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AN OVERVIEW OF INDIAN FINANCIAL SYSTEM

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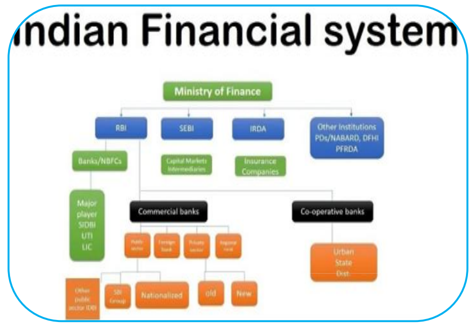
ABSTRACT



In present time we saw many reforms and changes in financial system. It is the beginning of digitalization in financial system through the mobilization and the technical changes. with the help of this reform the barriers of growth in financial system can be reduce at high level as we know that financial system is one of the key industries of an economy. It perform certain essential function for the economy including maintenance of payment system, collection and allocation of the saving of the society and creation of the variety of stores of wealth to suit the preferences of saver. The financial system is possibly the most important institutional and functional vehicle for economy transformation. it is a link between the saving and investment by providing the mechanism through which savings of savers are pooled and are put into the hands of those able and willing to invest by financial intermediaries. Finance is the flowing blood in the body of financial system. It is base of any financial system. This system plays a significant role in access the rate of economy development. Financial system of any country consists of financial market, financial instrument, financial intermediation or financial product. The main focus of my paper on the development of financial system and their growth of economy. This paper discuss the meaning of financial system and also impact of such financial system and also the beginning of new financial system that can reform and developed the economy of the country and the brief review on :-

- *Various money markets.*
- *Technical reform in financial system*
- *Financial intermediaries*
- *Role of financial system*
- *Government action on reforms in financial system*

KEYWORDS: *finance, mobilization, economy, instruments, institutional.*

INTRODUCTION:

The financial system is possibly the most important institutional and functional vehicle for economic transformation. Finance is a bridge between the present and the future and whether it be the mobilization of saving or their efficient, effective and equitable allocation for investment, it is the success with which the financial system perform its function that sets the face for the achievement of broader national objectives. A financial system may be defined as a set of institution, instrument and market that fosters savings and channels them to their most efficient use. The system consists of individuals (savers), intermediaries, markets and uses of saving (government, public and private sector entities). The financial system and financial institution help in the diversion of rising current income into saving/investment.

India's financial sector is diversified and expanding rapidly. It comprises commercials banks, insurance companies, cooperatives, pension funds, mutual funds and other smaller financial entities.

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 about "public finance" but finance exactly is not money, it is the source of providing funds for a particular activities.

On the basis of above explanation we can say that the finance is not only related with the term money, it is the source of generating funds for giving strength to the economy of the country and financial system is the process and planning for uses these funds in growth and welfare for the country.

FINANCIAL SYSTEM

Seekers of funds	flow of fund (saving)	suppliers of funds (mainly house hold)
(Mainly business	flow of financial service	
Firms & govt.)	Incomes & financial claim	

The word "system" in the term "financial system" implies a set of complex and closely connected to interlined institution, agents, practices, markets, transaction, claims and liabilities in the economy. The financial system concern about generating funds, creating sources and apply the funds in the development of the country. A financial system is the system that covers financial transactions and the exchange of the money between investors, lenders and borrowers. A financial system can be defined at the global, regional or firm's specific level.

Financial system allows a company to maintain accountability for expenditures and revenues, and to control their finances to minimize waste and loss. A financial system is the collection of accounting processes and procedures that allow a business to keep accurate financial records, monitor accounts, prevent frauds and mistake, and catch any discrepancies.

CONSTITUTION OF FINANCIAL SYSTEM

Indian Financial System comprises of three main components:

I. Financial Market
II. Financial Instruments
III. Financial Intermediaries

I. Financial Market:-

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 creation or transfer of financial assets. A financial market consists of investor or buyer or seller/dealers and brokers does not refer to a physical location. The primary function of the financial market is to facilitate the transfer of funds from surplus sector to deficit sector. The financial market also promotes financial product innovation.

Money Market:-

Money market is a very important system of Indian financial system. money market is a place for trading in money and short term financial assets that are close substitutes of money. Short term financial assets which gets converted into money with minimum transaction cost. The Indian money market was segmented and highly regulated and lacked depth until 1980. It was characterized by a limited number of participants, regulated of entry and limited availability of instruments.

Capital Market:-

The capital market is designed to finance the long term investment. The transaction taking place in this market will be for periods over a year. Capital market is a very essential part of financial system where transaction are mode through purchasing and selling of shares, debentures, bonds, securities etc.

Credit Market:-

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

Financial Intermediation:-

The institution on the financial market such as commercial banks and nonbanking intermediaries undertake the important process of financial intermediation whereby the funds or saving of the surplus sector are channeled to deficit sector. The financial institution channels the funds of surplus economic units to those wanting to spend on real capital investment. Funds are transferred through the creation of financial liabilities such as bonds and equity shares.

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 suffice. 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 insure such transfer. To serve these 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 stage 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 larder. However as the financial system widened as along with the development taking place in the financial markets, the scope of its operations also widened, some of the important intermediaries operating ink in the financial market include ; investments bankers, Underwriters , stock exchanges, registers depositors, custodians, portfolio manager mutual funds, financial advertisers financial consultants primary dealers, satellite darers self regulatory organizations etc. financial intermediation can enhance growth by pooling funds of the small and scattered savers and evocating them for Investment in an efficient manner by using the is in formational advantages in the loan market they are the principal mobilizers of surplus fund to finance productive activity and to the extent that they promote capital accumulation, they promote growth.

II. Financial Instruments:-

Financial instruments are those instruments which helped in generating funds through long term debts as well as short term debts. Financial instrument can be divided into three major instruments.

1. Money Market Instrument:-

The money market can be defined as a market for short term money and financial assets that are near substitutes for money. It is a market for short term debts securities, such as commercial paper, repos, negotiable certificate for deposits and treasury bills with a maturity of one year or less.

Some of the important money market instruments are briefly discussed below:-

Call/Notice Money: -

Call 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. Under call money market, funds are transacted on overnight basis and under notice money market for 2 days to 14 days.

Treasury Bills: -

Treasury bills are short term (up to one year) borrowing instrument of the union government. These are the instruments (in the form of promissory notes) of short term borrowing. It was first issued in India in 1917. Treasury bills can be purchased by any one (including individual) except state govt. the maturity period of these bills are 91 days, 182 days, 364 days. Treasury bills are zero coupon securities. They are issued at a discount and redeemed at face value at maturity.

Term Money –

Inter market for deposit & of maturity beyond 14 days is referred to as the term money market. in this market money lent as borrowed for 15 days to 1 years.

Certificate Of Deposit:-

Certificate of deposits are documents of title to time deposit with banks. They are interest bearing, maturity dated obligations of banks and are technically a part of bank deposits. In other words, CD is a marketable receipt of funds deposited in a bank for a specified period of time at a specified rate of interest. This is an important source of mobilization of deposits for commercial banks. In India certificate of deposits is introduced in July, 1989.

Commercial Paper:-

Commercial paper was introduced in jan,1990. It is a short term debt to enable highly rated corporate to diversity their sources of short term borrowings and it is also an additional instrument to the investor .the commercial paper is issued by the banks and financial institution.

2. Capital Market Instruments:-

Capital market is the market that helps the companies in raising long term investment credit; it is the market for long term fund. It refers to all the facilities and institutional arrangements for borrowings and lending term funds.

3. Hybrid Instruments:-

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

Reforms in Financial System

In present days we saw many new changes and up gradation in financial system of India through reforms in various sectors of financial system. India's financial system has long been inadequate, with an economy worth $ 2 trillion; the country's financial flaws are increasingly serious and outright dangerous but fundamental change is under way. The government-backed financial sector legislative reforms commission drafted the Indian financial code, a single unified law that replace most existing financial law in India and is an important milestone in the development of state capacity. Now the government must work to adopt and implement the full code.

Modernizing Indian Finance

- Existing laws in India are rooted in the nation that the state is benevolent and feature few checks and balances. The draft IFC steps away from this idea of power without accountability
- Financial law should reflect an understanding of market failures in finance. It should acknowledge that bureaucrats and politicians serve their own interest, not necessarily those of the general public
- The IFC will transform India's financial laws, regulatory architecture, and regulatory functions, providing a modern and consistent framework based on the rule of law regulatory independence and accountability.

- The draft code addresses nine areas that require reforms; consumer protection, micro-prudential regulation, resolution mechanism systemic risk regulation, capital controls, monetary policy, public debt management, development and redistribution, and contracts, trading and market abuse.
- The full adoption of the IFC will help build a financial system that allocates resources well, achieve higher growth and reduces risk.

Challenges Faced by the Indian Financial System:-

1. **Lack Of Knowledge:-** Due to lack of knowledge and benefits of financial system work and plans, people don't affected and accepted these thing. Thus the plans cannot work properly.
2. **Lack Of Transparency:-** The whole financial system are undergoing a phenomenal (change in accordance) with the recruitments of the national and global environments. Hence this section should opt. for better level of transparency.
3. **Lack Of Specialization:-** In the Indian financial system, each intermediary seems to deal in different financial service lines without specializing in one or two areas only. This helps them to achieve high level efficiency and excellence.
4. **Lack Of Recent Data:-** Most of the intermediaries do not spend more on research. It is very vital that one should build up a proper data base on the basis of which one could embark upon financial creativity.

FINDINGS & SUGGESTION:-

Through the above research, we just found that the financial system is the backbone of any economy. If the financial system of a country is stronger then the country can develop easily. So that the govt. takes many step to give strength to the financial system but there were always two faces of any coin. If there is so many positive things in financial system then there were too many Challenges in performing and executing these plans of financial system, while there were too many problem, financial system play a significant sole in development of country and it is very essential for every country,

CONCLUSION; -

The Indian financial system is began with a new reformed component our government takes many step to develop the financial system with the help of changing the technical tools and giving the more concern on this sector, now in two decades the Indian financial system establish more much Then the other developing country, through the role of financial system in economy the growth in G.D.P took the place of highest level in the history of India. It is growing in all sectors because the financial system is more supportive and more affective.

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