International Research Journal of Management and Commerce
Volume 3, Issue 12, December 2016 Impact Factor 5.564
ISSN: (2348-9766)

Website- www.aarf.asia, Email : editor@aarf.asia , editoraarf@gmail.com

INDIAN FINANCIAL SYSTEM: AN OVERVIEW

Sandhya

ABSTRACT :

Over a long period of time in India, there has been a conscious effort by the RBI, SEBI and the Government of India to develop and integrate financial system segments in a phased manner. In this paper, the markers and the roles and responsibilities of a capital market regular. This study also focuses on identifying the loopholes in the Indian financial system. This study consists of role of SEBI in Indian stock market. SEBI is the regulator for the securities market in India. It was formed officially by the Government of India. Being the study descriptive in nature, findings have been made through theoretical analysis in order to know the impact of SEBI on Indian financial system and to provide in-depth analysis of the Indian stock market. As the Government securities market in the Indian is still in the developing stage, it was not found to be integrated with the international market. Policy measures (or reforms) are necessary to increase integration of financial system.

Keywords: RBI, Financial System, SEBI, Developing Stage,

INTRODUCTION :

Financial System, of any country consists of financial markets, financial intermediation and financial instruments or financial products. This paper discuss the meaning of finance and Indian Finance System and focus on the financial markets, financial intermediaries and financial instruments. The brief review on various money market instruments are also covered in this paper. The term “finance” in our simple understanding it is perceived as equivalent to ‘Money’. We read about Money and banking in Economics, about Monetary Theory and Practice and about “Public Finance”. But finance exactly is not money; it is the source of providing funds for a particular activity. Thus public finance does not mean the money with the Government. Here some of the definitions of the word ‘finance’ both as a source and as an activity i.e., as a noun and a verb.

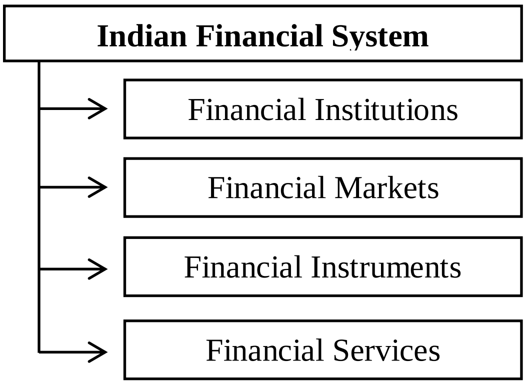
1. “The science of the management of money and other assets.”
2. “The management of money, banking, investments, and credit.”
3. “Finances monetary resources; funds, especially those of a government or corporate body.”
4. “The supplying of funds or capital.”
5. “To provide or raise the funds or capital for.”
6. “To supply funds to”
7. “To furnish credit to.”
8. “The commercial activity of providing funds and capital.”
9. “The branch of economics that studies the management of money and other assets.”
10. “The management of money and credit and banking and investments.”
11. “Obtain or provide money for.”
12. “Sell or provide money for.”

All definition listed above refer to finance as a source of funding an activity. In this respect providing or securing finance by itself is a distinct activity or function, which results in Financial Management, Financial Services and Financial Institutions. Finance therefore represents the resources by way funds needed for a particular activity. We thus speak of ‘finance’ only in relation to a proposed activity. Finance goes with commerce, business, banking etc. Finance is also referred to as “Funds” or “Capital”, when referring to the financial needs of a corporate body. When we study finance as a subject for generalizing its profile and attributes, we distinguish between “personal finance” and “corporate finance” i.e. resources needed personally by an individual for this family and individual needs and resources needed by a business organization to carry on its functions intended for the achievements of its corporate goals.

INDIAN FIANCIAL SYSTEM

The economic development of a nation is reflected by the progress of the various economics units, broadly classified into corporate sector, government and household sector. There are areas or people with surplus funds and there are those, with a deficit. A financial system or functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, market, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities.

Constituents of Indian Financial System



FINANCIAL SYSTEM

The word “System”, In the terms “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 refers to the financial needs of different sectors of the economy and the ways and means such needs efficiently and economically. Funds are required for meeting various monetary needs. The financial needs are met from different sources and agencies.

Indian financial system consists of financial market, financial instruments and financial intermediation. These are briefly discussed below;

FINANCIAL MARKETS

A Financial Market can be defined as the market in which financial assets are created or transferred. As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creations or transfer of a financial asset. Financial Assets or Financial Instruments represents a claim to the payment of a sum of money sometime in the future and/or periodic payment in the form of interest or dividend.

Money Market:-The money market ifs a wholesale debt market for low-risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

Capital Market:-The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year.

Forex Market:-The Forex market deals with the multicurrency requirement; which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated market across the globe.

Credit Market:-Credit market is a place where banks, FIs and NBFCs purvey short, medium and long-term loans to corporate and individuals.

FINANCIAL INTERMEDIATION

Having designed the instrument, the issuer should then ensure that these financial assets reach the ultimate investor in order to garner the requisite amount. When the borrower of funds approaches the financial market to raise funds, mere issue of securities will not surface. Adequate information of the issue, issuer and the security should be passed on to take place. There should be a proper channel within the financial system to ensure such transfer. To serve this purpose, financial intermediaries came into existence. Financial intermediation in the organized sector is conducted by a wide range of institutions functioning under the overall surveillance of the Reserve Bank of India. In the initial stages, the role of the intermediary was mostly related to ensure transfer of funds from the lender to the borrower. This service was offered by banks, FIs, brokers, and dealers. However, as the financial system widened along with the developments taking place in the financial markets, the scope of its operations also widened. Some of the important intermediaries operating in the financial markets include; investment bankers, underwriters, stock exchanges, registrars, depositories, custodians, portfolio managers, mutual funds, financial advertisers financial consultants, primary dealers, satellite dealers, self-regulatory organizations, etc. Though the markets are different there may be a few intermediaries offering their services in more than one market e.g., underwriter. However, the services offered by them vary from one market to another.

Intermediary	Market	Role
Stock Exchange	Capital Market	Secondary Market to securities
Investment Bankers	Capital Market, Money Market	Corporate advisory services, Issue of securities
Underwriters	Capital Market, Money Market	Subscribe to unsubscribed portion of securities
Registrars, Depositories Custodians	Capital Market	Issue securities to the investors on behalf of the company and handle share

		transfer activity
Primary Dealers Satellite Dealers	Money Market	Market making in government securities
Forex Dealers	Forex Market	Ensure exchange ink currencies

FINANCIAL INSTRUMENTS

Money Market Instruments

The money market can be defined as a market for short-term money and financial assets that are near substitutes for money. The term short-term means generally a period upto one year an near substitutes to money is used to denote any financial asset which can be quickly converted into money with minimum transaction cost. Some of the important money market instruments are briefly discussed below.

Call/Notice-Money Market:-Call/Notice Money is the money borrowed or lent on demand for a very short period. When money is borrowed or lent for a day, it is known as Call (Overnight) Money. Intervening holidays and/or Sunday are excluded for this purpose. Thus money, borrowed on a day and repaid on the next working day, (irrespective of the number of intervening holidays) is “Call Money.” When money is borrowed or lent for more than a day and upto 14 days, it is “Notice Money” NO collateral security is required to cover these transactions.

Inter-Bank Term Money:-Inter-bank market for deposits of maturity beyond 14 days is referred to as the term money market. The entry restrictions are the same as those for Call/Notice Money except that, as per existing regulations, the specified entities are not allowed to lend beyond 14 days.

Treasury Bills:-Treasury Bills are short term (up to one year) borrowing instruments of the union government. It is an IOU of the Government. It is a promise by the Government to pay a stated sum after expiry of the stated period from the date of issue (14/91/182/364 days i.e. less than one year). They are issued at a discount to the face value, and on maturity the face value is paid to the holder. The rate of discount and the corresponding issue price are determined at each auction.

Certificate of Deposits:-Certificates of Deposits (CDs) is a negotiable money market instrumented issued in dematerialized form or as a Usage Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India, as amended from time to time. CDs can be issued by (i) scheduled commercial banks excluding Regional Rural Bank (RRBs) and Local Area Banks (LABs); and (ii) select all-India-Financial Institutions that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI. Banks have the freedom to issue CDs depending on their requirements. An FI may issue CDs within the overall umbrella limit fixed by RBI, i.e., issue of CD together with other instruments viz., term money, term deposits, commercial papers and interoperate deposits should not exceed 100 per cent of its net owned funds, as per the latest audited balance sheet.

Commercial Paper:-CP is a note is evidence of the debt obligation of the issuer. On issuing commercial paper the debt obligation is transformed into an instrument. CP is thus an unsecured promissory note privately placed with investors at a discount rate to face value determined by market forces. CP is freely negotiable by endorsement and delivery. A company shall be eligible to issue CP provided – (a) the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs. 4 crore; (b) the working capital (fund-based) limit of the company from the banking system is not less than Rs. 4 crore and (c) the borrowed account of the company is classified as a Standard Asset by the financing bank/s. The minimum maturity period of CP is 7 days. The minimum credit rating shall be P-2 of CRISIL or such equivalent rating by other agencies.

Capital Market Instruments

The capital market generally consists of the following long term period i.e. more than one year period, financial instruments; In the equity segment Equiry shares, preference shares, convertible preference shares, non-convertible preference shares etc. and in the debt segment debentures, zero coupon bands, deep discount bonds etc.

Hybrid Instruments

Hybrid Instruments have both the features of equity and debenture. This kind of instruments is called hybrid instruments. Examples are convertible debentures, warrants etc.

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

SEBI is the regulator for the securities market in India. It was formed officially by the Government of India in 1992 with being passed by the Indian Parliament. Chaired by C B Bhave, SEBI is headquartered in the popular business district of Bandra-Kurla complex in Mumbai, and has Northern Eastern, Southern and Western regional offices in New Delhi, Kolkata, Chennai and Ahmedabad.

LOOPHOLES IN INDIAN STOCFK MARKET

Almost every successful stock trader has learned ethical ways of how to hack the stock market. Not hack the stock market in illegal terms, but finding ethical ways to take advantage of certain stock loopholes. Taking advantage of market loopholes is one of the most common traits among the high achievers in trading stock. However, if you don't do it properly you may find yourself frustrated with you lack of results. In this article, I will discuss with you the most common mistakes stock traders make when learning how to use market loopholes to their advantages.

1. People don't properly prime themselves on the trading market. There is a wide range of stock traders, ranging from novice to intermediate, to advance. Learning how to hack the stock market, novices must learn the real truth of the market rather than academic fluff. The real truth is other forces that influence the price of a stock. While advanced traders may need to rethink what they think they know.
2. People don't look for loopholes. Think of loopholes as a flaw in the system that is not caused by natural market forces that very occasionally pushed the price of a specific stock lower or higher. For example, it could be a group of traders acting from emotions or certain news that came out in the media, etc.
3. People don't calculate a fair price per share. It is critical to know how to value any share of stock. Most investors are very bad in valuing stocks and tend to buy stocks overpriced. To get the most return on investment when learning how to hack the stock market you must learn to buy stocks at a bargain. Most importantly, learning the criteria of picking a bar gains stock.
4. People don't follow a proven system for plan. When you know how to hack the stock market, you will not achieve maximum success until you formulate a system or plan that put it all together. A plan that includes, But not limited to, when to sale, when to buy, stop loss positions, triggers and most importantly what to buy. A trader can run into many mistakes that cause him/her to lose money if they do not know properly learn about the stock market and take advantage of market loopholes.

CONCLUSION:-In India money market is regulated by Reserve bank of India and Securities Exchange Board of India (SEBI) regulates capital market. Capital market consists of primary market and secondary market. All Initial Public Offerings comes under the primary market and all secondary market transactions deals in secondary market. Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Secondary market comprises of equity markets and the debt markets. In the secondary market transactions BSE and NSE plays a great role in exchange of capital market instruments. Stock market is considered as most suitable investment for the common people as they can invest their money into the diversified managed portfolio at relatively low cost. It may be concluded that due to number of reforms, the capital market of India has developed a lot, it has made it possible to compare Indian capital market with the international capital market. SEBI is doing a lot of work for the development of capital market. It has brought greater transparency in the affairs of organizations and stock exchanges, though not to the optimum mark. Still the investor doesn't have hundred percent confidences in capital market. It seems that SEBI worked slowly in transforming Indian stock market into a globally competitive and contemporary market.

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