UNIT I
FINANCIAL SERVICES

- It is the process by which funds are mobilized from a large number of savers and make them available to all those who are in need of it.
- The financial services can also be called ‘***financial intermediation***’.
- The term ‘Financial Services’ in a broad sense means “mobilizing and allocating savings.” Thus, it includes all activities involved in the ***transformation of savings into investment***.

Financial service is one of the component of the financial system.

Meaning of financial services

- Financial service is part of financial system that provides different types of finance through various ***credit instruments***, ***financial products*** and ***services***.
- In financial instruments, we come across cheques, bills, promissory notes, debt instruments, etc.
- In financial products, there are different types of mutual funds, extending various types of investment opportunities.
- In addition, there are also products such as credit cards, debit cards, etc.
- In services there are leasing, factoring, hire purchase finance etc., through which various types of assets can be acquired either for ownership or on lease.
- Thus, financial services enable the user to obtain any asset on credit, according to his convenience and at a reasonable interest rate.

- According to the Finance and Development department of the International Monetary Fund (IMF), a financial service is best described as the **process by which a consumer or business acquires a financial good**.

Objectives of Financial Services

1. **Fund Raising**

Financial Services help to raise required fund from a host of investors, individuals, institutes and corporate.

2. Funds Deployment

- An array of financial services are available in the market which helps the players to ensure an effective deployment of the funds raised.
- Services such as Bills Discounting, Factoring of debtors, parking of short term funds in the money market, credit rating, etc. are provided by financial services firms in order to ensure efficient management of funds.

3. Specialized services

The financial services sector provides specialized services such as credit rating, venture capital financial, lease financing, factoring, mutual funds, merchant banking, credit cards, housing finance, etc. besides banking and insurance.

4. **Regulation**

– In India, Agencies such as
– **Securities and Exchange Board of India (SEBI),**
– **RBI** and the
– **Dept. of Banking and Insurance of the Govt. of India**,

through a number of legislations regulate the functioning of the financial services institutions.

5. Economic Growth

This takes place through the mobilization of the savings of a cross section of peoples, for the purpose of channeling them in the productive investments.

Functions of Financial Services

- *Facilitating transactions* (exchange of goods and services) in the economy.
- *Mobilizing savings* (for which the outlets would otherwise be much more limited).
- *Allocating capital funds* (notably to finance productive investment).
- *Monitoring managers* (so that the funds allocated will spend as envisaged).
- *Transforming risk* (reducing it through aggregation and enabling it to carry by those more willing to bear it).

Features of Financial Services

- Intangibility
- Customer Specific
- People Based
- Concomitant
- Perishable
- Market Dynamics

The financial intermediaries in India can be classified as:

- **Capital Market Intermediaries** which constitutes Term Lending Institutions and Investing Institutions which mainly provide ***long term*** funds.
- **Money Market Intermediaries** which consists of commercial banks, Cooperative Banks, and other financial agencies which supply only ***short term*** funds.

Types/Scope of Financial Services

- Financial services cover a wide range of activities.

They can be broadly classified into two, namely:

i. Traditional. Activities
   - Fund Based and
   - Fee Based

ii. Modern activities.

Traditional Activities

Financial intermediaries have been rendering a wide range of services encompassing both capital and money market activities.

They can be grouped under two heads, viz.

1. Fund based activities and
2. Non-fund/Fee based activities.

Fund Based Activities

- Underwriting or investment in shares, debentures, bonds, etc. of new issues (primary market activities).
- Dealing in secondary market activities.
- Participating in money market instruments like commercial Papers, certificate of deposits, treasury bills, discounting of bills etc.
- Involving in equipment leasing, hire purchase, venture capital, seed capital,
- Dealing in foreign exchange market activities.

Non Fund Based Activities

- This can be called **‘fee based’** activity
- Managing the capital issue — i.e. management of pre-issue and post-issue activities relating to the capital issue in accordance with the SEBI guidelines and thus enabling the promoters to market their issue.
- Assisting in the process of getting all Government and other clearances.

Modern Activities

- Rendering ***project advisory*** services
- Guiding corporate customers in ***capital restructuring***.
- Acting as trustees to the debenture holders
- Structuring the financial collaborations / joint ventures
- Rehabilitating and restructuring ***sick companies***
- ***Hedging of risks*** due to exchange rate risk, interest rate risk, economic risk, and political risk by using swaps and other derivative products.

- Managing In- portfolio of large Public Sector Corporations
- Undertaking risk management services like insurance services, buy-back options etc
- Promoting credit rating agencies
- Undertaking services relating to the capital market, such as
  1)Clearing services,
  2)Registration and transfers,
  3)Safe custody of securities,
  4)Collection of income on securities.

Various Financial Services

- Financial leasing services including equipment leasing and hire- purchase by a body corporate
- Credit card services
- Merchant banking services
- Securities and foreign exchange (forex) broking
- Asset management including portfolio management, all forms of fund management, pension fund management, custodial depository and trust services, but does not include cash management
- Advisory and other auxiliary financial services including investment and portfolio research and advice, advice on mergers and acquisition and advice on corporate restructuring and strategy
- Provision and transfer of information and data processing

- **Loan Syndication:** This is more or less similar to ***consortium financing***.
  - It refers to a loan arranged by a bank called lead manager for a borrower who is usually a large corporate customer or a government department.
  - It also enables the members of the syndicate to share the credit risk associated with a particular loan among themselves.
- **Merchant Banking**
- **Leasing**

- **Mutual Funds** :
  - A mutual fund refers to a fund raised by a financial service company by ***pooling the savings of the public***. It is invested in a ***diversified portfolio*** with a view to spreading and minimizing the risk.
  - The fund provides investment avenues for small investors who cannot participate in the equities of big companies.
  - It ensures low-risk, steady returns, high liquidity- and better capitalization in the long run.
- **Factoring:**
  - It refers to the process of managing the sales register of a client by a financial services company.
  - The entire responsibility of collecting the book debts passes on to the factor.

Forfaiting :

– It is a technique by which a forfaiter (financing agency) discounts an export bill and pays ready cash to the exporter who can concentrate on the export front without bothering about collection of export bills

Venture Capital

Custodial Services

– Under this a financial intermediary mainly provides services to clients, for a prescribed fee, like safe keeping of financial securities and collection of interest and dividends.

Corporate advisory services

- Financial intermediaries particularly banks have setup specialized branches for this.
- As new avenues of finance like Euro loans, GDRs etc. are available to corporate customers, this service is of immense help to the customers.

Securitization

- Securitization is a technique whereby a financial company ***converts its ill-liquid, non-negotiable and high value financial assets*** into securities of small value which are made tradable and transferable.

Derivative Security

Challenges

- Lack of Recent data
- Lack of Efficient Risk Management System
- Lack of Specialization
- Lack of Transparency
- Lack of Investor Awareness
- Lack of Qualified personnel

Importance of Financial Services

- Benefits of Government.
- Balanced Regional Development
- Expands activities of financial markets.
- Economic Development.
- Economic Growth.
- Ensures Greater Yield.
- Maximizes Returns.
- Minimizes Risks.
- Promotes Savings.
- Promotes Investments.
- Promotion of Domestic & Foreign Trade.
- Vibrant Capital Market.

1. Promoting investment

- The presence of financial services creates more demand for products and the producer, in order to meet the demand from the consumer goes for more investment.

- At this stage, the financial services comes to the rescue of the investor such as merchant banker through the new issue market, enabling the producer to raise capital.

- The stock market helps in mobilizing more funds by the investor. Investments from abroad is attracted.

- Factoring and leasing companies, both domestic and foreign enable the producer not only to sell the products but also to acquire modern machinery/technology for further production.

2. Promoting savings

- Financial services such as mutual funds provide ample opportunity for different types of saving.
- For people interested in the growth of their savings, various reinvestment opportunities are provided.
- The laws enacted by the government regulate the working of various financial services in such a way that the interests of the public who save through these financial institutions are highly protected.

3. Minimizing the risks

- The risks of both financial services as well as producers are minimized by the presence of insurance companies.
- Insurance is not only a source of finance but also a source of savings, besides minimizing the risks.

4. Maximizing the Returns

- The presence of financial services enables businessmen to maximize their returns. This is possible due to the availability of ***credit at a reasonable rate***. Producers can avail various types of credit facilities for acquiring assets. In certain cases, they can even go for leasing of certain assets of very high value.
- Factoring companies enable the seller as well as producer to increase their turnover which also increases the profit.
- Even under stiff competition, the producers will be in a position to sell their products at a low margin. With a higher turnover of stocks, they are able to maximize their return.

5. Ensures greater Yield

- It is the yield which attracts more producers to enter the market and increase their production to meet the demands of the consumer.
- The financial services enable the producer to not only earn more profits but also maximize their wealth.
- Financial services enhance their goodwill and induce them to go in for diversification.
- The stock market and the different types of derivative market provide ample opportunities to get a higher yield for the investor.

6. Economic growth

- The development of all the sectors is essential for the development of the economy.
- The financial services ensure equal distribution of funds to all the three sectors namely, primary, secondary and tertiary so that activities are spread over in a balanced manner in all the three sectors.
- This brings in a balanced growth of the economy as a result of which employment opportunities are improved.
- The tertiary or service sector not only grows and this growth is an important sign of development of any economy.
- In a well developed country, service sector plays a major role and it contributes more to the economy than the other two sectors.

7. Economic development

- Financial services enable the consumers to obtain different types of products and services by which they can improve their standard of living.
- Purchase of car, house and other essential as well as luxurious items is made possible through hire purchase, leasing and housing finance companies.
- Thus, the consumer is compelled to save while he enjoys the benefits of the assets which he has acquired with the help of financial services.

8. Benefit to Government

- The presence of financial services enables the government to raise both short-term and long-term funds to meet both revenue and capital expenditure.
- Through the money market, government raises short term funds by the issue of Treasury Bills.
- These are purchased by commercial banks from out of their depositors’ money.
- In addition to this, the government is able to raise long-term funds by the sale of government securities in the securities market which
- forms apart of financial market. Even foreign exchange requirements of the government can be met in the foreign exchange market.
- The most important benefit for any government is the raising of finance without offering any security. In this way, the financial services are a big boon to the government.

9. Expands activities of Financial Institutions

- The presence of financial services enables financial institutions to not only raise finance but also get an opportunity to disburse their funds in the most profitable manner.
- Mutual funds, factoring, credit cards, hire purchase finance are some of the services which get financed by financial institutions.
- The financial institutions are in a position to expand their activities and thus diversify the use of their funds for various activities.
- This ensures economic dynamism.

10. Capital Market

- One of the barometers of any economy is the presence of a vibrant capital market.
- If there is hectic activity in the capital market, then it is an indication of the presence of a positive economic condition.
- The financial services ensure that all the companies are able to acquire adequate funds to boost production and to reap more profits eventually.
- In the absence of financial services, there will be paucity of funds which will adversely affect the working of companies and will only result in a negative growth of the capital market.
- When the capital market is more active, funds from foreign countries also flow in. Hence, the changes in capital market is mainly due to the availability of financial services.

11. Promotion of Domestic and Foreign Trade

- Financial services ensure promotion of domestic as well as foreign trade.
- The presence of factoring and forfaiting companies ensures increasing sale of goods in the domestic market and export of goods in the foreign market.
- Banking and insurance services further contribute to step up such promotional activities.

12. Balanced Regional development

- The government monitors the growth of economy and regions that remain backward economically are given fiscal and monetary benefits through tax and cheaper credit by which more investment is promoted.
- This generates more production, employment, income, demand and ultimately increase in prices.
- The producers will earn more profits and can expand their activities further.
- So, the presence of financial services helps backward regions to develop and catch up with the rest of the country that has developed already.

Financial Service Providers- NBFC, Banks, Insurance Companies

NBFC

- NBFC expands to Non-Banking Financial Company is a company registered under the Companies Act, 1956 and regulated by the Central Bank i.e. Reserve Bank of India under RBI Act, 1934.
- These entities are not banks, but they are engaged in lending and other activities, akin to that of banks like providing loans and advances, credit facility, savings and investment products, trading in the money market, managing portfolios of stocks, transfer of money and so on.
- It is indulged in the activities of hire purchasing, leasing, infrastructure finance, venture capital finance, housing finance, etc.

- An NBFC accepts deposits, but only term deposits and deposits repayable on demand are not accepted by it.
- In India, these companies emerged in the mid-1980's. Kotak Mahindra Finance, SBI Factors, Sundaram Finance, ICICI Ventures are examples of popular NBFC's.
- NBFC is divided into three categories, Investment Companies Loan Companies Asset Companies

FUNCTIONS OF NBFC'S

- Provides Banking services to People without holding a Bank license.
- An NBFC cannot accept Demand Deposits.
- An NBFC is not a part of the payment and settlement system and as such.
- An NBFC cannot issue Cheques drawn on itself.
- Deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors, unlike banks.
- An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.)
- An NBFC cannot indulge Primarily in Agricultural, Industrial Activity, Sale-Purchase, Construction of Immovable Property.
- Foreign Investment allowed up to 100%.

ADVANTAGES OF NBFC'S

- Lenient conditions for getting a loan in comparison to traditional banks
- Approve smaller loan sizes
- Borrower evaluation based on known history of the business

DISADVANTAGES OF NBFC'S

- An NBFC cannot accept demand deposits as it falls within the realm of activity of commercial banks.
- An NBFC is not a part of the payment and settlement system and as such an NBFC cannot issue cheques drawn on itself.
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors unlike in case of banks.

TOP 10 **NBFC** IN INDIA

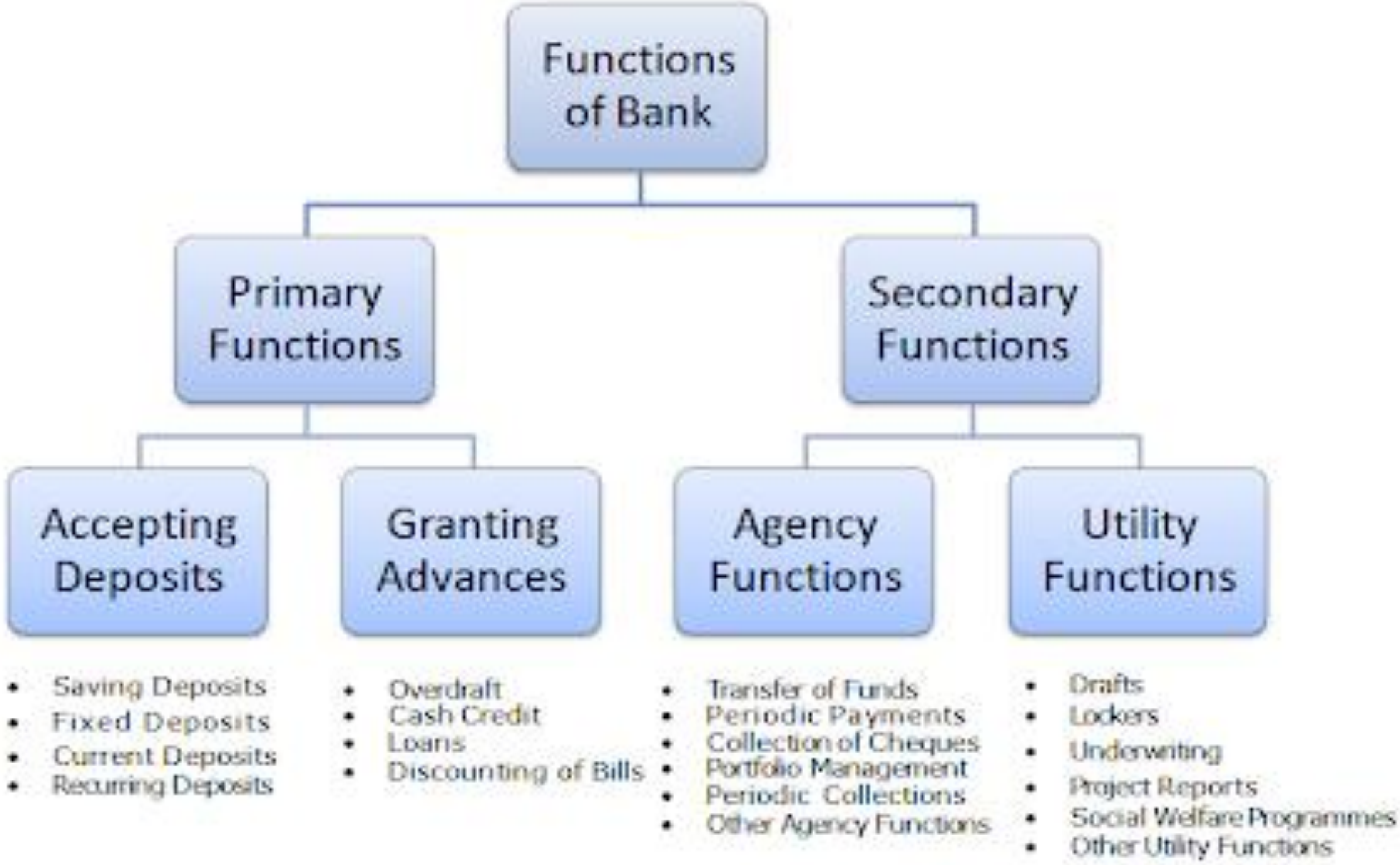
- RELIANCE CAPITAL
- L&T FINANCE LIMITED
- MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED (MMFSL)
- SUNDARAM FINANCE
- SHRIRAM TRANSPORT FINANCE COMPANY LIMITED
- LIC HOUSING FINANCE LIMITED
- INDIABULLS HOUSING FINANCE LIMITED
- POWER FINANCE CORPORATION LIMITED
- BAJAJ FINSERV
- HDFC

Banks

- Banks are the financial institution, authorised by the government to conduct banking activity like accepting deposits, granting credit, managing withdrawals pay interest, clearing cheques and providing general utility services to the customers.
- Banks are the apex organisation, which dominates the entire financial system of the country.
- It acts as a financial intermediary, between the depositors and borrowers, that ensures smooth functioning of the economy.

- Banks can be public sector banks, private sector banks or foreign banks.
- They are responsible for making loans, creating credit, mobilisation of deposits, safe and time bound transfer of money and providing public utility services.
- Ownership of a commercial bank lies with the shareholder and they are operated with the profit motive

Functions of a Bank



Insurance Companies (ICs)

- The primary function of insurance companies is to compensate policyholders if a prespecified event occurs, in exchange for premiums paid
  - **insurance underwriters** assess and price risk
  - **insurance brokers** sell insurance contracts
- Insurance is broadly classified into two groups
  - **life insurance** policies provide protection against untimely death or illness, and/or transfer wealth through time to retirement
  - **property-casualty insurance** protects against personal injury and liability associated with specific events
- Insurance companies also sell a variety of **investment products** similar to other FIs

Insurance

- Insurance is defined as a contract, which is called a policy, in which an individual or organisation receives financial protection and reimbursement of damages from the insurer or the insurance company.
- At a very basic level, it is some form of protection from any possible financial losses.
- The basic principle of insurance is that an entity will choose to spends mall periodic amounts of money against a possibility of a huge unexpected loss.
- Basically, all the policyholder pool their risks together. Any loss that they suffer will be paid out of their premiums which they pay.

Functions of an Insurance Company

1] Provides Reliability

- The main function of insurance is that eliminates the uncertainty of an unexpected and sudden financial loss. This is one of the biggest worries of a business. Instead of this uncertainty, it provides the certainty of regular payment i.e. the premium to be paid.

2] Protection

- Insurance does not reduce the risk of loss or damage that a company may suffer. But it provides a protection against such loss that a company may suffer. So at least the organisation does not suffer financial losses that debilitate their daily functioning.

3] Pooling of Risk

- In insurance, all the policyholders pool their risks together. They all pay their premiums and if one of them suffers financial losses, then the payout comes from this fund. So the risk is shared between all of them.

4] Legal Requirements

- In a lot of cases getting some form of insurance is actually required by the law of the land. Like for example when goods are in freight, or when you open a public space getting fire insurance may be a mandatory requirement. So an insurance company will help us fulfil these requirements.

5] Capital Formation

- The pooled premiums of the policyholders help create a capital for the insurance company. This capital can then be invested in productive purposes that generate income for the company.

Regulators of Financial Services Sector in India

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irdai

IRDA

Insurance Regulatory and Development Authority

IRDA

- IRDA - Insurance Regulatory Development and Authority is the statutory, independent and apex body that governs and supervise the Insurance Industry in India.

- It was constituted by Parliament of India Act called **Insurance Regulatory and Development Authority of India (IRDA of India) ACT** 1999

Establishment:

- IRDA Act was passed upon the recommendations of **Malhotra Committee report** (7 Jan,1994), headed by **Mr R.N. Malhotra (Retired Governor, RBI)**

Main Recommendations –

- Entrance of Private Sector Companies and Foreign promoters & An independent regulatory authority for Insurance Sector in India
- In April,2000, it was set up as statutory body, with its headquarters at New Delhi.
- The **headquarters** of the agency were shifted to **Hyderabad, Telangana** in 2001.

Objectives of IRDA:

- To promote the interest and rights of policy holders.
- To promote and ensure the growth of Insurance Industry.
- To ensure speedy settlement of genuine claims and to prevent frauds and malpractices
- To bring transparency and orderly conduct of in financial markets dealing with insurance.

Functions And Duties of IRDA:

- **Section 14 of IRDA Act,1999** lays down the duties and functions of IRDA:

- It issues the registration certificates to insurance companies and regulates them.
- It protects the interest of policy holders.
- It provides license to insurance intermediaries such as agents and brokers after specifying the required qualifications and set norms/code of conduct for them.
- It promotes and regulates the professional organisations related with insurance business to promote efficiency in insurance sector.

- It regulates and supervise the premium rates and terms of insurance covers.
- It specifies the conditions and manners, according to which the insurance companies and other intermediaries have to make their financial reports.
- It regulates the investment of policyholder's funds by insurance companies.
- It also ensures the maintenance of solvency margin (company's ability to pay out claims) by insurance companies.

Organisational Setup of IRDA:

- IRDA is a **ten member body** consists of : One Chairman (For 5 Years & Maximum Age - 60 years)
- Five whole-time Members (For 5 Years and Maximum Age- 62 years)
- Four part-time Members (Not more than 5 years)
- The chairman and members of IRDAI are appointed by **Government of India**. The present Chairman of IRDAI is **Subhash Chandra Khuntia**.

भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

SEBI:ORIGIN: GROWTH AND DEVELOPMENT

- Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947.
- In April 12, 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India (as a non-statutory body).
- It was later made a statutory body on April 4,1992 and it came to be known as the SEBI Act,1992.
- The mission of SEBI is to make India as one of the best securities market in the world and SEBI as one of the most respected regulator in the world.
- In the year of 1995, the SEBI was given additional statutory powers by the Government of India through an amendment to the Securities and Exchange Board of India Act 1992.
- It is the apex body to develop and regulate the stock market in India. It is known as the watchdog of Indian Capital Market.

Organization's Structure

- The Board shall consist of the following members, namely:-
- a) a Chairman
- b) Two members, One from amongst the officials of the Ministry of the Central Government dealing with Finance and second from administration of the Companies Act, 1956.
- c) One member from amongst the officials of the Reserve Bank of India.
- d) Five other members of whom at least three shall be the whole-time members to be appointed by the central Government .

Objectives of SEBI

- The primary objective of SEBI is to promote healthy and orderly growth -of the securities market and secure investor protection.

The objectives of SEBI are as follows:

- To protect the interest of investors, so that, there is a steady flow of savings into the capital market.
- To regulate the securities market and ensure fair practices.
- To promote efficient services by brokers, merchant bankers, and other intermediaries, so that, they become competitive and professional.

Functions of SEBI

- The SEBI Act, 1992 has entrusted with two functions, they are Regulatory functions And Developmental functions.

Regulatory Functions:

- Regulation of stock exchange and self regulatory organizations.
- Registration and regulation of stock brokers, sub-brokers, Registrars to all issues, merchant bankers, underwriters, portfolio managers etc.
- Registration and regulation of the working of collective investment schemes including mutual funds.
- Prohibition of fraudulent and unfair trade practices relating to securities market.
- Prohibition of insider trading
- Regulating substantial acquisition of shares and takeover of companies.

Developmental Functions:

- Promoting investor's education Training of intermediaries
- Conducting research and publishing information useful to all market participants.
- Promotion of fair practices Promotion of self regulatory organizations

Powers of SEBI

- Power to call periodical returns from recognized stock exchanges.
- Power to compel listing of securities by public companies.
- Power to levy fees or other charges for carrying out the purposes of regulation.
- Power to call information or explanation from recognized stock exchanges or their members.
- Power to grant approval to bye-laws of recognized stock exchanges.

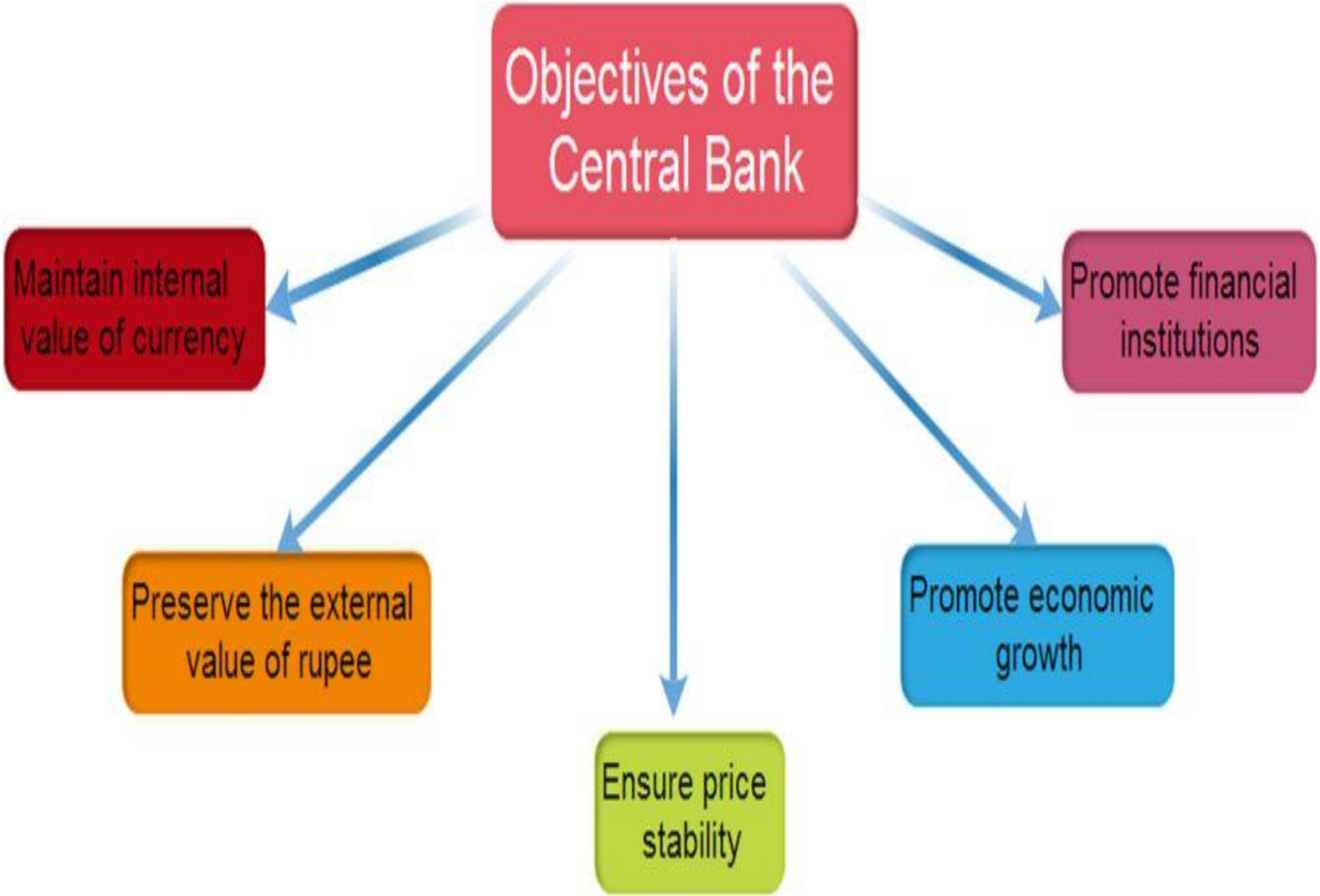
- Power to control and regulate stock exchanges.
- Power to direct enquiries to be made in relation to affairs of stock exchanges or their members.
- Power to make or amend bye-laws of recognized stock exchanges.
- Power to grant registration to market intermediaries.
- Power to declare applicability of Section 17 of the Securities Contract (Regulation) Act 1956, in any State or area, to grant licenses to dealers in securities.

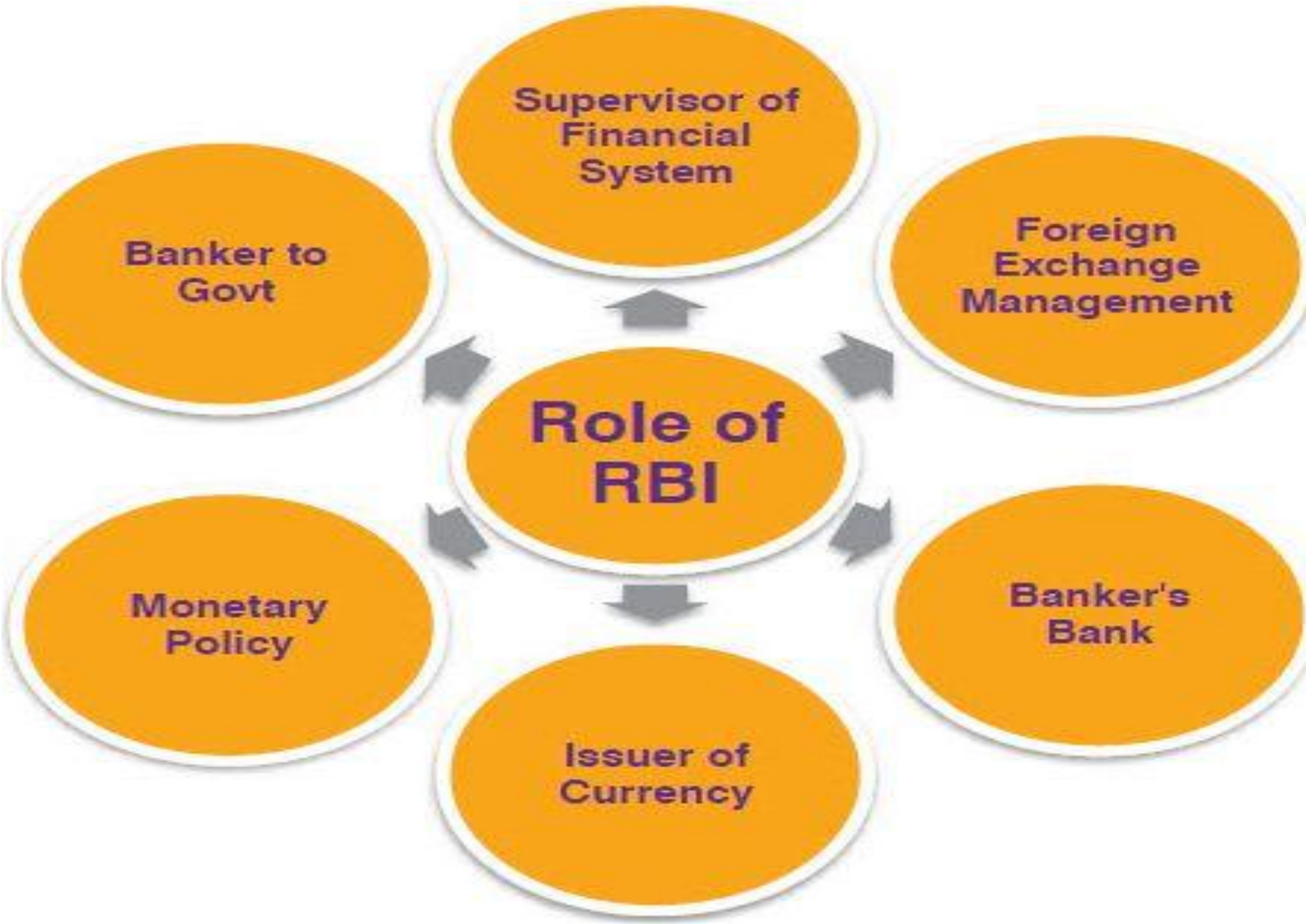
भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

Reserve Bank of India (RBI)

- **Reserve Bank of India (RBI) is the Central Bank of India. RBI was established on 1 April 1935 by the RBI Act 1934.**
- 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.**


Objectives of the Central Bank
Maintain internal value of currency
Promote financial institutions
Preserve the external value of rupee
Promote economic growth
Ensure price stability


Supervisor of Financial System
Foreign Exchange Management
Banker to Govt
Role of RBI
Monetary Policy
Banker's Bank
Issuer of Currency

FUNCTIONS OF RBI

Functions of RBI can be classified into following categories:

a) Traditional functions

b) Development functions

c) Supervisory functions

(A) TRADITIONAL FUNCTIONS OF RB

1. Issue of Currency Notes

As per the provisions of the **Section 22 of the Reserve Bank of India Act 1934** the RBI has sole right or authority to issue currency notes **except** one rupee note and coins of smaller denomination. RBI can exchange these currency notes for other denominations. RBI issues these currency notes (2, 5, 10, 20, 50, 100, 500, 1000) against the security of gold bullion, foreign securities, rupee coins, exchange bills, promissory notes and government of India bonds etc.

2. Banker to other Banks

RBI also guide, help and direct other commercial banks in the country.RBI can control the volume of bank reserves. Every commercial bank has to maintain a part of their reserves with Its parent (RBI). If bank need fund they approach to RBI for fund, that is called **Lender of the Last Resort.**

3. Banter to The Government

RBI works as an agent of the central and state governments. On the behalf of government it makes payments, taxes and deposits etc. It also represent the government at international level also. It maintains government accounts and provide financial advice to the government. It also manages government public debts and maintains foreign exchange reserves on behalf of the government. RBI also provides overdraft facility to the government in case of financial shortage.

4. Exchange Rate Management

For maintenance of the external value of rupee, RBI prepares domestic policies. Also it need to prepare and implement the foreign exchange rate policy which will help in attaining the exchange rate stability. For maintenance of exchange rate stability it has to bring demand and supply of foreign currency (U.S.) dollar close to each other.

5. Credit Control Function

Commercial banks creates credit according to demand in the economy. But if this credit creation is unchecked or unregulated then it leads the economy into inflationary cycles. If credit creation is below the required limit then it harms the growth of the economy. As a central bank of India, RBI has to look for growth with price stability. Thus it creates the credit creation capacity of commercial banks by using various credit control tools.

6. Supervisory Function

RBI supervise the banking system in India. RBI has power to issue licence for setting up new banks, to open new branches, to decide minimum reserves. RBI inspects functioning of commercial banks in India and abroad. RBI also guide and direct the commercial banks in India. RBI can conduct audit any of the bank

(B) DEVELOPMENTAL FUNCTIONS OF RBI

1. Development of the Financial System

The financial systems includes - financial institutions, financial markets and financial instruments. The sound and efficient financial system is necessary for rapid economic development of the nation.

RBI encourages the banking and non - banking institution for maintenance of sound and healthy financial system.

2. Development of Agriculture

As we know, India is an agrarian economy so RBI always give attention to agriculture sector by assessing credit needs of this sector. Regional Rural Banks (RRB), National Bank for Agriculture and Rural Development (NABARD) which are only for agriculture finance comes under the control of the RBI.

3. Industrial Finance

For economic development of country, Industrial development is necessary. As we know industries includes small industries, middle industries, large scale industries etc all these industries development is necessary for overall economic development of country. For this purpose RBI supports the industrial sector also. RBI had played the vital role for setting up of such industrial finance institutions like ICICI Limited, IDBI, SIDBI, EXIM etc.

4. Training Provision

RBI always tried to provide essential training to the staff of the banking industry. RBI has set up banker's training college at several places. The training institute namely National Institute of Bank Management (NIBM), Bankers Staff College (BSC), College of Agriculture Banking (CAB) etc.

5. Data Collection

RBI always collects important statistical data on several topics such as interest rates, inflation, savings, investment, deflation etc. This data is very much useful for policy makers and researchers.

6. Publication of the Reports

RBI has its separate publication division. This division collect and publish data on different sector of the economy. The reports and bulletins are regularly published by the RBI. It includes RBI weekly reports, RBI annual reports, Report on Trend and Progress of commercial banks. This information is made available to the public also at cheaper rates.

7. Promotion of Banking Habits

RBI always takes necessary steps to promote the banking habits among people for economic development of country. RBI has set up many institutions such as Deposit Insurance Corporation 1962, UTI 1964, IDBI 1964, NABARD 1982, NHB 1988 etc. These organizations develop and promote the banking habits among the people.

8. Export Promotion

RBI always tries to encourage the facilities for providing finance for foreign trade especially exports from India. The Export - Import Bank of India (EXIM), and the Export Credit Guarantee Corporation of India (ECGC) are supported by refinancing their lending for export purpose.

(C) SUPERVISORY FUNCTIONS

1. Granting Licence to Banks

RBI grants licence to banks for carrying its business. RBI also provide licence for opening extension counters, new branches even to close down existing branches.

2. Bank Inspection

RBI has power to ask for periodical information from banks on various components of assets and liabilities.

3. Control Over NBFIs

The non - bank financial institutions are not influenced by the working of a monitory policy. RBI has a right to issue directives to the NBFIs from time to time regarding their functioning. Through periodic inspection, it can control the NBFIs.

4. Implementation of Deposit Insurance Scheme

The RBI has set up the Deposit Insurance Guarantee Corporation in order to protect the deposit of small depositors. All bank deposits below Rs. 1 Lakh are insured with this corporation. The RBI work to implement the Deposit Insurance Scheme in case of a bank failure

Financial Services offered by various financial institutions

- Factoring.
- Leasing.
- Forfaiting.
- Hire Purchase Finance.
- Credit card.
- Merchant Banking.
- Book Building.
- Asset Liability Management.
- Housing Finance.
- Portfolio Finance.
- Underwriting.
- Credit Rating.
- Interest & Credit Swap.
- Mutual Fund.

Present Scenario

The Indian economy is in the process of rapid transformation. Reforms ate taking place in every field / part of economy.

- **Conservatism to dynamism**
  - The main objective of the financial sector reforms is to promote an efficient, competitive and diversified financial system in the country.
  - This is very essential to raise the allocate efficiency of available savings, increase the return on investment and thus to promote the accelerated growth of the economy as a whole.
  - At present numerous new FIs have started functioning with a view to extending multifarious services to the investing public in the area of financial services
- **Emergence of Primary Equity Market**
- The capital markets, which were very sluggish, have become a very popular source of raising finance. The number of stock exchanges in the country has gone up from 9 in 1980 to 22 in 1994. After the lowering of bank interest rates, capital markets have become a very popular mode of channelising the saving of medium class people.

Concept of credit rating

- The investment decisions of the investors have been based on factors like name recognition of the company, operations of the group, market sentiments, reputation of the promoters etc. now grading from an independent agency would help the investors in his portfolio management and thus, equity grading is going to play a significant role in investment decision making.

Process of globalization

- The process of globalization has paved the way for the entry of innovative and sophisticated products into our country. Since the government is very keen in removing all obstacles that stand in the way of inflow of foreign capital, the potentialities for the introduction of innovative, international financial products in India are very great. Moreover, our country is likely to enter the full convertibility era soon.

Process of liberalization

- The government has already switched over to free pricing of issues the interest have been deregulated. The private sector has been permitted to participate in banking and mutual funds and the public sector undertakings are being privatized. SEBI has liberalized many stringent conditions so as to boost the capital and money markets.