes. The terms and conditions of these loans vary from bank to bank, but they typically require a down payment and a higher interest rate than a traditional mortgage.

11.5.8. The Best Bank For A Land Loan : Tennessee State Bank : The majority of banks do not offer land loans, nor do they typically require at least 1/3 down and charge high fees, points, and other charges; it can be difficult to find a bank willing to offer a land loan. It can take months for a land loan to close, so it can be a lengthy process. The Tennessee State Bank provides a variety of real estate loan products throughout the state. As a result, they are able to offer you a loan tailored to your specific circumstances thanks to their broad network of lenders.

11.5.9. Land Loan Rates : Land loan rates vary depending on the type of land, the location of the land, the amount of money being borrowed and the creditworthiness of the borrower. The interest rate on a land loan is typically higher than the rate on a conventional mortgage because the loan is considered to be more risky. The loan-to-value ratio is also usually lower on a land loan, meaning that the borrower is required to put down a larger down payment.

11.5.10. The Pros And Cons of A Land Loan

Land loans are not typically offered by traditional lenders, but there are a few non-traditional ones, and they are typically more expensive and have longer terms, typically 30 or more years.

Land loans are an excellent option for people who do not have the required down payment or credit score to qualify for a traditional mortgage. These loans are more risky, but they have a longer repayment period and the potential to make larger purchases.

11.5.11. Unimproved Land Loan : An unimproved land loan is a loan that is used to finance the purchase of raw land. This type of loan is typically used by developers or investors who plan to improve the land and then sell it for a profit. Unimproved land loans are considered to be higher risk than loans for improved property, so they typically have higher interest rates and require a larger down payment.

11.5. 12. Taking Out A Land Loan : To apply for a land loan, you must provide financial information, such as your income and assets. You will also need to make a down payment, which typically ranges from 10% to 20% of the purchase price. As a result, depending on the length of the loan, you may be required to make additional payments throughout the term of the loan.

11. 6. COOPERATIVE BANKS :

In the present study the following aspects are 1. Meaning of Cooperative Bank 2. History of Cooperative Banking in India 3. Structure 4. Evaluation 5. Weaknesses Reserve Bank and Cooperative Banking.

11.6. i) Meaning of Cooperative Bank : Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans. The cooperative banks, however, differ from joint stock banks in the following manner: (i) Cooperative banks issue shares of unlimited liability, while the joint stock banks issue shares of limited liability. (ii) In a cooperative bank, one shareholder has one vote whatever the number of shares he may hold. In a joint stock bank, the voting right of a shareholder is determined by the number of shares he possesses. (iii) Cooperative banks are generally concerned with the rural credit and provide financial assistance for agricultural and rural activities. Joint stock companies are primarily concerned with the credit requirements of trade and industry. (iv) Cooperative banking in India is federal in structure. Primary credit societies are at the lowest rung. Then, there are central cooperative banks at the district level and state cooperative banks at the state level. Joint stock banks do not have such a federal structure. (v) Cooperative credit societies are located in the villages spread over entire country. Joint stock banks and their branches mainly concentrate in the urban areas, particularly in the big cities

11.6. ii) History of Cooperative Banking in India :

Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means." Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit. These organisations were- (a) A union, consisting of primary societies; (b) the central banks; and (c) provincial banks. Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre-independence period. Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

11.6. iii) Structure of Cooperative Banking : There are different types of cooperative credit institutions working in India. These institutions can be classified into two broad categories- agricultural and non-agricultural. Agricultural credit institutions dominate the entire cooperative credit structure. Agricultural credit institutions are further divided into short-term agricultural credit institutions and long-term agricultural credit institutions. The short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have three-tier federal structure- (a) at the apex, there is the state cooperative bank in each state; (b) at the district level, there are central cooperative banks; (c) at the village level, there are primary agricultural credit societies. Long-term agricultural credit is provided by the land development banks. The whole structure of cooperative credit institutions is shown in the chart given.

11.6. iv) Short-Term Rural Cooperative Credit Structure : In rural India, there exists a 3-tier short-term rural cooperative structure. Tier-I includes state cooperative banks (SCBs) at the state level; Tier-II includes central cooperative banks (CCBs) at the district level; and Tier- III includes primary agricultural credit societies (PACSs). In 19 states, there exists a 3-tier short-term cooperative credit structure, comprising SCBs, CCBs and PACSs. And in 12 states, there exists a 2-tier short-term cooperative structure. In the north-eastern states, including Sikkim, the structure is 2-tier, comprising only SCBs and PACSs. As on March 31, 2013, the number of SCBs was 31, of CCBs was 370 and of PACSs was 92432. As on March 31, 2012, the loans advanced by SCBs were Rs. 75600 crore, by CCBs were Rs. 14400 crore and by PACSs were Rs. 91200 crore.

11.6.1. STATE COOPERATIVE BANKS (SCBS) :

Functions and Organisation : State cooperative banks are the apex institutions in the three-tier cooperative credit structure, operating at the state level. Every state has a state cooperative bank. State cooperative banks occupy a unique position in the cooperative credit structure because of their three important functions:
(a) They provide a link through which the Reserve Bank of India provides credit to the cooperatives and thus participates in the rural finance,
(b) They function as balancing centers for the central cooperative banks by making available the surplus funds of some central cooperative banks. The central cooperative banks are not permitted to borrow or lend among themselves,
(c) They finance, control and supervise the central cooperative banks, and, through them, the primary credit societies.

11.6.1. i) Capital : State cooperative banks obtain their working capital from own funds, deposits, borrowings and other sources: (i) Own funds include share capital and various types of reserves. Major portion of the share capital is raised from member cooperative societies and the central cooperative banks, and the rest is contributed by the state government. Individual contribution to the share capital is very small; (ii) The main source of deposits is also the cooperative societies and central cooperative banks. The remaining deposits come from individuals, local bodies and others. (iii) Borrowings of the state cooperative banks are mainly from the Reserve Bank and the remaining from state governments and others.

11.6.1. ii) Loans and Advances: State cooperative banks are mainly interested in providing loans and advances to the cooperative societies. More than 98 per cent loans are granted to these societies of which about 75 per cent are for the short-period. Mostly the loans are given for agricultural purposes. The number of state cooperative banks rose from 15 in 1950-51 to 21 in 1960-61 and to 28 in 1991-92. The loans advanced by these banks increased from Rs. 42 crore in 1950-51 to Rs. 260 crore in 1960-61, and further to Rs. 7685 crore in 1991-92.

11. 6.2. CENTRAL COOPERATIVE BANKS (CCBS) :

Functions and Organisation : Central cooperative banks are in the middle of the three-tier cooperative credit structure. Central cooperative banks are of two types: (a) There can be cooperative banking unions whose membership is open only to cooperative societies. Such cooperative banking unions exist in Haryana, Punjab, Rajasthan, Orissa and Kerala. b) There can be mixed central cooperative banks whose membership is open to both individuals and cooperative societies. The central cooperative banks in the remaining states are of this type. The main function of the central cooperative banks is to provide loans to the primary cooperative societies. However, some loans are also given to individuals and others.

11.6.2. i) Capital : The central cooperative banks raise their working capital from own funds, deposits, borrowings and other sources. In the own funds, the major portion consists of share capital contributed by cooperative societies and the state government, and the rest is made up of reserves. Deposits largely come from individuals and cooperative societies. Some deposits are received from local bodies and others. Deposit mobilisation by the central cooperative banks varies from state to state. For example, it is much higher in Gujarat, Punjab, Maharashtra, and Himachal Pradesh, but very low in Assam, Bihar, West Bengal and Orissa. Borrowings are mostly from the Reserve Bank and apex banks.

11.6.2. ii) Loans and Advances : The number of central cooperative banks in 1991-92 was 361 and the total amount of loans advanced by them in 1991-92 stood at Rs. 14226 crore. About 98 per cent loans are received by the cooperative societies and about 75 per cent loans are short-term. Mostly the loans are given for agricultural purpose. About 80 per cent loans given to the cooperative societies are unsecure and the remaining loans are given against the securities such as merchandise, agricultural produce, immovable property, government and other securities etc.

11.6.2. iii) Problem of Overdues : The most distressing feature of the functioning of the central cooperative banks is heavy and increasing overdue loans. In 1997-98, the percentage of overdues to demand at the central cooperative level was 34. According to the Review of the Cooperative Movement in India, 1974-76, by the Reserve Bank of India, the main causes of these overdues are: (a) Natural calamities such as floods, draughts, etc., affecting the repaying capacity of the borrowers; (b) Inadequate and inefficient supervision exercised by the banks; (c) The poor quality and management of societies and banks; (d) Absence of linking of credit with marketing; (e) Reluctance to coercive measures; and (f) Where coercive measures were taken, the inability of the machinery to promptly execute the decrees. For the rehabilitation of the weak Central cooperative banks, the Central Sector Plan Scheme has been formulated under which semi financial help is given to write off the bad debts, losses and irrecoverable overdues against small and marginal farmers.

11.6.3. PRIMARY AGRICULTURAL CREDIT SOCIETIES (PACSS) :

Functions and Organisation :

11.6.3.1. Encourages savings : Primary agricultural credit society forms the base in the three-tier cooperative credit structure. It is a village-level institution which directly deals with the rural people. It encourages savings among the agriculturists, accepts deposits from them, gives loans to the needy borrowers and collects repayments.

11.6.3.2. It serves as the last link : It serves as the last link between the ultimate borrowers, i.e., the rural people, on the one hand, and the higher agencies, i.e., Central cooperative bank, state cooperative bank, and the Reserve Bank of India, on the other hand.

11..6.3.3. Membership fee : A primary agricultural credit society may be started with 10 or more persons of a village. The membership fee is nominal so that even the poorest agriculturist can become a member.

11.6.3.4. Unlimited liability : The members of the society have unlimited liability which means that each member undertakes full responsibility of the entire loss of the society in case of its failure. The management of the society is under the control of an elected body.

11.6.3.5. Capital : The working capital of the primary credit societies comes from their own funds, deposits, borrowings and other sources. Own funds comprise of share capital, membership fee and reserve funds. Deposits are received from both members and non- members. Borrowings are mainly from central cooperative banks.In fact, the borrowings form the chief source of working capital of the societies. Normally, people do not deposit their savings with the cooperative societies because of poverty, low saving habits, and non--availability of better assets to the savers in term of rate of return and riskiness from these societies.

11.6.3.6. Coverage : In 1999-2000 there were 88 thousand primary agricultural societies covering more than 96 per cent rural areas. The membership of these societies was 8.68 crore. During the past few decades, the Reserve Bank in collaboration with State governments, has been taking various measures to reorganise the viable primary credit societies and to amalgamate non-viable societies with large-sized multipurpose societies. This work of reorganisation of primary societies into strong and viable units has been completed in almost all the states except Gujrat, Maharashtra, and Jammu and Kashmir. It is because of reorganisation that the number of primary societies which increased from 105 thousand in 1950-51 to 212 thousand in 1960- 61, declined to 92 thousand in 1999-2000.

11.6.3.7. Loans Advanced : The loans advanced by the primary credit societies have been Showing 3 Continuously increasing trend. They rose from Rs. 23 crore in 1950-51 to Rs. 202 crore in 1960-61 and further to Rs. 13600 crore in 1999-2000. Only the members of the societies are entitled to get loans from them. Most of the loans are short-term loans and are for agricultural purposes. Low interest rates are charged on the loans. The societies are expected to increase amounts of loans to the weaker sections of the rural community, particularly the small and marginal farmers. There, however, exists a serious problem of overdue loans of the societies which have increased from Rs. 6 crores in 1950-51 to Rs. 44 crore in 1960-61 and to Rs. 2875 crore in 1991-92.

11.6.3.8. Land Development Banks (LDBs) or Cooperative Agricultural and Rural Development Banks (CARDBs) : Besides short-term credit, the agriculturists also need long-term credit for making permanent improvements in land, for repaying old debts, for purchasing agricultural machinery and other implements. Traditionally, the long-term requirements of agriculturists were mainly met by money lenders and some other agencies. But this source of credit was found defective and has been responsible for the exploitation of farmers.

Cooperative banks and commercial banks by their very nature are not in a position to provide long-term loans because their deposits are mainly demand (short-term) deposits. Thus, there was a great need for a specialised institution for supplying long-term credit to agriculturists. The establishment of land development banks now known as cooperative and rural development banks (CARDBs) is an effort in this direction.

11.6.3.9. Structure : The land development banks are registered as cooperative societies, but with limited liability. These banks have two-tier structure: (a) At the state level, there are state or central land development banks, now known as state cooperative agricultural and rural development banks (SCARDBs) generally one for each state. They were previously known as central land mortgage banks, (b) At the local level, there are branches of the state land development banks or SCARDBs and primary land development banks now known as primary cooperative agricultural and rural development banks (PCARDBs). In some states, there are no primary land development banks, but the branches of the state land development bank. In Madhya Pradesh, the state cooperative bank itself functions as the state land development bank. In other states like Andhra Pradesh, Kerala and Maharashtra, there are more than one state land development banks. Similarly, the primary land development banks also vary organisationally in different states. At the national level, the land development banks have also formed a union, called All-India Land Development Banks' Union.

11.6.3.10. Capital : Land development banks raise their funds from share capital, reserves, deposits, loans and advances, and debentures. Debentures form the biggest source of finance. The debentures are issued by the state land development banks. They carry fixed interest, have maturity varying from 20 to 25 years, and are guaranteed by the state government. These debentures are subscribed by the co-operative banks, commercial banks, the State Bank of India and the Reserve Bank of India. Besides the ordinary debentures, the land development banks also float rural debentures for the period upto 7 years. These debentures are subscribed by farmers, panchayats, and the Reserve Bank. The Reserve Bank substantially contributes to the finance of land development banks by extending funds to the state governments for contributing to the share capital of these banks and by subscribing to ordinary and rural debentures.

11.6.3.11. Growth : In India, the first cooperative land mortgage bank was organised in Jhang in Punjab in 1920.But the effective beginning was made in Madras with the establishment of a central land development bank in 1929. Later on other states also established such institutions. The number of state cooperative agricultural and rural development banks (SCARDBs) which was 5 in 1950-51, rose to 20 in 2013. The number of primary cooperative agricultural and rural development banks (PCARDBs) was 697 in 2013.

11 6.3.12. Loans and Advances : The land development banks or SCARDBs provide long-term loans to the agriculturists- (a) for redemption of old debt, (b) for improvement of land and methods of cultivation, (c) purchasing costly machinery, and (d) in special cases, for purchasing land. These banks grant loans against the mortgage of land and the period of loan varies from 15 to 30 years.

In 1999-2000, the loans sanctioned by these banks were Rs.2520 crore and the amount of loans outstanding was Rs. 11670 crore. The amount of loans outstanding at the end-March 2012 was Rs. 19400 crore by SCARDBs and Rs.12000 crore by PCARDBs.

11.6.3.13. Defects of Land Development Banks :

Although numerically the land development banks have grown over the years, they have not been able to make much progress in providing long-term finance to the farmer. The following are the factors responsible for the unsatisfactory performance of land development banks:

i. Uneven Growth : There has been uneven growth of land development banks. These have shown some progress in the states like Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra, Gujrat. Other states have made very little progress. About half of the states have no land development bank.

ii. Problem of Overdues : The major problem faced by the land development banks is the existence of heavy overdues. Moreover, the overdues are continuously rising over the years. In 1991-92, the percentage of the overdues 6f the land development banks has been put between 42 to 44 per cent. Faulty loaning policies, inadequate supervision, over-utilisation of loans, ineffective measures for recovery, willful defaulters, etc. are the main causes of unsatisfactory level of overdues. In view of the seriousness of the problem, the state governments have been advised to draw up and implement time-bound programmes for special recovery drives.

iii. Lack of Trained Staff : In spite of quantitative growth of the land development banks, they have not shown much qualitative improvements in the field of granting loans largely due to inadequate technical and supervisory staff. Necessary changes in the legislation of cooperative institutions are also required if the lending activities are to be diversified for non-traditional developmental purposes and on the basis of non-landed security.

iv. Other Defects : Other defects of the land development banks can be summarised below:
(a) These banks charge very high interest rates on the loans provided by them. (b) There is much delay and red-tapism in the granting of loans, (c) Second loan is not advanced unless the first is not repaid. (d) Installments and the period of loans are not fixed on the basis of the repaying capacity of the borrowers. (e) The procedure of receiving a loan from these banks is so complicated that the agriculturist is forced to seek help from the money lender, (f) Weaker sections of the rural society such as landless labourers, village artisans and marginal farmers, are generally unable to secure loans from these banks for their productive activities simply because they do not have land or adequate security to offer against loans. (g) Mostly loans are given for the repayment of old loans and for development purposes.

v. Report of Rural Credit Survey : The Report of the Committee of Direction of All-India Rural Credit Survey has pointed out the unsatisfactory performance of the land mortgage banks (now called the land development banks) in the following manner:(a) These banks raise inadequate funds in a manner ill-rated to demand and usually lend them in a manner uncoordinated with development; (b) They act as if prior debts and not production had claim on its attention; and (c) They reach only the large cultivator and reach him late.

11.6.14. Importance of Cooperative Banks :

The cooperative banking system has to play a critical role in promoting rural finance and is specially suited to Indian conditions. Various advantages of cooperative credit institutions are given below:
i) **Alternative Credit Source :** The main objective of cooperative credit movement is to provide an effective alternative to the traditional defective credit system of the village money lender. The cooperative banks tend to protect the rural population from the clutches of money lenders. The money lenders have so far dominated the rural areas and have been exploiting the poor people by charging very high rates of interest and manipulating accounts.

ii) Cheap Rural Credit : Cooperative credit system has cheapened the rural credit both directly as well as indirectly: (a) Directly, because the cooperative societies charge comparatively low interest rates, and (b) Indirectly, because the presence of cooperative societies as an alternative agency has broken money lender’s monopoly, thereby enforcing him to reduce the rate of interest.

iii) **Productive Borrowing :** An important benefit of cooperative credit system is to bring a change in the nature of loans. Previously the cultivators used to borrow for consumption and other unproductive purposes. But, now, they mostly borrow for productive purposes. Cooperative societies discourage unproductive borrowing.

iv) Encouragement to Saving and Investment : Cooperative credit movement has encouraged saving and investment by developing the habits of thrift among the agriculturists. Instead of hoarding money the rural people tend to deposit their savings in the cooperative or other banking institutions.

v) Improvement in Farming Methods : Cooperative societies have also greatly helped in the introduction of better agricultural methods. Cooperative credit is available for purchasing improved seeds, chemical fertilizers, modern implements, etc. The marketing and processing societies have helped the members to purchase their inputs cheaply and sell their produce at good prices.

vi) Role of Cooperative Banks before 1969 : Till the nationalisation of major commercial banks in 1969, cooperative societies were practically the only institutional sources of rural credit. Commercial banks and other financial institutions hardly provided any credit for agricultural and other rural activities. Cooperative credit to the agriculturists as a percentage of total agricultural credit increased from 3.1 per cent in 1951-52 to 15.5 per cent in 1961-62 and further to 22.7 per cent in 1970-71. On the other hand, the agricultural credit provided by the commercial banks as a percentage of total agricultural credit remained almost negligible and fell from 0.9 percent in 1951-52 to 0.6 percent in 1961-62 and then rose to 4 per cent in 1970-71.

vii) Role of Cooperative Banks after 1969 : After the nationalisation of commercial banks in 1969, the government has adopted a multi-agency approach. Under this approach, both cooperative banks and commercial banks (including regional rural banks) are being developed to finance the rural sector. But, this new approach also recognised the prime role to be played by the cooperative credit institutions in financing rural areas because of the following reasons: (a) Co-operative credit societies are best suited to the socio-economic conditions of the Indian villages. (b) A vast network of the cooperative credit societies has been built over the years throughout the length and breadth of the country. This network can neither be duplicated nor be surpassed easily. (c) The cooperative institutions have developed intimate knowledge of the local conditions and problems of rural areas.

viii) Suitable Federal Structure of Cooperative Banking System : Cooperative banking system has a federal structure with- (a) primary agricultural credit societies at the village level, (b) higher financing agencies in the form of central cooperative and state cooperative banks, (c) land development banks for providing long- term credit for agriculture. Such a banking structure is essential and particularly suited for effectively meeting the financial requirements of the vast rural areas of the country. Considering the great importance of cooperative banks, particularly in the rural areas, it is not surprising that every committee or commission, that has examined the working of the cooperative banking system in India, has expressed the common view that "cooperation remains the best hope of rural India."

11.6.15. Weaknesses of Cooperative Banking :

Various committees, commissions and individual studies that have reviewed the working of the cooperative banking system in India have pointed out a number of weaknesses of the system and have made suggestions to improve the system.

i) General Weaknesses of Primary Credit Societies : Organisational and financial limitations of the primary credit societies considerably reduce their ability to provide adequate credit to the rural population. The All India Rural Credit Review Committee pointed out the following weaknesses of the primary credit societies: (a) Cooperative credit still constitutes a small proportion of the total borrowings of the farmers, (b) Needs of tenants and small farmers are not fully met. (c) More primary credit societies are financially weak and are unable to meet the production-oriented credit needs, (d) Overdues are increasing alarmingly at all levels, (e) Primary credit societies have not been able to provide adequate and timely credit to the borrowing farmers.

ii) Inadequate Coverage : Despite the fact that the cooperatives have now covered almost all the rural areas of the country, its rural household membership is only about 45 per cent. Thus, 55 per cent of rural households are still not covered under the cooperative credit system. In fact, the borrowing membership of the primary credit societies is significantly low and is restricted to a few states like Maharashtra, Gujrat, Punjab, Haryana, Tamil Nadu and to relatively rich land owners. Criteria of determining borrowing membership include: (a) Borrowing members as a proportion of rural households, (b) The average amount of loan issued per borrowing member, and (c) The proportion of loans going to weaker sections. The banking Commission 1972 has brought out the following reasons for the low borrowing membership cooperative societies:(a) Inability of the people to provide the prescribed security; (b) Lack of up-to-date land records; (c) Ineligibility of certain purposes for loans; (d) Inadequacy of prescribed credit limits; (e) Onerous conditions prescribed for loans such as share capital contribution at 10 or 20 per cent of loans outstanding and compulsory saving deposits; and (f) Default of members to repay loans.

iii) Inefficient Societies : In spite of the fact that the primary agricultural credit societies in most of the states have been reorganised into viable units, their loaning business has not improved. As the Seventh Plan has observed that out of 94089 primary agricultural credit societies in the country in 1982-83, only 66000 societies had full time paid secretaries. About 34000 societies were running at loss.

iv) Problem of Overdues : A serious problem of the cooperative credit is the overdue loans of the cooperative institutions which have been continuously increasing over the years. In 1991-92, percentage of overdues to demand at the level of land development banks was 57, at the level of central cooperative banks was 41 and at the level of primary agricultural credit societies was 39. The overdues in the short-term credit structure are most alarming in North-Eastern States. In the long-term loaning sector, the problem of overdues has almost crippled the land development banks in 9 states, viz., Maharashtra, Gujarat, Madhya Pradesh, Bihar, Karnataka, Assam, West Bengal, Orissa and Tamil Nadu. Large amounts of overdues restrict the recycling of the funds and adversely affect the lending and borrowing capacity of the cooperative societies.

The Banking Commission 1972 pointed out the following reasons for the overdue loans :

(a) Indifferent management or mismanagement of primary societies;

(b) Unsound lending policies resulting in over-lending or lending unrelated to actual needs, diversions of loans for other purposes;

(c) Vested interests and group politics in societies and willful defaulters;

(d) Inadequate supervision over the use of loans and poor recovery efforts;

(e) Lack of adequate control of central cooperative banks over primary societies;

(f) Lack of proper links between credit and marketing institutions;

(g) Failure to take quick action against willful defaulters; and

(h) Uncertain agricultural prices.

v) Regional Disparities : There have been large regional disparities in the distribution of cooperative credit. According to the Seventh Plan, the eight states of Andhra Pradesh, Gujarat, Haryana, Kerala, Madhya Pradesh, Maharashtra, Punjab and Rajasthan account for about 80 per cent of the total credit disbursed. The per hectare short-term credit disbursed varied from Rs. 4 in Assam to Rs. 718 in Kerala.

vi) Benefits to Big Land Owners : Most of the benefits from the cooperatives have been covered by the big land owners because of their strong socio-economic position. For instance, in 1984-85 the farmers having holdings less than two hectares got only 38.8 per cent of the total loans granted by the primary agricultural credit societies, whereas the land owners with holdings of more than 2 hectare received 55 per cent. The share of the poorest rural population (i.e. tenants, share croppers and landless labours) was only 6.2 per cent.

vii) Lack of Other Facilities : Besides the provision of adequate and timely credit, the small and marginal farmers also need other facilities in the form of supply of inputs (i.e., better seeds, fertilisers, pesticides, etc), extension and marketing services. These facilities will enable them to utilise the borrowed credit in a proper way. Therefore, the credit societies should be reorganised into multi-purposes cooperatives. Reserve Bank and Cooperative Banking: Strengthening the cooperative credit movement has been the Reserve Bank of India's special responsibility ever since its establishment in 1935. The following are the various measures undertaken by the Reserve Bank to develop cooperative banking system and to promote cooperative finance in the country:

viii) Agricultural Credit Department : The Reserve Bank has a separate Agricultural Credit Department whose functions are: (i) To maintain an expert staff to study all questions of agricultural credit and be available for consolation by the central and state governments, state cooperative banks and other banking organisations; and (ii) To coordinate the operations of the Reserve Bank in connection with agricultural credit and relations with the state cooperative banks and other institutions engaged in the business of agricultural credit.

ix) All-India Rural Credit Survey : The Reserve Bank's real role in the cooperative credit movement started with the appointment of All-India Rural Credit Survey Committee in 1951. The objective of this Committee was to study the problems of rural credit and explore possibilities of expanding agricultural credit through cooperative credit system. The committee submitted its report in December 1954 which highlighted the vital importance of cooperative rural credit. The Committee found that while private credit agencies, i.e., money lenders and traders supply 70 per cent of the rural credit, the cooperative societies provided only 3 per cent of the total borrowed amount. The Committee observed that the rural credit in India fell short of the right quantity, was not of right type, did not serve the right purpose, and often fail to go to the right people. Regarding the future of cooperative credit movement the committee said, "cooperation had failed, but cooperation must succeed."

x) Integrated Scheme of Rural Credit : For the success of cooperative credit movement, the Survey Committee suggested an integrated scheme of rural credit based on the following fundamental principles- (a) state partnership in cooperative credit institutions; (b) full coordination between credit and other agricultural activities, particularly, marketing and processing; and (c) administration through adequately trained and efficient personnel, responsive to the needs of the rural population.

xi) Provision of Finance : In pursuance of the recommendations of the Survey Committee and the later committees like the Committee on Cooperative Credit (1960), the Reserve Bank has activity helped the cooperative system to expand rural credit. The Reserve Bank does not provide finance directly to the agriculturists, but only through cooperative sector. The Reserve Bank provides financial assistance for meeting short-term, medium-term and long-term rural needs. The needs are explained as under:

xii) Short-Term Finance : The Reserve Bank provides short-term finance to the state cooperative banks in two ways- (a) through loans and advances; (b) through rediscounting facility. The financial assistance is given for seasonal agricultural operations and for marketing of crops. In 1950-51, the Reserve Bank sanctioned short- term credit of Rs. 7.6 crore. This amount increased to Rs. 147 crore in 1960-61 and to Rs. 1090 crore in 1981-82.

xiii) Medium-Term Finance : The Reserve Bank provides medium-term loans to state cooperative banks generally for 3 to 5 years. These loans are provided for- (a) land improvements like bunding, digging of wells and water channels; (b) repair of wells and other irrigational schemes; (c) purchase of livestock, implements and machinery; (d) construction of farm houses and cattle sheds. The Reserve Bank also provides medium-term loans in scarcity affected areas. Over the years, the amount of medium- term loans sanctioned by the Reserve Bank has considerably increased from Rs. 27 lakh in 1954-55 to Rs. 24 crore in 1970-71 and to Rs. 110 crore in 1981-82.

(xiv) Long-Term Finance : The Reserve Bank provides long-term financial assistance for a maximum period of 20 years for agriculture in there ways- (a) It subscribes a portion of debentures issued by the land development banks. (b) It grants long term loans to such banks, (c) It grants loans to state governments for subscribing to the share capital of cooperative credit institutions. The total long- term loans sanctioned by the Reserve Bank were Rs. 212 crore in 1981-82.

xv) Setting Up of Funds : To meet its financial obligations, the Reserve Bank set up two national funds in 1956, i.e., the National Agricultural Credit (Long-Term Operations) Funds, and the National Agricultural Credit (Stabilisation) Fund. The Purpose of the Long-Term Operations Funds was- (a) to make long- term loans available to state governments to enable them to subscribe the share capital of cooperative credit institutions; (b) to make medium-term loans to state cooperative banks for agricultural purposes; (c) to make long-term loans to the central land mortgage banks against the guarantee of the state government; and (d) to purchase debentures of central land mortgage banks against the guarantee of state government. The Stabilisation Fund helps the state cooperative banks to convert their short-term loans into medium-term loans in cases of draught, famine or other calamities.

xvi) Strengthening of Cooperative Banking Structure : With a view to strengthen cooperative banking structure and promote cooperative credit, the Reserve Bank undertakes the following measures: (i) It pays special attention towards rehabilitating and revitalising the weaker cooperative units. (ii) It makes arrangements for maintaining the flow of cooperative credit by involving commercial banks to finance the primary agricultural societies. (iii) It makes efforts in improving the lending policies and operational efficiency of cooperative credit institutions. (iv) It provides financial accommodation to cooperative credit institutions. (v) It conducts special training courses at the Cooperative Bankers' Training Colleges for the personnel of state, central and urban banks.

11.7. INSURANCE COMPANIES :

Insurance is essential factor that will help your family needs if any type of accident happen with policyholder gives a financial safety and security, any financial adviser will suggest you to take insurance before starting any type of financial planning. Some reason why insurance is necessary. 1.Insurance provides financial support safety & security If any type of unpredictable situation happen or incident happen with your company or any think (own business) that you runs for you needs, if you insurance taken of your company or any think(own business). Insurance compensation is the only source of income they will stabilize you financial crisis. 2.Insurance will increase the saving Some the different type of product that offered by life or other insurance company will give life cover but with provides different type of financial wealth to achieve the future goals. 3. Insurance is excellent risk management system. Insurance that complete cover of uncertainies like risk of death, any type accident falling sick and many more.Every insurance policy provides coverage against insured risk

11.7.1. Best 10 Insurance Company In India : Hello guys moment with new instructional content that's top 10 insurance company in India with price and policy details in that which type of cover they're given in it. The life is changeable & uncertain, visionary step taken for family to give the sum of plutocrat, any accident be. In India, there are 25 life insurance companies operating which have been approved and honored by IRDAI (Insurance Regulatory and Development Authority in India), which is a nonsupervisory body for insurance and reinsurance diligence. In which we're shortlist some of companies they've multiple advantages with different offer with furnishing all type of insurance with complete cover. The following are the top 10 insurance companies in India viz. .i) Life Insurance Corporation of India (LIC), ii) Max Life Insurance Company, iii) HDFC Life Insurance Company, iv) ICICI Prudential Life Insurance, v) Tata AIA Life Insurance Company, vi) Bharti AXA Life Insurance Company, vii) Bajaj Allianz Life Insurance Company, viii) SBI Life Insurance Company, ix) Reliance Nippon Life Insurance Company, x) AEGON Life Insurance Company

11.7.1. Life Insurance Corporation of India (LIC) : Life insurance corporation of india is most popular Insurance from many decade, this is government own company started in 1959, now the company has worth of 270Billion USD capitalisation. In India 29crore policy holder are there and 2050 LIC branch office,113 divisional offices, 8 zonal offices and 1408 satellite offices. LIC is most trusted insurance company in India under a control of govt of India and now its giving digital service to the customer to easy accessible it.

11.7. 2. Max Life Insurance Company : Max life insurance company is 2nd largest non-banking private sector insurance company, this company started or founded in year 2000. Max life insurance company is one of the fastest-growing insurance companies in India with assets under management of INR 30,450 crores. The company has more than 40lakh+ user base. The company has good online service with various type of multiple product provided in this with various branch offices.

11.7.3. HDFC Life Insurance Company : HDFC is life insurance company founded in year 2000 with company joint venture with HDFC ltd, a leading housing finance institution in India and Standard Life Aberdeen, a global investment company. The company has more than 395+ branch office in India. HDFC is most trusted insurance company provide various different type of insurance HDFC life insurance offers considerable flexibility with their insurance policies, at 99.07%, their claim settlement ratio is quite impressive as well.

11.7 4. ICICI Prudential Life Insurance : ICICI prudential life insurance is build with help of ICICI bank limited this is founded in year 2000. This company has asset of Rs 78,217 Crore. This company has very good user base of insurance with providing very type of insurances. With the customer-centric approach, ICICI Prudential Life offers various long-term protection and savings plans for a diverse customer segment.

11.7. 5. Tata AIA Life Insurance Company : Tata AIA Life Insurance Company is a common adventure between Tata Sons Private Limited, one of the largest business groups and AIA Group Limited, Asia’s largest insurance group. Tata AIA Life Insurance Company’s means under operation is INR 11,305 crores. Being one of the trusted insurance brands in India, Tata AIA Life offers multitudinous insurance results starting from protection to wealth creation. The programs give simple results for unique insurance needs along with excellent client service.

11.7.6. Bharti AXA Life Insurance Company : Bharti AXA Life Insurance was innovated in the time 2006. It’s a common adventure between AXA Group and Bharti Enterprises. The strong fiscal moxie and domestic business excellence of these companies have laid a strong background for the company. Bharti AXA Life has introduced colorful innovative insurance products to feed to the unique requirements of guests. Bharti AXA Life’s distribution network is spread across 125 metropolises in the country. The company offers colorful plans starting from protection plans to save, health and group plans and utmost of them are offered accessibly on an online platform.

11.7.7. Bajaj Allianz Life Insurance Company : Bajaj Allianz Life Insurance Company innovated in the time 2001 is a common adventure between Bajaj Finserv Limited of Bajaj Group. Bajaj Allianz Life has 770 branches across the country to offer innovative insurance results to colorful client parts. Bajaj Allianz Life Insurance is known for its strong innovative products and timely client service. The company has won colorful awards and recognition for its donation to the insurance assiduity.

11.7.8. SBI Life Insurance Company : SBI Life Insurance Company is a common adventure between State Bank of India (SBI), India's largest bank and BNP Paribas Cardif, a French transnational bank and fiscal services company. Presently, SBI Life Insurance has an sanctioned capital of INR 1,13,052 (USD 14 billion). SBI Life was first started as a bancassurance business which is now extended to themulti-distribution channel. With client service excellence and product inventions, the company has been growing time on time. SBI Life has entered numerous awards and accolades for its work in the field.

11.7. 9. Reliance Nippon Life Insurance Company : Reliance Nippon Life Insurance Company, innovated in the time 2001 is one of the leading insurance companies in India feeding to colorful parts of people. Reliance has further than 15 million policyholders. The company has made insurance accessible for numerous through its strong distribution network of 730 branches. Reliance Life has a product for every possible need of the existent.

11.7.10. AEGON Life Insurance Company : AEGON Life Insurance Company, founded in the year 2008 is one among the best to offer various life insurance solutions to various customer segments. AEGON Life is a new age company with a strong digital presence and a diverse product portfolio.

11.7.11. TOP 10 INSURANCE COMPANIES BY THE METRICS :

There are a number of ways to rank the size of insurance companies. Companies can be measured by their market capitalization (the value of the company on a stock exchange) or by using sales figures, such as net premiums written in a year or how many policies were sold. Here, we examine the top 10 largest insurance companies by market cap, market share, and revenues. Insurance companies are important players in the global financial economy, although they may not be as flashy as investment banks or hedge funds. Insurance companies come in many sizes and specialize in different policy lines, from health to life to property & casualty. Market capitalization, or market cap, is the value of a company's outstanding shares. Some insurance companies are mutually owned, in which the policyholders are the owners. When ranking insurance companies, it's important to categorize them according to their product line.

11.7.11.1. Largest Insurance Companies by Market Capitalization : Market capitalization, or market cap, is the total value of a company's stock, and it is calculated by multiplying the number of outstanding shares by the current share price. It is a quick way of determining the value of a company in the eyes of investors. Companies with large market caps are generally established conservative investments. They likely experience steady growth and offer the least amount of risk. Mid-cap companies are also established but have high growth potential. Lastly, small-cap companies are often new companies with high growth potential. Investing in these companies poses the greatest risk because they are more vulnerable to economic downturns than the more established large and mid-cap companies. Investors can buy shares of publicly-traded companies in the insurance industry. The largest non-health insurance companies by market capitalization on the world stock exchanges as of Q1 2022 are:

Publicly Traded Non-health Insurance Companies

Company Name	Market Capitalization
Berkshire Hathaway (U.S.)	$714 billion
Ping An Insurance (China)	$141 billion
AIA Group (Hong Kong)	$123 billion
China Life Insurance (China)	$106 billion
Allianz (Germany)	$89 billion
Cigna (US)	$76 billion
Zurich Insurance (Switzerland)	$67 billion
AXA (France)	$65 billion
Humana (U.S.)	$55 billion
Munich (Germany)	$39 billion

Market cap data as of March 1, 2022. Source: Yahoo! Finance

Publicly Traded Health Insurance and Managed Health Care Companies

Company Name	Market Capitalization
United Healthcare (UNH)	$448 billion
CVS (CVS)	$136 billion
Anthem (ANTM)	$109 billion
Cigna (CI)	$76 billion
Humana (HUM)	$55 billion
Centene Corporation (CNC)	$48 billion
Molina Healthcare (MOH)	$18 billion
Bright Health Group (BHG)	$2 billion
MultiPlan Corporation (MPLN)	$2 billion
Alignment Healthcare (ALHC)	$1.6 billion

Not all insurance companies are publicly traded. In fact, many insurers are structured as mutual companies, where policyholders of participating policies are essentially partial owners of the company. The mutual company model for an insurance company dates back hundreds of years, and there are certain benefits conferred on policyholders that do not exist with publicly traded (stock company) insurers. American Family Insurance is the largest mutual insurance company in the U.S.[1]

11.7.11.2. Largest Insurance Companies by Sales and Product Line

It is useful to differentiate between the type of insurance, or line, that is being considered when considering the largest insurance companies. Using sales data is helpful as some of the largest insurance companies in the United States are not publicly traded and therefore their market value is not easily ascertained.

Property & Casualty : Property and casualty insurers write policies covering property such as real estate, dwellings, cars, and other vehicles. They also write policies dealing with liabilities that may be incurred by accident or negligence related to those properties to defray the cost of lawsuits or medical damages resulting from such incidents. The top U.S. property and casualty companies in 2020 by net premiums written (the amount of money that non-life policies can expect to receive over the life of the contract, less commissions and costs) are:2

Company	Net Premiums Written
State Farm Group	$66.2 billion
Berkshire Hathaway (BRK.A)	$46.4 billion
Progressive Insurance Group (PGR)	$41.7 billion
Allstate Insurance Group (ALL)	$39.2 billion
Liberty Mutual	$36.2 billion
Travelers Group (TRV)	$28.8 billion
USAA Group	$24.6 billion
Chubb (CB)	$24.2 billion
Farmers Insurance Group	$20.1 billion
Nationwide	$18.5 billion

11.7.11.3. Life Insurance Companies : Life Insurance companies promise to pay out a lump sum benefit upon the death of the insured. Although actuarial science has created mortality tables to accurately estimate the future liability of policies to be paid, having financial strength ensures that these companies can meet all of their obligations while still earning a profit.

Life Insurance companies in the U.S. can be ranked by direct premium written (the number of new policies written directly and not re-insured). For 2020:3

Company	Total Direct Premium	Market Share
New York Life Grp	$11.7 billion	6.75%
Northwestern Mutual	$11.3 billion	6.52%
Metropolitan Group (MET)	$10.5 billion	6.05%
Prudential of America (PRU)	$10.1 billion	5.80%
Lincoln National	$8.4 billion	4.83%
MassMutual	$7.9 billion	4.57%

Company	Total Direct Premium	Market Share
State Farm	$5.0 billion	2.87%
Aegon (AEG)	$4.9 billion	2.80%
John Hancock	$4.7 billion	2.73%
Minnesota Mutual Grp	$4.7 billion	2.70%

11.7.11.4. Health Insurance Companies : Health insurance companies provide policies to cover all or part of the policyholder's health and medical costs. Policies may be purchased individually or through an employer. Technically, the United States government is the largest health insurance provider in America through the Medicare program, Social Security, and Medicaid administered by individual states. Based on the National Association of Insurance Commissioners (NAIC) 2020 report, the largest non-government sponsored U.S. health insurance companies measured by total direct premium collected were:3

Company	Total Direct Premium	Market Share
UnitedHealth Group (UNH)	$177 billion	14.1%
Kaiser	$104 billion	8.3%
Anthem	$77 billion	6.2%
Centene Corp.	$75 billion	6.0%
Humana	$74 billion	5.9%
CVS Healthcare (CVS)	$69 billion	5.5%
CIGNA Health	$32 billion	2.5%
Molina Healthcare	$21 billion	1.7%
Independence Health	$21 billion	1.6%

What Do the CEOs of the Largest Health Insurance Companies Make? The following CEOs of the 6 largest health insurance companies make over $15 million annually:4

- Michael Neidorff of Centene earns $26.4 million
- David Cordani of Cigna earns $19.1 million
- David Wichmann of UnitedHealth Group earns $18.9 million
- Joseph Zubretsky of Molina Healthcare earns $18 million
- Bruce Broussard of Human earns $16.7 million
- Gail Boudreaux of Anthem earns $15.5 million
-

11.7.11. 5. Are the Large Insurance Companies Good Investments?

Investing in insurance companies can be a safe option for some investors. Insurance companies are founded to deal with risk, which can ultimately reduce the risks associated with investing in them. Health insurance, subject to rapid changes, has the potential for significant growth compared to other types of insurance companies.

What Are the Largest Homeowners Insurance Companies in the U.S.?

The five largest homeowners insurance companies in the U.S. are State Farm, Allstate, USAA, Liberty Mutual, and Farmers.[6] Together, these companies hold more than 45% of the homeowners' insurance market share.

What Are the Largest Insurance Companies in Canada?

The five largest insurance companies in Canada are Manulife Financial Corporation, Great-West Lifeco, Desjardins, Sun Life Financial, and Fairfax Financial.[7] Manulife is Canada's largest insurance company, employing over 35,000 employees and serving more than 30 million customers.

The Bottom Line: Ranking the largest insurance companies can be done in a number of ways. Shares of publicly traded companies can be bought to help build a well-diversified investment portfolio that has exposure to the financial and healthcare sectors. Identifying which types of insurance a company primarily deals with helps determine which firms are competitors and which really are not. Looking at sales figures, or premiums collected in a year, one can also see how public companies stack up against privately held or mutual companies which make up a large segment of the industry. Investopedia does not provide investment or financial advice. The information is presented without consideration of the investment objectives, risk tolerance, or financial circumstances of any specific investor and might not be suitable for all investors. Past performance is not indicative of future results. Investing involves risk, including the possible loss of principal.

11.8. SUMMARY :

Introduction to concept of Financial Intermediaries , Components of Life insurance, Credit and Investments Corporation of India, Unit Trust of India & Land Mortgage Banks,. Cooperative Banks. Insurance CompaniesThe overall economic stability of a country may be shown through the activities of financial intermediaries and the growth of the financial services industry. Financial intermediaries move funds from parties with excess capital to parties needing funds. The process creates efficient markets and lowers the cost of conducting business.

11.9. TECHNICAL TERMS :

ICICI :

ICICI Bank, a leading private sector bank in India, offers Netbanking services & Personal banking services like Accounts & Deposits, Cards, Loans, Insurance & Investment products to meet your banking needs.

Land Mortgage Banks :

A land mortgage bank is a financial institution that specializes in lending money for the purchase of land. Land mortgage banks are different from banks in that they focus their lending on a specific type of loan, and they are usually smaller and have a more personal relationship with their customers.

Life insurance :

Life insurance has meaning especially for those with minor children, children with special needs, those who wish to secure the financial future of their family or wish to build savings over the long term.

Unit Trust of India :

UTI is an abbreviation for Unit Trust of India. Unit Trust of India was first set up on February 1, 1964. It was set up under the act of Unit Trust of India Act in 1963. UTI is a statutory public sector investment institution that has the main objective to encourage as well as to mobilize the savings of the community.

11.10. SELF-ASSESSMENT QUESTIONS :

1. What is financial Intermediaries? Explain about different types of financial Intermediaries
2. What is UTI? What are the merits and demerits of UTI?
3. What are the difference between commercial banks and cooperative banks?
4. What are the difference between mortgage banks and development banks?
5. Discuss about ICICI.

11.11. SUGGESTED READINGS :

1. V.A. Avadhani, Marketing of Financial Services, Himalayas Publishers, Mumbai .
2. DK Murthy, and Venugopal, Indian Financial System, IK Int Pub House.
3. Anthony Saunders and MM Cornett, Fin Markets & Institutions, TMH.
4. Punithavathy Pandian, Financial Markets and Services, Vikas, New Delhi.

Dr. MEERAVALI SHAIK

LESSON – 12

UNORGANIZED MONEY MARKET

AIMS AND OBJECTIVES :

After studying this lesson students should be able to

- To know the concept of Indian Money Market: Unorganised Sectors
- To understand Defects of Indigenous Banking
- To acquired knowledge on types of Indigenous Bankers
- To Suggestions To Reform Indigenous Banking
- To acquired knowledge on Chit Funds, Nidhis, Money Lenders, etc.

STRUCTURE OF THE LESSON :

12.1. Introduction: Unorganized Sector

12.2. Indian Money Market: Unorganised Sectors

12.3. Chit Funds

12.4. Nidhis

12.5. Indigenous Bankers

12.6. Money Lenders

12.7. Defects of Indigenous Banking

12.8. Suggestions To Reform Indigenous Banking

12.9. Summary

12.10. Technical Terms

12.11. Self-Assessment Questions

12.12. Suggested Readings

12.1. INTRODUCTION - UNORGANIZED SECTOR :

Unorganized Sector Workforce in India : India's workforce comprises nearly 92 per cent in the unorganised segment, with the entire farm sector falling under the informal category, while only one-fifth of the non-farm workers are found in the organized segment. Estimates suggest that in the non-farm sectors, as we move up the income ladder, the share of the informal sector gradually declines. However, as far as the agricultural sector is concerned, irrespective of economic class, the share of the unorganised workforce remains flat.

The organised sector of the money market consists of the Reserve Bank of India, commercial banks, companies lending money, financial intermediaries such as the Life Insurance, Credit and Investments Corporation of India, Unit Trust of India, Land Mortgage Banks, Cooperative Banks, Insurance Companies etc. and call loan brokers, and stock brokers. The organised sector is mainly composed of the commercial banks, cooperative banks and discount houses, acceptance houses and land mortgage banks. The unorganised sector is largely outside the control of the Central Bank and is characterised by lack of uniformity in their business dealings. In India, the indigenous bankers and money lenders, traders, are important segment of unorganised money market.

12.1.1. Reasons for persistence of Unorganized Money Market in India :

i) Lack of penetration and presence of the instruments of the organized money market

ii) There are many needful customers in the money market who are currently outside the purview of the organized money market

iii) Entry to the organized money market for its customers is still restrictive in nature— not allowing small businessmen

12.1.2. The unorganised money market in India may be divided into three differing categories :

12.1.2 a) Share in national income: The Non-Corporate or unincorporated sector constitutes largest portion of the economy in terms of value addition, savings, investments etc. The share of corporate sector is around 12-14 percent in our national income while that of unincorporated [non-corporate] or Bhagidari sector is more than 30 percent. In the case of United States, the share of corporate business is nearly 70 percent. Even in manufacturing activity the share of non-corporate sector is nearly 40 percent if we consider the unregistered manufacturing group (fully non-corporate sector) plus the partnership proprietorship groups in the registered manufacturing group.

The non-corporate forms of organisations are major players in such activities as manufacturing, construction, transport, trade, hotels and restaurants, and business and personal services.

The informal sector plays a significant role in the economy in terms of employment opportunities and poverty alleviation. This sector generates income-earning opportunities for a large number of people. In India, a large section of the total workforce is still in the informal sector, which contributes a sizeable portion of the country's net domestic product. The unorganised sector has a crucial role in our economy in terms of employment and its contribution to the National Domestic Product, savings and capital formation.

Generally, all enterprises which are either registered or come under the purview of any one of the acts like the Indian Factories Act 1948, Mines and Minerals (Regulation and Development) Act, 1957, the Company Law, the Central/State Sales Tax Acts, the Shops and Establishment Acts of the State governments, are defined as part of the organized sector. Also included are all government companies, departmental enterprises and public sector corporations.

"Similarly, forestry, irrigation works, plantations, recognised educational institutions, and hospitals which are registered as non-profit making bodies are also classified as organised sector...all unincorporated enterprises and household industries which are not regulated by any acts of the above mentioned type and which do not maintain any annual reports presenting the profit and the loss and balance sheets are classified as unorganized" (National Accounts Statistics- NAS 1980: pp 69).

A partnership firm may, thus, be grouped under the 'organised sector' if it was covered under any of the statutes mentioned and if it maintained annual accounts. Otherwise it would be classified under the 'unorganised sector'. Thus, non-corporate enterprises can figure under either of the two (organised and unorganised) sectors in the national income classification.

The unincorporated or non-corporate sector has the largest share of national income, manufacturing activities, services, savings, investment, taxes, credit market, employment, forex earnings, etc. Yet it is little understood, dismissed as 'un-organised', 'informal' or 'residual' sector. It is important that the nature and role of this sector are explored to see how it impacts the economy, says R. Vaidyanathan.

12.1.2. b) Informal sector : From the point of view of mode of production or economic activity, the distinguishing features of the informal sector are as follows:

i) Low level of organisation; small in scale usually employing fewer than ten workers and often from the immediate family;

ii) Heterogeneity in activities;

iii) Easier entry and exit than in the formal sector;

iv) Usually minimal capital investment; little or no division between labour and capital;

v) Mostly labour intensive work, requiring low-level skills; there is usually no formal training as workers learn on the job;

vi) Labour relations based on casual employment and or social relationships as opposed to formal contracts; employer and employee relationship is often unwritten and informal with little or no rights;

vii) Due to their isolation and invisibility, workers in the informal sector are often largely unaware of their rights, cannot organise them and have little negotiating power with their employers and intermediaries (ILO 2000). Informal or unorganized sector workers dominate the Indian labor market and represent some 90% of the total Indian workforce. India's unorganized sector is one of the largest, if not the largest, in the post-industrial world. Informal employment that characterizes the unorganized sector comprises both self-employment in informal enterprises (small or unregistered) and wage-based employment undertaken without a transparent employment contract in both informal and formal sector enterprises.

12.1.2. c) Sources of Finance : It is believed that the unorganized manufacturing sector of industries is starved of capital and since they fail to get access to the organized sources of finance, they borrow from the unorganized credit market often at high interest rates. It is felt that there is urgent need for the state to intervene in order to raise their capital. In response to this demand the state has become quiet active over the past few decades in promoting institutional finances for this unorganized sector. Public and private commercial banks and central and state level term lending institutions, cooperative societies etc. are directed/ encouraged by the state to provide loans to the unorganized manufacturers at low interest rates. Over the years, the share of these institutional sources in total outstanding loans of the unorganized manufacturing sector has increased steadily.

The informal financial sources generally include funds available from the family or moneylenders who operate outside the legal and policy framework of banks. Apart from this, the chit fund is another form of credit source operated by groups of people for mutual benefit; but this approach has its own limitations. Credit in the informal system is usually available on tap. The loans are granted mostly without collateral and lengthy documentation formalities as the lender depends mainly on the personal knowledge of, and contact with, the borrower. However, over the years, a few NGOs have engaged themselves in activities related to community mobilisation for savings and credit-related operations targeted at some groups in the rural sector.

12.1.2. d) Informal finances in other countries : Predominance of non-institutional finance is not unique to India; it is more widespread. It is not only in the developing countries but also in more advanced economies like Brazil, Russia, China, self raised fund, primarily borrowed from non-institutional sources like moneylenders, friends and relatives, business partners, traders, distributors, profits from business, etc, constitutes a large part of their total financing in new investments. The non-corporate forms of organisations are major players in such activities as manufacturing, construction, transport, trade, hotels and restaurants, and business and personal services. Terming them as "un-organised" is inappropriate as they are well-organised from the economic and organisational point of view. They are not the residual segment of the economy. They are very much part of the "formal" system of laws/rules/regulations. Hence, we will use the term of Uninc (unincorporated) or sometimes non-corporate sector.

12.2. INDIAN MONEY MARKET - UNORGANISED SECTORS :

The money market is an organized exchange market where participants can lend and borrow short-term, high-quality debt securities with average maturities of one year or less. It enables governments, banks, and other large institutions to sell short-term securities to fund their short-term cash flow needs.

We notice the following features of the Indian money market :

i) Seasonality of demand: First, a major characteristic of the Indian money market is that the seasonality of demand for credit broadly follows the course of the agricultural seasons. The implication is that during the busy season the commercial banks have to borrow from the RBI, while the level of such borrowings declines during the slack season. This provides a very useful lever to the RBI in controlling the volume of credit.

ii) Organized and unorganized sectors : Secondly, Indian money market consists of organized and unorganized sectors. As already pointed out, the organized sector is composed of the RBI, Commercial banks, Co-operative banks, Land mortgage banks. Considering the continental character of the country, the banking development is most inadequate for the needs of trade and industry largely because of the hoarding habit of the people.

iii) Strengthening the organised money market in India : Thirdly, with a view to strengthening the organised money market in India, new institutions have been established and consolidated to either lend on long-term basis or regulate credit in a prescribed manner. The new institutions which have come up after independence are IFC (1948), NIDC (1954), ICIC (1955), SFC (1951), NSIC (1955), UTI (1964) and the IDBI (1964).

iv) Indian money market is dominated by the unorganized sector : Fourthly, the Indian money market is dominated by the unorganised sector. The only link that exists between the organised and unorganised sectors is through commercial banks. Indigenous bankers carry on their activities through the media of these commercial banks.
In rural areas, they do so through cooperative credit societies. However, a number of credit societies are under the control of money lenders. It seems that a growing number of spurious cooperative societies have been organised solely to enable these money lenders to take advantage of the concessions they offer.

v) A conservative estimate places : Fifthly, unorganised market has of late been strengthened with the addition of unaccounted or black money. A conservative estimate places this amount at between Rs. 2,500 and Rs. 10,000 crores. As a result of the income velocity of money, considerable savings will be accruing in the unaccounted income sector. These sectors seek outlets which again escape from the tax net and thus enlarge the un-accounted sector. Unaccounted money is used in smuggling of goods, drugs, and precious metals and in real estates. These high return activities are invariably financed by the black money.

The impact of unaccounted money on the money market is very significant. With its growth in the country a number of mushroom indigenous bankers have sprang up, who are quite different from the traditional bankers and it reported that they lend money at very high rate of interest.
The indigenous money market has itself become a lawless market. The unaccounted money as part of the unorganised money market is invested in property, smuggling, trade and real estate. This fact has further limited the effectiveness of monetary policy.

No direct link between the unorganised and organised money markets : Sixthly, there is no direct link between the unorganised and organised money markets. It is essential to establish a link between the two markets.

The above figure shows the unorganised money market with the growth of unaccounted money.
Seventhly, the bill market system is yet to develop fully. The bill market is one of the important sub-markets of the money market. The bill market or discount market refers to the market where short dated bills are bought and sold. The treasury bills are the most important instrument used in the bill market. The Bill Market scheme was introduced in 1952 and in 1970 but is only partially successful.

vii) Well-developed money market :
Lastly, a well-developed money market will have close links with the leading money markets of the world and will be sensitive to the developments in these foreign markets. But the Indian money market is an insular one with little contract with foreign markets.

Partly due to the exchange control restrictions on capital movements there is no movement of funds between the Indian money market and the foreign market. The Indian money market does

viii) Not attract any foreign funds :

Money market is the place or mechanism where short-term instruments that mature within a year are traded. Money market meets the working capital requirements of industry, trade and commerce. Long-term requirements of industries are not met by money market instruments.

The central bank occupies a pivotal position in money market. It is regarded as 'presiding deity' of money markets. Its function is not only that of a watch dog of the monetary system but also of a promotional and development banker.

On the other hand, capital market is a market in which lenders or investors provide long-term funds in exchange for financial assets offered by borrowers and holders. The primary purpose of capital market is to direct the flow of savings into the long-term investments. The distinction between the money market and capital market is based on the difference in the period of the financial assets. Though the terms money market and capital market are used interchangeably, they differ in a number of ways. Money market primarily exists as a means of liquidity adjustment. But a capital market's main function is to serve as a link between long-term investors and long-term borrowers. Secondly, money market and capital market instruments also differ in terms of risk. Money market instruments generally carry low credit risk and low market risk. Capital market instruments include bonds, debentures, equity shares and preference shares.

Unorganised Money Market : Before the government started the organised development of the money market in India, its unorganised form had its presence since the ancient times—its remnant is still present in the country. Their activities are not regulated like the organised money market, but they are recognised by the government. Reasons for persistence of Unorganised Money Market in India. Lack of penetration and presence of the instruments of the organised money market. There are many needful customers in the money market who are currently outside the purview of the organised money market. Entry to the organised money market for its customers is still restrictive in nature— not allowing small businessmen. The unorganised money market in India may be divided into three differing categories:

Unregulated Non-Bank Financial Intermediaries : These receive deposits and lend money in the capacity of an individual or a private firms.

Unregulated Non-Bank Financial Intermediaries : These are functioning in the form **of chit funds, nidhis** (operate in South India, which lend to only their members) and loan companies They charge very high interest rates (i.e., 36 to 48 per cent per annum), thus, are exploitative in nature and have selective reach in the economy

12.3. CHIT FUNDS :

A chit fund is a very popular type of savings scheme in India it is one of the main parts of the unorganized money market industry. The chit fund company, which runs a chit fund, provides access to savings and borrowings for people with limited access to banking facilities. These chit funds are run by chit fund companies and in the article below, we will look at the functioning of chit fund companies, the chit fund business model and the chit fund business registration in India.

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12.3.1. What is a Chit Fund Company?

Any entity managing the scheme is typically referred to as a chit fund company. The individual participating in this scheme is referred to as the member. Such a company will commonly have many different schemes. Each of them will have a set of members and a limited duration. These schemes are operated by the companies with the registration under the relevant Chit Fund act. Operations typically involves floating of chit fund schemes, finding the potential members, enrolling the members into a chit, collecting the contributions, conducting the chit auctions, distributing the funds and then most importantly maintaining the books. The companies earn a fixed amount of the member's contribution to operating the schemes. To start with, such a company usually advertises a scheme and then starts to enrol interested members. All the schemes have a period, contribution and a set of members. The number of members in the chit will equal to the time, and each of these members will be required to contribute a fixed amount of money for each period.

12.3.2. Chit Fund Business Model :

Let us assume that a fund is started with around 12 members. And operating for 12 months with each member contributing Rs.10,000 monthly. The chit company will then collect Rs.120,000 every month and offer this amount in an auction, less the chit company fee and the discount. So, the chit will be offered each month to its members at Rs. 96,000 (10% is the chit company fee and 10% is the discount).

If any one of the members is interested in receiving the auction, then she/he is allowed to receive the entire chit auction amount. If more than one individual would like to receive the chit auction, then one person is randomly selected as a luck member. And if no member wants to receive the chit auction, then the chit is offered without any discount at Rs. 120,000 and then a reverse auction is conducted.

The individual offering the lowest amount is then awarded the chit auction amount. Anyways, every member of the chit receives the chit auction once, the chit discount is spread evenly amongst all the members. And Chit Company only earns a fixed fee for operating the fund.

12.3.3. Chit Fund Registration :

The business in India is regulated under the Chit Fund Act, 1982. According to the Act, a “chit” means a transaction whether called chit, chit fund, chitty, Kuri or by any other name by or under which a person agrees with a specified number of individual that every one of them will subscribe to a certain sum of money (or instead a certain quantity of grain) by way of periodical instalments over a definite period and that each such subscriber will, in her/his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in chit agreement, be entitled to prize amount. A transaction is not a chit if some alone, but not all, of subscribers, get the prize amount without any liability to pay the future subscriptions or all the subscribers get the chit amount by turns with a liability to pay future subscriptions. Though the chit fund companies are a category of Non-Banking Financial Companies (NBFC), the chit funds are exempt from being registered with the Reserve Bank of India. The chit funds are a category of NBFC which are regulated by the other regulators. And hence exempt from the requirement of registration with RBI. To start this business in India, it is suggested that the promoters of the chit fund company should first start a Private Limited Company to operate a chit fund business. Once the private limited company is formed, the company can then apply with the appropriate Chit Fund Registrar of the State to obtain the registration. A chit fund business can only be started after obtaining the chit fund business registration from the relevant State Registrar.

12.3.4. The registration will not be given to :

1. Any individual or entity convicted of any offence under the Chit Fund Act or any other Act regulating the business and sentenced to imprisonment for any such offence; or
2. Any individual or entity who had defaulted in payment of the fees or the filing of any statement or the record required to be paid or filed under this Act or had previously violated any of the provisions of this Act or the rules made thereunder; or
3. Any individual or entity had been convicted of any offence that involves moral turpitude and had been sentenced to imprisonment for any such offence unless a period of five years has elapsed since his/her release.

12.3.5. What are the documents required to start a Chit Fund?

While these companies are often thought to be illegal, this is rather untrue. This industry is completely regulated by the government, though these companies aren’t registered with the Reserve Bank of India. However, no individual in India can start a chit fund business until she/he is registered with the chit registrar. Every district or city has a chit registrar, where one needs to go and apply for the chit fund registration. Nevertheless, before one goes there, one must register a private limited company in India under the Companies Act and then register to apply for the license with chit registrar.

12.3.6. Documents for starting a Chit Fund Company : Personal documents of the director
i) PAN Card details, ii) ID proof (Voter ID card, passport, Aadhar card, driving license)
iii) Address proof (Latest bank statement, electricity bill, mobile bill, telephone bill)
iv) Passport size photograph

12.3.7. Registered office documents : i) Latest electricity bill, ii) Rental agreement (in case the premises is rented) and a NOC from the landlord iii) Sale deed (in case the property is owned)

12.4. NIDHIS :

What is Nidhi Company? Nidhi Company is a company registered under Companies Act and notified as a Nidhi company by Central Government under Section 620A of Companies Act, 1956. It is a non-banking finance company doing the business of lending and borrowing with its members or shareholders. According to the tradition, each nidhi is personified as having a guardian spirit, and some tantrikas worship them. The nature and characteristics of nidhis have remained largely unexplained and have not been fully understood. Nidhis are also called Nidhana, Nikhara, and Sevadhi. Some of the nidhis' names are used in the Indian numbering system . Nidhi companies are governed by Nidhi Rules, 2014. They are incorporated in the nature of Public Limited company and hence, they have to comply with two set of norms, one of Public limited company as per Companies Act, 2013 and another is for Nidhi rules, 2014. The principal source of funds is the contribution from the members. The loans are given to the members at relatively reasonable rates for purposes such as house construction or repairs and are generally secured. The deposits mobilized by Nidhis are not much when compared to the organized banking sector.

12.4.1. Nidhi Company- Companies Act- 2013 CS Divesh Goyal| Company Law :

Nidhi" means a company which has been incorporated as a Nidhi with the OBJECT of Cultivating the habit of thrift and Savings amongst its members, Receiving deposits from, and Lending to, its members only, for their mutual benefit, and Which complies with rules of Chapter XXVI of Companies Rules, 2014. Nidhi in the Indian context / language means "TREASURE". However, in the Indian financial sector it refers to any mutual benefit society notified by the Central / Union Government as a Nidhi Company. They are created mainly for cultivating the habit of thrift and savings amongst its members. The companies doing Nidhi business, viz. borrowing from members and lending to members only, are known under different names such as Nidhi, Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company.

12.4.2. Nidhi's are more popular in South India : Nidhi's are more popular in South India and are highly localized single office institutions. They are mutual benefit societies, because their dealings are restricted only to the members; and membership is limited to individuals. The principal source of funds is the contribution from the members. The loans are given to the members at relatively reasonable rates for purposes such as house construction or repairs and are generally secured. The deposits mobilized by Nidhi's are not much when compared to the organized banking sector. Since Nidhi's come under one class of NBFCs, RBI is empowered to issue directions to them in matters relating to their deposit acceptance activities. However, in recognition of the fact that these Nidhi's deal with their shareholder-members only, RBI has exempted the notified Nidhi's from the core provisions of the RBI Act and other directions applicable to NBFCs. As on date (February 2013) RBI does not have any specified regulatory framework for Nidhi's. What is Nidhi Company? Nidhi Company is a company registered under Companies Act and notified as a Nidhi company by Central Government under Section 620A of Companies Act, 1956. It is a non-banking finance company doing the business of lending and borrowing with its members or shareholders.

12.4.5. The Central Government made 'Nidhi Rules, 2014 : Applicability The Central Government made 'Nidhi Rules, 2014' for the purpose of carrying out the objectives of 'Nidhi' companies. These rules shall be applicable to- Every company which had been declared as a Nidhi or Mutual Benefits under Section 620A(1)of Companies Act, 1956; Every company functioning on the lines of a Nidhi company or Mutual benefit society but has either not applied for or has applied for and is awaiting notification to be a Nidhi or Mutual Benefit Society under Section 620A(1)of Companies Act, 1956;

12.4.6. A Nidhi company to be incorporated under this Act : Every company incorporated as a Nidhi pursuant to the provisions of Section 406 of the Companies Act, 2013. Requirements for Nidhi Company A Nidhi company to be incorporated under this Act shall be a Public Company; It shall have a minimum paid up equity share capital of 5,00,000/-; No preference shares shall be issued. If preference shares had already been issued by a Nidhi Company before commencement of this Act, such preference shares are to be redeemed in accordance with the terms of issue of such shares; The object of the company shall be cultivating the habit of thrift and savings amongst its members, receiving deposits from and lending to its members only for their mutual benefits; It shall have the words 'Nidhi Limited' as part of its name; Requirement after Incorporation: Every Nidhi shall, within a period of one year from Incorporation, ensure that it has— Minimum number of members should be 200; Net owned funds shall be Rs.10,00,000/- or more ('Net owned funds' means the aggregate of paid up equity share capital and free reserved as reduced by the accumulated and intangible assets appearing in the last audited balance sheet); Ratio of net owned funds to deposit shall be not more than 1:20; Unencumbered term deposits of not less than 10% of the outstanding deposits as specified in Rule 14;

12.4.7. General restrictions Rule 6 provides general restrictions : According to this Rule no Nidhi shall- Carry on the business of Chit Fund, Hire Purchase Finance, Leasing Finance, Insurance or Acquisition of Securities issued by anybody corporate; Issue Preference Shares, Debentures or Any Other Debt Instrument by any name or in any form whatsoever; Open any Current Account with its members; Acquire another company by; Purchase of securities or Control the composition of the Board of Directors of any other company in any manner whatsoever or Enter into any arrangement for the change of its management, unless it has passed a special resolution in its general meeting and also obtained the previous approval of the Regional Director having jurisdiction over Nidhi; Carry on any business other than the business of borrowing or lending in its own name; Accept Deposits from or lend to any person, other than its members; Pledge any of the assets lodged by its members as security; Take Deposits from or lend money to anybody corporate; Enter into any Partnership Arrangement in its borrowing or lending activities; Issue or cause to be issued any advertisement in any form for soliciting deposit; Pay any brokerage or incentive for mobilizing deposits from members or for deployment of funds or the granting loans. NOTE:

12.4.8. Nidhi's provide locker facilities on rent to its members : Nidhi's which have adhered to all the provisions of these rules may provide locker facilities on rent to its members subject to the rental income from such facilities not exceeding 20% twenty per cent of the gross income of the Nidhi at any point of time during a financial year. Membership A Nidhi shall not submit a body corporate or trust as a member. Except as otherwise permitted under these rules, every Nidhi shall ensure that its membership is not reduced to less than 200 members at any time. A minor shall not be admitted as a member of Nidhi. But deposits may be accepted in the name of a minor, if they are made by the natural or legal guardian who is a member of Nidhi. Share capital and allotment Rule 7 provides that every Nidhi shall issue equity shares of the nominal value of not less than Rs.10/- each. This requirement shall not apply to a company which has been declared as a Nidhi company. Provided that this requirement shall not apply to a company referred below: Every company which had been declared as a Nidhi or Mutual Benefits under Section 620A(1)of Companies Act, 1956; Every company functioning on the lines of a Nidhi company or Mutual benefit society but has either not applied for or has applied for and is awaiting notification to be a Nidhi or Mutual Benefit Society under Section 620A(1)of Companies Act, 1956;

12.4.9. Every Nidhi shall invest and continue to keep invested : Every Nidhi shall invest and continue to keep invested, in unencumbered term deposits with a scheduled commercial bank or post office deposits in its own name an amount which shall not be less than 10% of the deposits outstanding at the close of the business on the last working day of the second preceding month. In case of unforeseen commitments, temporary withdrawal may be permitted with the prior approval of the Regional Director for the purpose of repayment to depositors, subject to such conditions and time limit which may be specified by the Regional Director to ensure restoration of the prescribed limit of 10% Loan A Nidhi shall provide loans only to its members. The loans given to a member shall be subject to the following limits: 2,00,000/- where the total amount of deposits from members is less than Rs.2 crores; 7,50,000/- where the total amount of deposits from its members more than Rs.2 crores but less than Rs.20 crores; 12,00,000/- where the total amount of deposits from its members is more than Rs.25 crores but less than Rs.50 crores; 15,00,000/- where the total amount of deposits from its members is more than Rs.50 crores.

12.4.10. Director : The director shall be a Member of Nidhi. He shall hold office for a term up to 10 consecutive years on the Board. He shall be eligible for re-appointment only after the expiration of 2 years ceasing to be a director. Where the tenure of any director in any case had already been extended by the Central Government it shall terminate on expiry of such extended tenure. The person to be appointed as a Director shall comply with the requirements of Section 152(4) of the Act and shall not have been disqualified as provided in Section 164 of the Act. Auditor: The tenure of Auditor is five consecutive years. No auditor or audit firm as auditor shall be appointed for more than two terms of five consecutive years. The auditor shall be eligible for subsequent appointment after the expiration of two years from the completion of his term. The Auditor of the company shall furnish a Certificate every year to the effect that the company has complied with all the provision contained in the rules and such certificates shall be annexed to the audit report and in case of non compliance he shall specifically state the rules which have not been complied with. Branches: A Nidhi may open branches only if it has earned net profits after tax continuously during the preceding three financial years. The company may open up to 3 branches only within the district. If it proposes to open more than 3 branches within the district or any branch outside the district, it shall obtain prior permission of the Regional Director and intimation is to be given to the Registrar about opening of every branch within 30 days of such opening.

12.4.11. Open branches or collection centers : No Nidhi shall open branches or collection centers or offices or deposit centers, or by whatever name called outside the State where its registered office is situated. Further branches or collection centers or offices or deposit centers shall be opened unless financial statement and annual return are filed with the Registrar. Close of Branch: A Nidhi shall not close any branch unless: It publishes an advertisement in a newspaper in vernacular language in the place where it carries on business at least 30 days prior to such closure. Informing the public about such closure; fixes a copy of such advertisement or a notice informing such closure of the branch on the notice board of Nidhi for a period of at least 30 days from the date on which advertisement was published and Gives intimation to the Registrar within 30 days of such closure. Returns:

12.4.12. Closure of the first financial year : Within 90 days from the closure of the first financial year after its incorporation and where applicable, the second financial year, Nidhi shall file a return of statutory compliances in Form NDH – 1 along with such fee as prescribed with the Registrar duly certified by a Company Secretary in practice or a Chartered Accountant in practice or a Cost Accountant in practice. If the company is not complying with the above it shall within 90days from the close of the first financial year, apply to the Regional Director in Form NDH -2 along with fee for extension of time and The Regional Director may consider the application and pass orders within 30 days of the receipt of the application. If there is failure the Nidhi shall not accept any further deposits from the commencement of the second financial year till it complies with the provisions besides being liable for penal consequences provided in the Act.

12.4.13. Every Company Covered Under Rule 2 Shall File Half Yearly Return With The Registrar : In Form NDH-3 along with such fee as provided in Companies (Registration Offices and Fees) Rules, 2014 within thirty days from the conclusion of each half year duly certified by a company secretary in practice or chartered accountant in practice or cost accountant in practice. Companies Covered under Rule -2 are following: Every company which had been declared as a Nidhi or Mutual Benefits under Section 620A(1)of Companies Act, 1956; Every company functioning on the lines of a Nidhi company or Mutual benefit society but has either not applied for or has applied for and is awaiting notification to be a Nidhi or Mutual Benefit Society under Section 620A(1)of Companies Act, 1956; Every company incorporated as a Nidhi pursuant to the provisions of Section 406 of the Companies Act, 2013. Power to enforce compliance

12.4.14. The Registrar of Companies may call for such information or returns from Nidhi as he deems necessary and may engage in the services of Chartered Accountants, Company Secretaries in practice, Cost Accountants or any firm thereof from time to time for assisting him in the discharge of his duties. The REGIONAL DIRECTOR may appoint a Special Officer to take over the management of Nidhi in case the Nidhi has violated these rules or has failed to function in terms of the Memorandum and Articles of Association.

12.4.15. The Special Officer shall function as per the guidelines given by such Regional Director. An opportunity of being heard shall be given to the concerned Nidhi by the Regional Director before appointing any Special Officer. Penalty If a company contravenes any of the provisions of the rules the company and every officer of the company who is in default shall be punishable with fine which may extend to Rs.5,000/- and where the contravention is a continuing one, with a further fine which may extend to Rs.500/- for every day after the first during which the contravention continues. NOTES: Rule 9– Every Nidhi shall maintain Net Owned Funds (excluding the proceeds of any preference share capital) of not less than ten lakh rupees or such higher amount as the Central Government may specify from time to time.

The unorganized sector of the money market is largely made up of i) Indigenous bankers, ii) Money lenders, iii) Traders, iv) Commission agents

12.5. INDIGENOUS BANKERS :

Indigenous bankers constitute the ancient banking system of India. They have been carrying on their age-old banking operations in different parts of the country under different names. In Chennai, these bankers are called Chettys ; in Northern India Sahukars, Mahajans and Khatnes; in Mumbai, Shroffs and Marwaris; and in Bengal, Seths and Banias. According to the Indian Central Banking Enquiry Committee, an indigenous banker or bank is defined as an individual or private firm which receives deposits, deals in hundies or engages itself in lending money. The indigenous bankers can be divided into three categories: (a) those who deal only in banking business (e.g., Multani bankers); (b) those who combine banking business with trade (e.g., Marwaris and Bengalies); and (c) those who deal mainly in trade and have limited banking business.

The indigenous banker is different from the moneylender. The moneylender is not a banker; his business is only to lend money from his own funds. The indigenous banker, on the other hand, lends and accepts funds from public.

12.5.1: FUNCTIONS OF INDIGENOUS BANKERS : The indigenous bankers perform a number of banking and non-banking functions which are explained as under:

i) Accepting Deposits : The indigenous bankers accept deposits from the public which are of current account and for a fixed period. Higher interest rate is paid on fixed account than on current account. Entries relating to deposits received, amount withdrawn and interest paid are made in the pass-books issued to the clients. The indigenous bankers also get funds from the commercial banks, friends, relatives and even from each other.

ii) Advancing Loans : The indigenous bankers advance loans against security of land, jewellery, crops, goods, etc. Loans are given to known parties on the basis of the promissory notes. Loans given on the security of land and buildings are based on mortgages registered with the Registrar of the area.

iii) Discounting Hundis : Discounting of hundis is an important function of indigenous bankers. They write, buy and sell hundis which are bills of exchange. Hundis are of two types: (a) Darshni or sight hundi which is payable on demand, and (b) Muddati or time hundi which is payable after the period mentioned on the face of the hundi.

iv) Remittance Facilities : The indigenous bankers also provide remittance facilities to their clients. This is done by writing a finance bill to their branches, if they have at other place, or to some other indigenous banker, with whom they have such arrangements.

v) Financing Inland Trade : They finance both wholesale and retail traders within the country and thus help in buying, selling, and movement of goods to different trading centres.

vi) Speculative Activities : They indulge in speculation of food and non-food crops, and other articles of consumption.

vii) Commission Agents : They act as commission agents to firms.
viii) Run Firms : Some of the non-professional indigenous bankers run their own manufacturing processing or service firms, and on the strength of that they provide expertise and working capital to small industrialists.
ix) Subscribe to Shares and Debentures : They provide long-term finance by subscribing to the shares and debentures of large companies.

12.5.2. Importance of Indigenous Bankers :

The indigenous bankers have been playing a significant role in the economic life of India. When commercial banking had not developed, they were the main source of finance for agriculturists, traders, businessmen, small industrialists, etc. After nationalisation of commercial banks and the spread of banking in urban and rural areas, the activities of indigenous bankers have declined, but their importance has not become less because of the difficulties still faced by the borrowers in getting loans from the banks.

Borrowers Approach Them Directly And Informally And Get Loans Promptly And Easily
The borrowers approach them directly and informally and get loans promptly and easily. They do not have any fixed banking hours and do not enter into formalities and procedures followed by commercial banks in advancing loans. That is why they are still popular with traders, businessmen, agriculturists, and ordinary people. They give loans mostly for productive purposes to meet the immediate and short-term needs of the borrowers.

Provide Finance And Remittance Facilities To Traders And Small Industrialists By Advancing Loans : Indigenous bankers provide finance and remittance facilities to traders and small industrialists by advancing loans; writing, buying and selling hundis; writing finance bills and trade bills. Thus they help not only in financing internal trade but also in expanding it. In particular, they help in the movement of agricultural products from rural areas to markets, and of industrial products to different parts of the country.
Those indigenous bankers who combine banking with trading and agriculture help the farmers by lifting their produce from the farms, paying them in cash on the spot, and also giving them loans.

12.5.3. Types Of Indigenous Bankers :

These receive deposits and lend money in the capacity of an individual or a private firms. The non-homogenous groups under this category include **Gujarati Shroffs, Multani or Shikarpuri Shroffs, Marwari Kayas, Chettiars**

Of the four main types of indigenous bankers, the Gujarati shroffs are the most important. In recent years Shikarpuri shroffs have lost more and more their old character of indigenous bankers and taken on the role of ‘commercial financiers’, who mainly lend out of their owned funds. We study only about these two types. This will also throw light on the main functions performed by other types of indigenous bankers as bankers, once we remember that none of them performs all these functions, and that there are differences in the methods of operation of various types of indigenous bankers.

12.5.3. a) Gujarati shroffs :

The Gujarati shroffs are of two types: (a) Pure bankers and (b) Bankers and commission agents. Timberg and Aiyar (1980) have estimated their total number to be about 5,000 of whom, about 1500 is pure bankers. The comparable estimates of the Banking Commission were only 350 and 150 respectively. The pure bankers are limited only to Gujarat itself, with heavy concentration in Ahmedabad. The more numerous Gujarati and Marwari firms in Bombay and Calcutta combine banking with commission agency or trade in cloth, grains, and other commodities and their banking operations are more or less ancillary to their trade.

The Gujarati shroffs, especially pure bankers, perform most of the major functions of a commercial bank. They accept deposits, make loans, and provide means of remittance and collection of money. They accept both current and fixed deposits and pay interest even on current deposits at a rate of 7.5 per cent in Gujarat and 6 per cent in Bombay. On longer-term deposits they pay up to 12 per cent per year. These deposits represent anywhere from 30 to 90 per cent of their total funds. Some bankers also offer chequing facility to their Current-account depositors. But the cheques have only a limited local circulation and are not accepted by commercial banks. They advance money on call and for short periods on personal credit or on security most part, this is done by issue of darshani hundis drawn on their firms or other shroffs at other centres and by discounting mudoati hundis and commercial paper of various kinds, out-of-station current cheques and post-dated cheques, etc. For Bombay alone, Timberg and Aiyar (1980) have estimated an annual hundi turnover of Rs. 1500 crores with Gujaratis and of Rs. 500 crores with Marwaris.

The Gujarati shroffs arrange for the remittance of funds by issuing darshani hundis and also undertake the collection of hundis for their clients. Some big shroffs have branches in mofussil centres. For example, one Gujarati shroff had 93 branches. Besides these branches, shroffs have arrangements of mutual accommodation for acceptance and payment of hundis at various places both within and outside the state boundaries. This arrangement enables these shroffs to conduct commission agency work and exchange operations, raise and lend funds in the most profitable manner, and direct surplus funds to those places where they are needed. The working capital of Gujarati shroffs comes from their own funds, deposits from the public and inter-firm borrowings. Deposits (estimated at about Rs. 800 crores by Timberg and Aiyar) represent about half of their total funds. They hardly borrow from commercial banks to finance their banking operations. The Gujarati shroffs have developed their own call-money market, analogous to the inter-bank call-money market, in which short-term surplus funds are lent and borrowed. This call market and the associated inter-firm borrowings are a very distinctive feature of the operations of Gujarati shroffs.

12.5.3. b) Shikarpuri or Multani Shroffs :

Next to Gujarati shroffs, they are the most important sub-group of indigenous financiers. The Banking Commission (1972) had estimated their number at about 400. But Timberg and Aiyar (1980) put this number at 1200, of which about one half is members of local Shikarpuri Bankers' Associations and the other halt are non-members. Their capital resources arc variously estimated at between Rs. 30& crores and 600 crores. These bankers operate mostly in Bombay and South India. Functionally, what distinguishes Shikarpuri financiers from Gujarati shroffs is their major reliance on their owned funds and borrowings from commercial banks rather than deposits from the public as the source of their funds.

Since 1970 banks have reduced drastically their refinance to Shikarpuris and the latter have come to rely largely on their own funds. As a result the Shikarpuri business has not grown with the economy, the character of Shikarpuris has changed from that of bankers to that of' commercial financiers', and the cost of their credit to their borrowers has almost doubled. The Shikarpuri traditionally used to lend mainly by discounting 'Multani hundis', which are 90-day term notes. In the past they used to borrow from commercial banks by getting these hundis rediscounted. With the decline of rediscount facilities with banks, they have moved more and more towards lending against demand pro-missory notes (endorsed for a term) and giving instalment credit. In the smaller centres in the South 90 per cent of Shikarpuri advances are done on the basis of demand notes. On overall basis, 45 per cent of Shikarpuri advances in the South are in the form of instalment credit. The instalment notes are commonly supported by post-dated cheques, one for each installment payment; the main borrowers of Shikarpuris are traders and small manufacturers.

Other (less important) borrowers are transport operators and small exporters. These borrowers are often in urgent need of clean (or unsecured) loans for marginal short-term requirements of their business. The Shikarpuri banker tries to meet this kind of demand. The clientele is varied and not limited to a few communities as in the case of Gujaratis; The Shikarpuri finance is much more costly than that provided by the Gujarati shroffs. The Shikarpuris have developed a system of sharing risks among themselves. If a borrower's requirements are large, a broker will arrange to break it up into smaller notes taken by several Shikarpuri shroffs thereby reducing the risk of any single banker. Shikarpuri-type financiers are found in every major market.

12.5.3. c) Marwari Kayas :

Marwaris refer to a commercial and industrial community originating from Marwar, an old state of Jodhpur in Rajasthan. Immigrants from Rajasthan into Eastern India, particularly Bengal, established their credibility in commercial enterprises and emerged as the leading merchants and traders. Their friends and relatives, who joined them to help and open new firms, came to be known as Marwaris irrespective of their original homes, since they were either associated with the Marwaris or introduced by them. The credibility attached to the Marwari businessmen influenced other Rajasthani traders and merchants to introduce themselves as Marwaris. In the social and trade parlance of Calcutta and Dhaka of the British period all traders from North India passed for Marwaris. The Marwari diaspora to Bengal seems to have begun from the 17th century or even earlier. The pure Marwaris of Rajasthan belonged to several socio-religious groups, such as Agarwals, Maheshwaris, Oswals, Khandeshwals and Porwals. During the Nawabi period the Oswals seem to have established their dominance in Bengal trade and commerce. In some areas of trading, such as banking, grain, cloth, salt, and moneylending, their presence was very large.

Ever since the time of akbar the Marwaris established their business houses outside Rajasthan, particularly in Bengal, Bihar and Orissa. It is known that some members of the Vaixya class first came to Bengal in the train of the Mughal Rajput army. Some of them settled here permanently and participated in local trade and moneylending. Murshid Quli Khan's malguzar system provided for securities from the revenue farmers, zamindars and taluqdars. Standing as jamin or security to government for malguzar clients became a great business in the early 18th century and the Marwaris were its principal beneficiaries. The jamini business reached its peak in the early phase of British rule.

The landholders, revenue farmers and ijaradars looked to the Marwaris for standing as their jamins to the government. Hajari Mull, engaged in revenue farming in almost all Bengal districts, was the most important Marwari house in Murshidabad and Calcutta in the last two decades of the 18th century. After the permanent settlement he also acquired extensive landed estates. Another great speculator was Dulalchand Singh (alias Dulsing), a Porwal Marwari, who bought large zamindari estates in Bengal districts. He lived in Dhaka where he established many markets. Many of his large estates in Bakarganj, Patuakhali and Comilla districts were co-shared by the Khwajas of Dhaka. Subsequently the Singh family entered jute trade.

It was banking and bank-related trade in which the Marwaris established their predominance. During the Nawabi period the Marwaris monopolised the mint and currency business, which were in the private sector. The famous house of jagat sheth, which had the monopoly of the mint and banking sectors of Bengal, Bihar and Orissa and which played a crucial role in the politics of Murshidabad Darbar, belonged to the Oswal group of the Marwaris. So were the great commercial and banking houses of Gopal Das and Banarasi Das, who were also Oswal Marwaris. They mainly dealt in hundis (bills of exchange) in long distance trade.

The three great nawabs of Bengal-murshid quli khan, Shujauddin Khan and alivardi khan, depended consistently on the Marwaris whenever they were in distress. The Marwaris were the main target of the Maratha marauders who raided Bengal several times during Alivardi's regime and it is estimated that from them the Marathas squeezed above three crores of rupees. Nawab mir qasim sought Marwari help in implementing his plan for rebuilding his army. Unable to get the expected help from the Jagat Sheths, Mir Qasim captured two chiefs of the House and killed them, declaring them responsible for the miseries of Bengal.

There was a massive migration of Marwaris in the 19th century and within four to five decades they gained control over the whole economy of the region. The Marwaris had set up commercial firms in the towns of East Bengal - Dhaka, Chittagong, Khulna, Naogaon, Mymensingh. They had established a near complete domination over indigenous finance and trade. The advancing Marwaris pushed the economic frontier of the hundi to areas where it had never operated-to Assam and to Arakan. In Akyab they dominated indigenous finance and trade, overshadowing the Nattukottai Chettiars, a monopoly made possible by the large Arakan trade with East Bengal. For instance, the large Marwari firm of Lakshminarayan Rambilash, with headquarters in Akyab, had branches in Calcutta, Rangoon, Khulna, Chittagong and Sandaway where they dealt in hundis and gave loans to traders and private persons. Six great Marwari bankers and merchants at Barabazar, Calcutta, namely Tarachand Ghanshyamdas, Bansilal Abirchand, Sadasuk Gambhirchand, Harsukhdas Balkissendas, Kothiwal Daga and Ramkissen Bagri, dominated the indigenous money market. From Barabazar these great Kothiwals financed the centres of Marwari banking and trade in East Bengal in Naogaon, Dhaka, Chittagong, Mymensingh etc.

Most of the shopkeepers of Calcutta and other Bengal towns in the 19th century belonged to the Shekhavati Agarwal group of Marwaris, who came from Jaipur. The opium and indigo trade in Bengal was a British monopoly, but its main financiers were the Marwaris. dwarkanath tagore had opened several indigo concerns with financial support from the Marwari houses of Sevaram Ramrikh Das and Tarachand Ghansyam Das.

European and Marwari firms dominated the East Bengal jute trade with Calcutta as headquarters. Dealers, peddlers and cultivators were the subordinate instruments of big Marwari firms that financed them and collected their produce. For example, Nathuram Ramkishan established Messrs. Ramkishandas Sivadajal in Calcutta in 1847. This firm dealt in jute, commission agency and rice and opened agencies in other parts of Bengal during the jute season. By 1900, more than one half of the jute balers of Calcutta were Marwaris; of the 74 balers on the rolls of the Jute Balers Association in Calcutta 49 were Marwaris. Gulabchandji established another firm in Calcutta in the 1930s where a flourishing business in banking, jute bailing and shipping was carried on. Several branches were opened in Rangpur and Dinajpur. There were also independent jute traders, such as the Lohia, Nag, Shethia, Tularam and Dugar families.

The exact number of Marwaris in Bengal districts and Calcutta is not known. It has been estimated that their number never reached above 200 thousand at any stage of their presence in Bengal. Though they belonged to the Hindu and Jain religions and though they had many castes among themselves, socially they lived together as a community. Almost all the Jains who settled in Bengal were xvetambar. Chief deities of the Hindu Marwaris are Ganesha and Laksmi. The social structure of the Marwaris was quite simple and had grown along the concept of the extended family. At the centre of the family was the father; he was the head of the family and controlled the family business. The females of their society had very little freedom. Compared to other Hindu societies the females were confined to their homes and lagged behind in all aspects of education. The Marwaris maintained the traditional panchayat (council of elders) system that they brought with them from their native land. The panchayat used to settle social and religious disputes and its decrees were binding on the part of the members. Influence of the local culture on the Marwaris is also evident. Amongst their religious ceremonies the most attractive and most wonderful ones are Holi, Diwali, Rakshi and Karbachut. The Marwaris of Bengal were bi-lingual; amongst themselves they used the Marwari dialect, while with people outside their community they used Bangla. All Marwaris loved a rich diet. Both the Hindus and Jains were vegetarians.

In the early 20th century the Calcutta-based Marwari community was divided into two groups. One was highly orthodox in religion and largely pro-British and anti-nationalist, and controlled by the more traditional types of traders and agents (banians) engaged in the British firms. The other was reformist in religion and often nationalist. GD Birla, founder of the great House of Birla, led the nationalist group. This reformist group financially supported many Hindu reform movements. The Arya Samaj movement, for example, is said to have been entirely supported by the Marwari House of Ghanshyam Das.

The support of the Marwaris to the Congress is well known. MK Gandhi and the Nehrus, who received donations and hospitality from them, are said to have influenced them to undertake humanitarian and social welfare activities. Consequently, a series of Marwari-backed schools and colleges were established in Calcutta and other towns in the 1920s and 1930s. The Marwari Relief Society played a significant role in relief operations during the Great Famine of 1943. In the 1940s the Marwaris of Calcutta set up a number of hospitals, vagrant homes and charity houses. Numerically the conservative Marwaris were in the majority and they controlled the Marwari Association and Marwari Chamber of Commerce, the two major institutions of the Marwari community in Bengal. Even GD Birla, backed by the Congress and Hindu elite, was unable to get elected as chairman of the Marwari Association in 1923. The Marwari nominee for the Central Legislative Assembly from Calcutta was Keshoram Poddar, a British-backed conservative.

The dominance of the conservatives had one serious ill effect on the Hindu-Muslim relations. In the 1920s the conservative Marwari firms openly refused to maintain co-operative relations with the Muslims. The Marwari shopkeepers refused to sell goods to Muslim buyers. Marwari landlords refused to let their houses to Muslim tenants and Marwari traders replaced local Muslim dyers and tailors and weavers by Hindu upcountrymen. Muslim bandsmen, coachmen and shahises were also boycotted. In newspaper announcements it was urged that no good Marwari should keep Muslim employees in their establishments or have any business transactions with them, on religious grounds. Scholars believe that the Calcutta riot of 1926 was largely the outcome of such a communal outlook of the Marwaris.

The depression of 1929-30 and Partition of India in 1947 caused an exodus of Marwaris from East Bengal, but quite a substantial number of them stayed back and continued their business, mainly in the cloth and jute trade. The communal riot of 1964 and the wars of 1965 and 1971 caused the departure of the community from Bangladesh. At present there are only 700 Marwaris living in Bangladesh; the Tularams of Narayanganj and Dugars of Dhaka are the most known. [Prodip Chand Dugar]

12.5.3. d) Chettiars :

The Chettiars are a subgroup of the Tamil community who originated from Chettinad in Tamil Nadu, India. Traditionally, the Chettiars were involved in the trade of precious stones, but later became private bankers and moneylenders, establishing their presence in Singapore as early as the 1820s. Singapore's first Chettiars were men who hailed from Chettinad, Tamil Nadu, to seek their fortunes. They were distinctively recognisable: usually shirtless, dressed simply in white dhotis and sporting vibuthi-smeared foreheads.

i) A Chettiar moneylender 1890 : The Chettiars adopted the concept of SOHOs (small office home office) long before the term was invented. When they arrived in Singapore in 1824, their kittangi – meaning "warehouse" in Tamil, served as both bank and bunk. By day, these financiers would be hunched over their desks, armed with their ledger. By night, they would push aside the furniture and roll out a mattress for lying down. Mostly located in Market Street, in the city's financial centre, the kittangi were shophouses from where the Chettiars ran their money-lending and banking businesses. Conversant in Tamil and Malay, they put their clientele of sundry merchants at ease. Each Chettiar's office was sparsely furnished and not partitioned. Their space was only a few square feet, simply marked by the presence of a low wooden desk, a cupboard and a safe. A cook provided meals and a caretaker looked after the kittangi.

During its heyday, Market Street had seven kittangis which housed some 300 to 400 Chettiar firms. As recently as the 1970s, when the Chettiars started to lose ground to homegrown banks, Market Street still had six kittangis as well as 30 to 40 Indian-owned businesses. This was one of modern Singapore's first Indian settlements, and the entire quarter vanished in 1977 when the area was redeveloped into the Golden Shoe Complex.

ii) Indian Migrants :

Did you know that some of the very first professions taken on by early Indian immigrants were security enforcement? The first Indians to set foot in Singapore were soldiers from Bengal, and the police constabulary was dominated by Tamils and Sikhs for decades. Sir Stamford Raffles and Major William Farquhar brought 120 sepoys from the Bengal Native Infantry when they landed in January 1819. These sepoys, or soldiers, were recruited from Bengal, Punjab and other northwestern regions in India, and formed Singapore’s first defence force under the British administration.

Narayana Pillay, a government clerk from Penang, was Singapore's first Tamil settler on record. He arrived in May 1819. Many more Indians followed. Those who were educated became teachers, lawyers, interpreters and administrators. Many, like the Chettiars, were traders and merchants. But most Tamils who arrived in the 19th century were low-waged coolies from the untouchable caste. They worked on docks and railways. They came illegally, or by way of the kangani system, in which an employer paid his Tamil foreman to recruit labourers from his home district.

When Singapore became a convict station in 1825, Indian convicts were sent here to construct roads, buildings and canals. They built St. Andrew’s Cathedral, the Istana, Cavenagh Bridge, and North and South Bridge Roads. By the 1860s, the Indian community numbered 13,000 – the second-largest in size after the Chinese. The system of convict labour in Singapore ended in 1873 and some pardoned convicts decided to settle in Singapore.

12.6. MONEY LENDERS :

They constitute the most localised form of money market in India and operate in the most exploitative way A money lender is someone who lends small amounts of money at a higher rate of interest. The reason for charging higher rates of interest is that the money lender faces a higher risk of default than normal banks due to various reasons. People who are desperately in need of money but at the same time do not have a bank account, people with bad credit histories and those who can’t get money from friends or relatives approach a money lender for credit facilities. In India, money lenders are governed by the Money Lenders Act in different states. The Tamil Nadu Government controls the money lending process in accordance with the Money Lenders Act, 1957. It is mandatory for every money lender to have a license. In this article, we look at the procedure for obtaining money lender license.

i) Factors to issue a license : Money lender license is usually granted by the Revenue Department within 3 to 4 months from the date of submission of the application form. Once the application is received, it is valid for one year. However, there are a few factors that have to be taken into consideration while issuing/renewal/endorsement of a license: Whether the person has the competency to run a money lending business. Whether the applicant’s premise is an apt place to run the business. Whether granting the permission would be against the public interest.

ii) Documents Required : The following documents are required to obtain the money lending license. Form A application form. Passport size photographs. Three specimen signatures mentioning the money lenders name or his nominee.

iii) How to Apply : The following steps have to be followed to obtain a money lending license.
Step 1: Visit the Tahsildar Office, The applicant has to visit the nearest Tahasildar office
Step 2: Receive the application, The applicant has to pay a fee of Rs. 100 to receive the application form from the Tahasildar .
Step 3: Enter the details, The applicant has to enter the required details in the application form.
Step 4: Submission of the form: The form has to be submitted to the Tahasildar's office.

iv) Post by Bennisha : India Filings is India's largest online compliance services platform dedicated to helping people start and grow their business, at an affordable cost. We were started in 2014 with the mission of making it easier for Entrepreneurs to start their business. We have since helped start and operate tens of thousands of businesses by offering a range of business services. Our aim is to help the entrepreneur on the legal and regulatory requirements, and be a partner throughout the business lifecycle, offering support at every stage to ensure the business remains compliant and continually growing.

Indigenous Bankers Act As Commission Agents The indigenous bankers act as commission agents when they purchase agricultural products on behalf of firms, mills, and trading houses. In this way, they again help in the development of internal trade.The importance of indigenous bankers has increased further with the development of capital market in India. They now provide long-term credit to companies by subscribing to their shares and debentures.

12.7. DEFECTS OF INDIGENOUS BANKING :

The following defects are associated with the majority of indigenous bankers:

(1) They are a hindrance in the development of an organised money market in India. The Reserve Bank of India has no control over them.
(2) They follow old methods of business which are based on secrecy of accounts and activities. Accounts are mostly maintained in vernacular. They are neither audited nor published.
(3) They also provide loans for unproductive purposes.
(4) They combine banking with other activities which bring them more profits such as speculation, trading brokerage, etc.
(5) They charge very high rates of interest.
(6) They also indulge in some undesirable practices, such as manipulating accounts, deducting interest in advance, non-issue of receipts for payment of interest and principal, etc.
(7) They are unorganised except at a few places like Mumbai and Kolkata. This has hindered the mobility of funds.

(8) They do not work in co-operation with the commercial and cooperative banks. This has kept dichotomy in the Indian money market.

(9) They are unable to mobilise savings because they prefer giving loans than accepting deposits.

(10) Except in big towns, they have failed to develop the hundi (bill market) in trade and business. They do business in cash.

(11) They are not able to meet the financial needs of borrowers because they operate with insufficient capital.

12.8. SUGGESTIONS TO REFORM INDIGENOUS BANKING :

From time to time suggestions have been made to reform the working of indigenous bankers by certain committees, commissions, and organisations, such as the Indian Central Banking Enquiry Committee, 1931, the Banking Commission, 1971, etc. We summarise these suggestions as under:

(1) The indigenous bankers should do only banking business and not any other activity.

(2) They should maintain proper account books in a prescribed and recognised form and get them audited.

(3) They should be registered with the, Reserve Bank of India and licence should be issued to them.

(4) For this purpose, every indigenous banker should have a minimum capital requirement.

(5) The indigenous bankers should be linked with commercial banks and their hundis should be discounted by commercial banks like other bills of exchange.

(6) The indigenous bankers registered with the RBI should be provided remittance facilities by all commercial banks.

(7) They should also be allowed to collect cheques, drafts, etc. like other banks.

(8) The indigenous bankers should form an association at all India level and become its members.

(9) They should develop the hundi in a proper format duly approved, by the RBI so that it may be accepted like other bills by the commercial banks.

(10) They should be encouraged to develop the business of bill-broking like the bill-brokers of the London Money Markets.

(11) The benefit of the Bankers' Book Evidence Act should also be extended to the indigenous bankers.

These suggestions have failed to elicit any response from the indigenous bankers who are not prepared to give up their non-banking functions, to publish their audited accounts, and to register themselves with the RBI. The Reserve Bank of India is also not prepared to relax its conditions and provide facilities to them like commercial banks. The best course is to link the indigenous bankers with commercial banks, as suggested by the Banking Commission. The Reserve Bank of India should lay down guidelines for this purpose.

12.9. SUMMARY :

Unorganized Money Market: Before the government started the organised development of the money market in India, its unorganised form had its presence since the ancient times—its remnant is still present in the country. Their activities are not regulated like the organised money market, but they are recognised by the governmentThirdly, money market is dominated by one set of financial institutions—commercial banks and the central bank. But in the capital market, no sin¬gle institution dominates the market. However, there is no fundamental difference between capital market and money market regard-ing transferring of resources. There is no close nexus in money and capital markets. Commercial banks are active in money mar¬ket while non-banking financial institutions and public financial institutions are active in capital market. There is a considerable degree of overlap in the function of different financial institutions

12.10. TECHNICAL TERMS :

Unorganized Money Market:

Unorganized market is old Indigenous market mainly made of indigenous bankers, money lenders etc. Organized market is that part which comes under the regulatory purview of RBI and SEBI.

Gujarati Shroffs :

The Gujarati shroffs, especially pure bankers, perform most of the major functions of a commercial bank. They accept deposits, make loans, and provide means of remittance and collection of money. They accept both current and fixed deposits and pay interest even on current deposits at a rate of 7.5 per cent in Gujarat and 6 per cent in Bombay.

Multani or Shikarpuri Shroffs:

Since the Muslims were forbidden by the tenets of Islam from living off interest the inancial credit business was left in the hands of the Hindus, chief amongst whom were the Multani Shroffs whose headquarters were in Shikarpur and who came to be known as Shikarpuris.

Marwari Kayas:

They operate mainly in Gujarat with a little bit of presence in Mumbai and Kolkata.

Chettiars:

Chettiar (also spelt as Chetti and Chetty) is a title used by many traders, weaving, agricultural and land-owning castes in South India, especially in the states of Tamil Nadu, Kerala and Karnataka. They are a subgroup of the Tamil community who originated from Chettinad in Tamil Nadu, India.

12.11. SELF-ASSESSMENT QUESTIONS :

1. Discuss the importance of indigenous bankers.
2. Explain about different categories of indigenous bankers.
3. What are the defects of indigenous bankers?
4. What are the suggestions have been made to reform the working of indigenous bankers by certain committees, commissions, and organizations?

12.12. SUGGESTED READINGS :

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