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An Conceptual overview about Indian Financial System

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Abstract:

The financial system encourages economic growth. The various institutions of financial system which operate in the financial market give quantities and qualitative direction to the flow of funds and bring rational allocation of resources. A well-developed financial market comprising expert banking and non-banking intermediaries brings stability to the value of stocks and securities. A financial system is a composition of various institutions, markets, regulations and laws, practices, money managers, analysts, transactions, and liabilities. This research paper is also suitable for students of commerce background and interested in learning about money, banking, and the financial system in the context of contemporary events, policy, and business.

From this anyone can easily knows about the components and constituents of financial system and what are various instrument available in market through which borrower and saver meets their need .

Introduction

Financial System: we can easily defined this any system which consist of financial inputs like money, capital etc. It facilitates the flow of funds from less productive to more productive activities. It is the combination of two words finance and system. Before understanding financial system any one must know about these two words.

1.Finance:Any monetary resources like Debt, Equity etc.

2.System:All interconnected institution in economy.

So financial system means all interconnected institution surrounding borrower and saver for full fill their needs by facilitating the flow of funds or financial inputs.

Gold Simith divided economic activities into three categories:

1.Saving Surplus Unit: Saving>Investments.

2.Economic Units: Investment>Saving

3.Neutral Unit: Investment=Saving

Functions: These are various function of financial system:

1.Acts as a link between savers and investors.

2.Provide alternate. form of deposit.

3.Provide detailed information to various players.

4.Economies scale in lending and borrowing.

5.Promote capital formation

6.Diversification of risk.

Financial Market: An institutional arrangements where dealing in financial assets and credit instruments take place.

Financial Markets

1. Money Market 2.Capital Market

financial market subdivided into two parts on the basis of needs of savers and borrowers. These can be understand one by one below as:

Money market: *A market for short term funds ,short term money and financial Assests.

*Where day to day surplus funds mostly of banks are traded.

Short term refers here period up to one year.

Objectives: These are main objectives of financial system:

1.Equilibrium mechanism for balancing short term surplus and deficiencies.

2.A focal point of central bank for influencing liquidity in economy.

3.Meet requirement at reasonable price.

4. to provide a parking place to employ short term surplus funds.

Importance: These are important role play by financial system in economy:

1.Efeective central bank control.

2.Smooth functioning of central bank.

3.Formulation of suitable monetary control by policy.

4.Source of finance to govt.

5.Development of trade/Industry and commercial banks.

Indian money market : Deals in short term nature assets **.**It means place where borrower and saver both have short term needs.This market divided into two types on thecontrol and regulation of RBI as:

1.Unorganised Money Market: RBI have indirectly control over these institutions.These have characters like:

*Not Homogeneous.

*Informal Dealings

*Loan operation may be flexible.

Main constituents:

1.Indigenous Banker

2.Money Lendors

3.Unregulated Non Banking Financial Intermediaries.

2.Unorganised Money Market: RBI have directly control over these institutions. Under the control and supervision of RBI,SEBI and operate in a formal way throughout nation.

Composition

1.Call Money Mkt	2.Term Money Mkt	3.Treasury Bill	4. Commercial Bill	Others
		*14 Days *91 Days *182 Days *364 Days	*Demand Bill *Time Bill	1.Commercial paper 2 Certifiactes of Deposit 3MMMF

1.Call Money Market:*Where day to day surplus funds mostly of banks are traded.

*Mkt for short term financial assets that are close substitutes of money.

Note:

1.Loans of short term duration varying from 1-14 days are traded call money market.

2.Money that lent for one day in this market called call money.

2.Term Money Market:Where

1.Notice Money: Lent for exceed 1 day but less than 15 days.

2.Term Money: Lent for more than 15 days.

3.Treasury Bill: These are the instrument of money market. Treasury bills money market instruments issued by the government as promissory note with guaranteed represent at later date funds collected by such tools used to meet so drum requirement of government there are various types of treasury bills like 14 days,91 days,182 days and 364 days

Features:

1. Minimum investment: as per regulation of RBI a minimum of 25000 has two invested by individual and after for higher investment need multiple of 25000.

2.Zero Default Risk.

3.Low Transaction cost.

4.Assured Yield.

4.Commercial bill market:Commercial bill is one which arises out of genuine trade transactions. example credit transaction. It contains written order from creditors to the debtors to pay certain sum to certain person at certain time after creation period. It Drawn always for short period 3-6month.

1. Demand bill/Time Bill:Payble on demand at site or specified time on it.

2. Documentary bills: which are a compound by document of title for example railway receipt.

3. Inland bill: drawn or made in India and must payable in India

4. Foreign bill: opposite of inland bill.

5. Commercial papers :Introduce in 1990.It is an Unscured short term debt instrument issued by corporation for meeting short term liabilities. It is money market instrument issued by large bank and corporation 2 minutes maturity period 15 -1 year from date of issue.

Eligibilities for issuing it:

1.Tangible net worth not less than 4 crore.

2.Current ratio>1.33:1.

3Share of company listed into stock exchange.

6. Certificate of deposit : Introduce in 1989. It is a bank issued time deposit that specifies the interest and maturity date.

Document of title to depositors of funds that remain in deposit at bank for specified specified time at specified rate.

*Minimum amount 1 lakh maximum no limit.

*Maturity period-For bank 7 days to 1year

For FI 1 year to 3 year

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