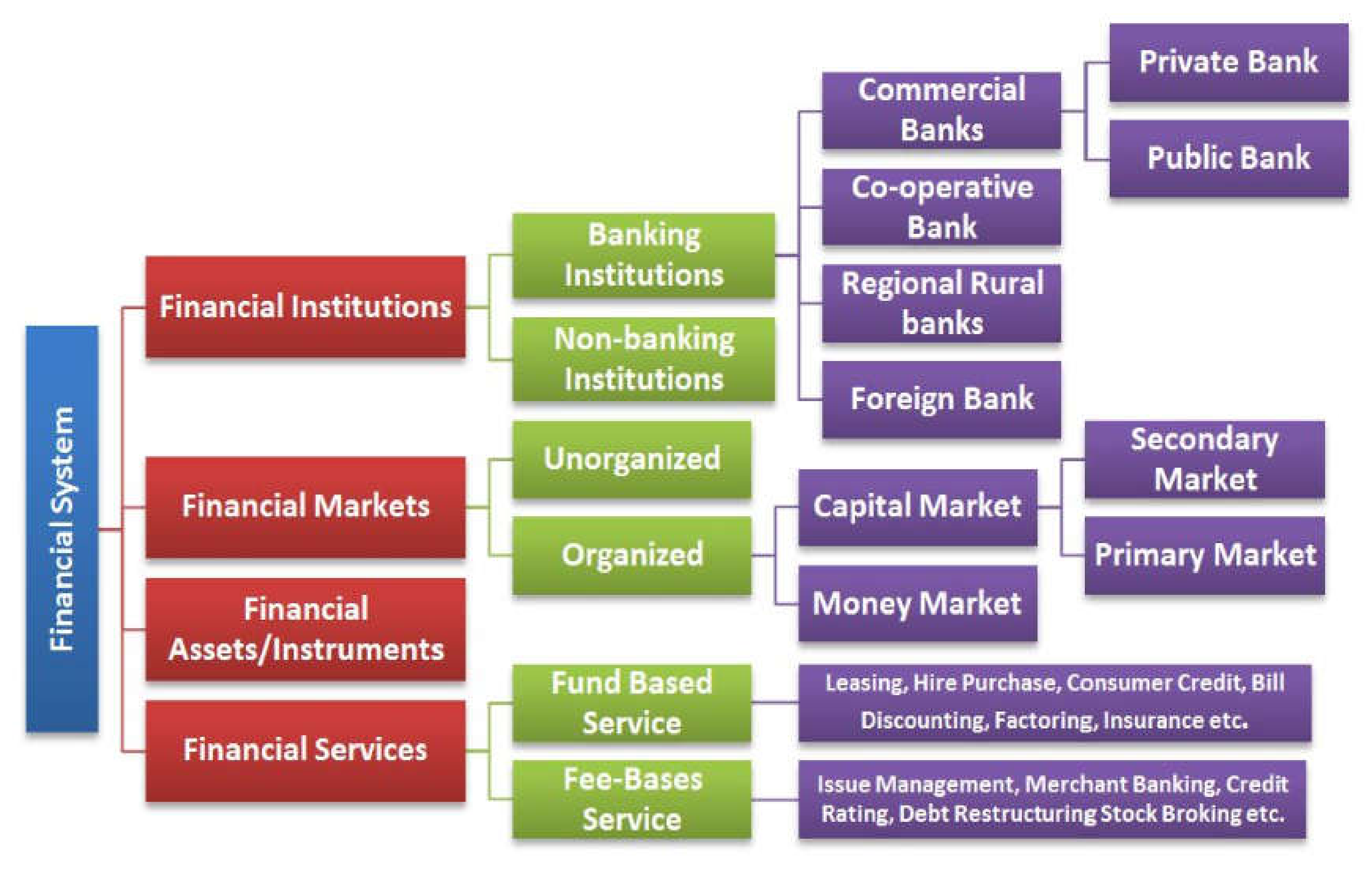
# B Com (EM) - III Sem – Financial Services, Banking and Insurance (FSBI)

# 1.1 Indian Financial System


Financial System
Financial Institutions
Banking Institutions
Non-banking Institutions
Commercial Banks
Private Bank
Public Bank
Co-operative Bank
Regional Rural banks
Foreign Bank
Financial Markets
Unorganized
Organized
Capital Market
Secondary Market
Primary Market
Money Market
Financial Assets/Instruments
Financial Services
Fund Based Service
Leasing, Hire Purchase, Consumer Credit, Bill Discounting, Factoring, Insurance etc.
Fee-Bases Service
Issue Management, Merchant Banking, Credit Rating, Debt Restructuring Stock Broking etc.

**<u>(1) Financial Institutions</u>** – Financial institutions are intermediaries of financial markets which facilitate financial transactions between individuals and financial customers. It simply refers to an organization (set-up for profit or not for profit) that collects money from individuals and invests that money in financial assets such as stocks, bonds, bank deposits, loans etc.

There can be two types of financial institutions:

- 1. Banking Institutions or Depository institutions – These are banks and credit unions that collect money from the public in return for interest on money deposits and use that money to advance loans to financial customers.

- 2. <u>Non- Banking Institutions or Non-Depository institutions</u> – These are brokerage firms, insurance and mutual funds companies that cannot collect money deposits but can sell financial products to financial customers.

Financial Institutions may be classified into three other categories also:

- Regulatory – It includes institutions like SEBI, RBI, IRDA etc. which regulate the financial markets and protect the interests of investors.
- Intermediaries – It includes commercial banks such as SBI, PNB etc. that provide short term loans and other financial services to individuals and corporate customers.

- Non – Intermediaries – It includes financial institutions like NABARD, IDBI etc. that provide long-term loans to corporate customers.

**(2) Financial Markets** – It refers to any market place where buyers and sellers participate in trading of assets such as shares, bonds, currencies and other financial instruments. A financial market may be further divided into capital market and money market. While the capital market deals in long term securities having maturity period of more than one year, the money market deals with short-term debt instruments having maturity period of less than one year.

**(3) Financial Assets/Instruments** – Financial assets include cash deposits, checks, loans, accounts receivable, letter of credit, bank notes and all other financial instruments that provide a claim against a person/financial institution to pay either a specific amount on a certain future date or to pay the principal amount along with interest.

**(4) Financial Services** – Financial Services are concerned with the design and delivery of financial instruments and advisory services to individuals and businesses within the area of banking and related institutions, personal financial planning, leasing, investment, assets, insurance etc.

It involves provision of a wide variety of fund/asset based and non-fund based/advisory services and includes all kinds of institutions which provide intermediate financial assistance and facilitate financial transactions between individuals and corporate customers.