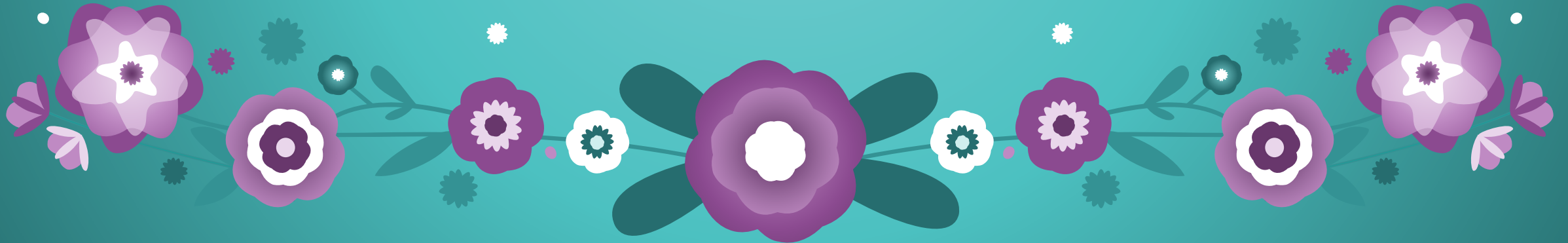


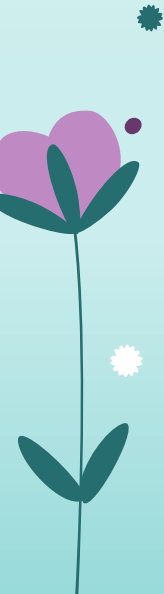
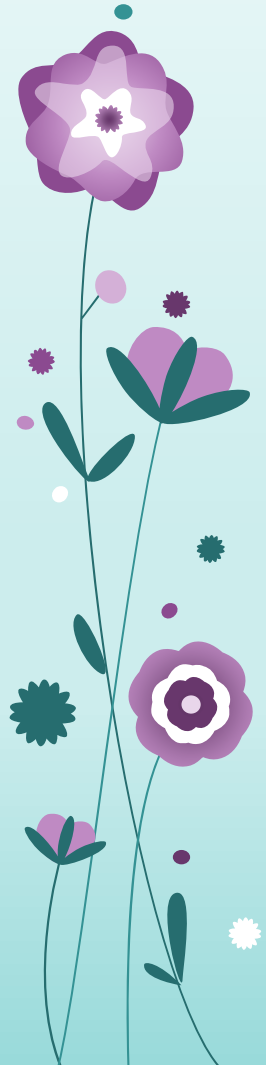
Environment and Management of Financial Services

FYBBI

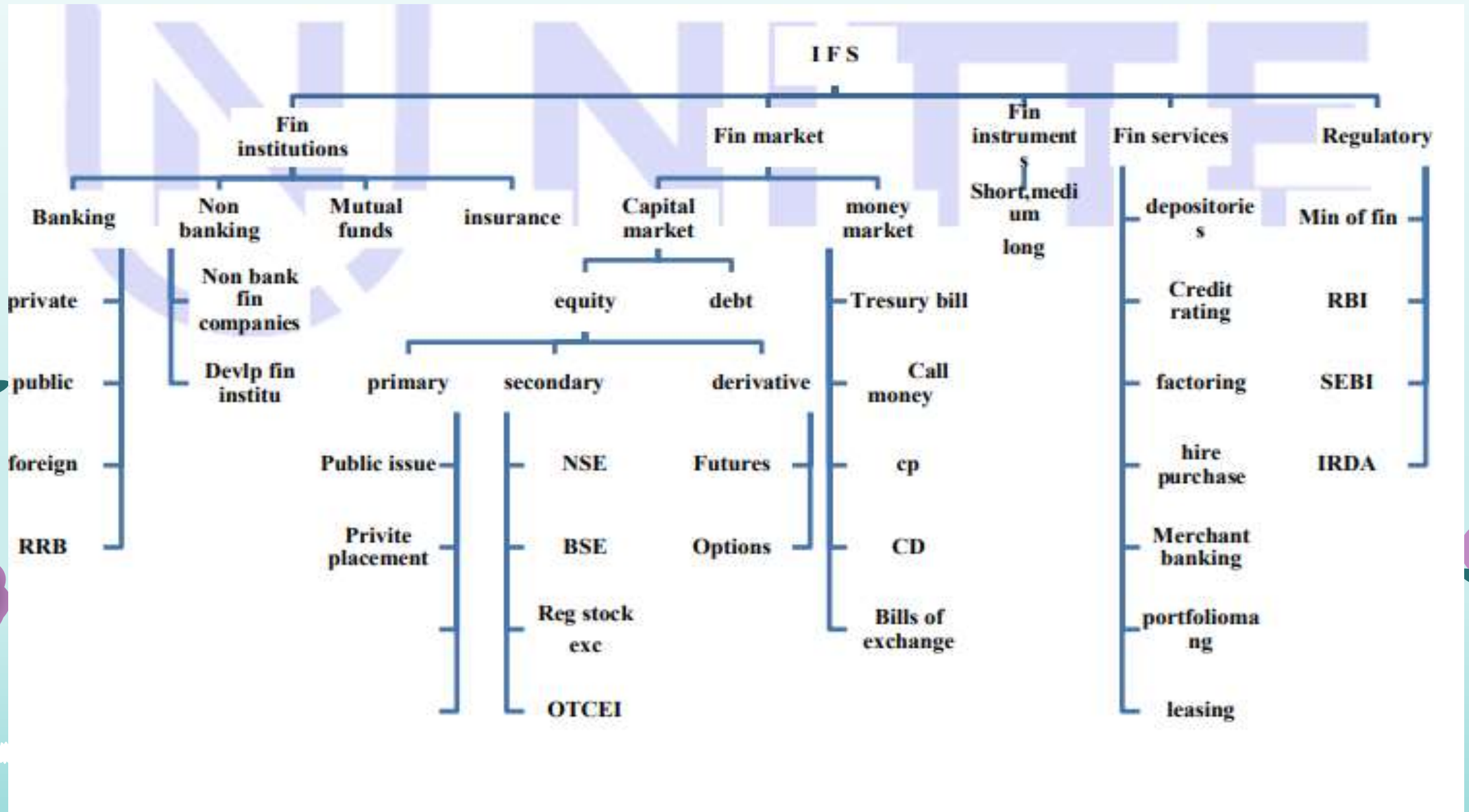


Unit I- Financial System

- **Financial System:** A financial system means the structure that is available in an economy to mobilise the capital from various surplus sectors of the economy and allocate and distribute the same to the various needy sector.
- The transformation of savings into investments and consumptions are facilitated by the active role played by the financial system. The process of transformation is aided by various types of intermediaries such as banks, financial institutions, mutual funds etc.



Structure of Financial System



Cont....

- **Financial Institutions** They are intermediaries who facilitate smooth functioning of financial system by making investors and borrowers meet. Financial institution can be divided under 2 head- banking and non banking
- **Financial market** The marketplace where buyers and sellers interact with each other and participate in the trading of money, bonds, shares and other assets is called a financial market.
- **Financial Instruments** It is a claim against a person or an institution for payment at future date of sum of money or a periodic payment in form of interest or dividend
- **Financial Services** It is product or services offered by financial industries to its customers like stock broking, insurance mutual funds etc .there are various assets based and fee based services
- **Regulatory Authorities** Ministry of finance RBI SEBI IRDA

Financial Institutions

- The main functions of the Financial Institutions are as follows:
- A short term liability can be converted into a long term investment
- It helps in conversion of a risky investment into a risk-free investment
- Also acts as a medium of convenience denomination, which means, it can match a small deposit with large loans and a large deposit with small loans
- The best example of a Financial Institution is a Bank. People with surplus amounts of money make savings in their accounts, and people in dire need of money take loans. The bank acts as an intermediate between the two.

Cont...

- The financial institutions can further be divided into two types:
- **Banking Institutions or Depository Institutions** – This includes banks and other credit unions which collect money from the public against interest provided on the deposits made and lend that money to the ones in need
- **Non-Banking Institutions or Non-Depository Institutions** – Insurance, mutual funds and brokerage companies fall under this category. They cannot ask for monetary deposits but sell financial products to their customers.

Cont...

- Further, Financial Institutions can be classified into three categories:
- **Regulatory** – Institutes that regulate the financial markets like RBI, IRDA, SEBI, etc.
- **Intermediates** – Commercial banks which provide loans and other financial assistance such as SBI, BOB, PNB, etc.
- **Non Intermediates** – Institutions that provide financial aid to corporate customers. It includes NABARD, SIBDI, etc.

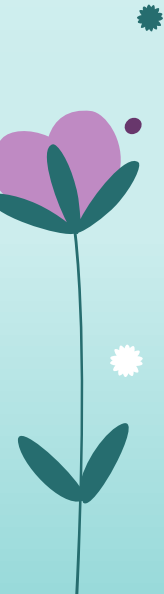
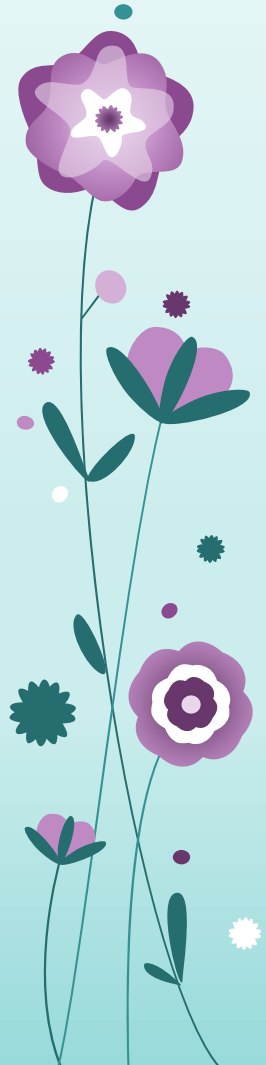
Financial Markets

- **Capital Market** – Designed to finance the long term investment, the Capital market deals with transactions which are taking place in the market for over a year. The capital market can further be divided into three types:

(a) Equity

- **Primary:**
- **Secondary:**
- **Derivatives:**

(b) Debt

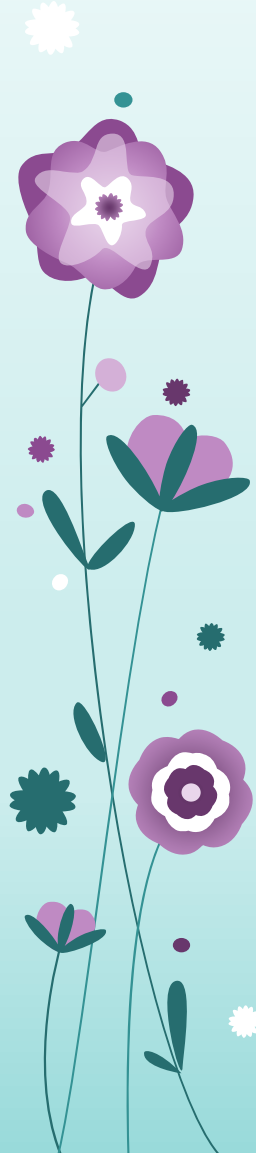
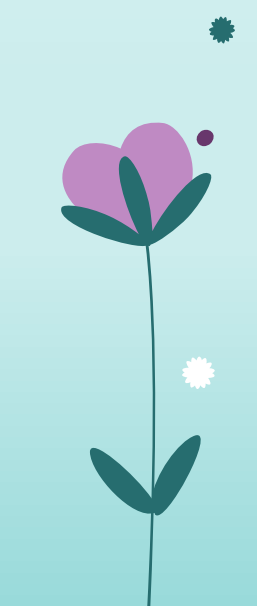


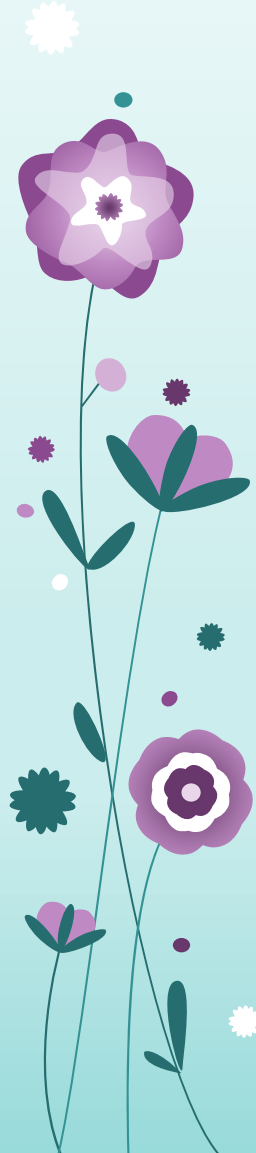
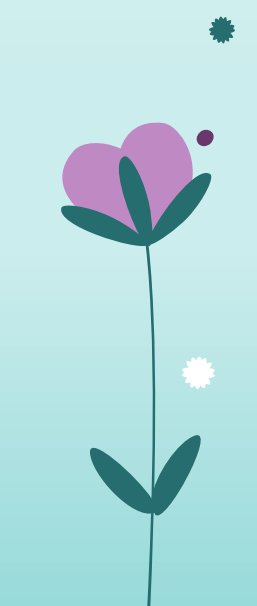
Cont...

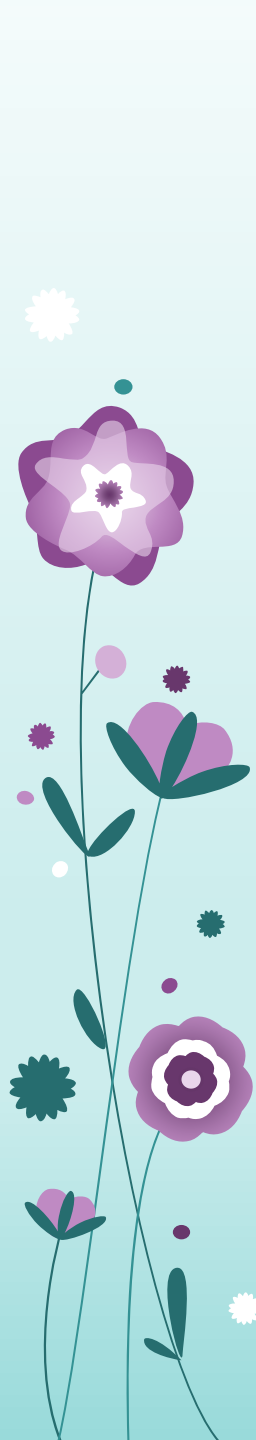

- **Money Market** – Mostly dominated by Government, Banks and other Large Institutions, the type of market is authorised for small-term investments only. It is a wholesale debt market which works on low-risk and highly liquid instruments. The money market can further be divided into two types:
 - (a) Organised Money Market
 - (b) Unorganised Money Market

Cont....

- **Call Money** – When a loan is granted for one day and is repaid on the second day, it is called call money. No collateral securities are required for this kind of transaction.
- **Notice Money** – When a loan is granted for more than a day and for less than 14 days, it is called notice money. No collateral securities are required for this kind of transaction.
- **Term Money** – When the maturity period of a deposit is beyond 14 days, it is called term money.
- **Treasury Bills** – Also known as T-Bills, these are Government bonds or debt securities with maturity of less than a year. Buying a T-Bill means lending money to the Government.
- **Certificate of Deposits** – It is a dematerialised form (Electronically generated) for funds deposited in the bank for a specific period of time.
- **Commercial Paper** – It is an unsecured short-term debt instrument issued by corporations.

- 
- **Credit rating:** Credit rating means giving an expert opinion by a rating agency on the relative willingness and ability of the issuer of a debt instrument to meet the financial obligations in time and in full.
 - **Factoring:** Factoring is an arrangement under which the factor purchases the account receivables (arising out of credit sale of goods/services) and makes immediate cash payment to the supplier or creditor
 - **Hire purchase and consumer credit:** Hire purchase is an alternative to leasing. Hire purchase is a transaction where goods are purchased and sold on the condition that payment is made in instalments.
- 

- 
- **Merchant banking:** Merchant banking is basically a service banking, concerned with providing non-fund based services of arranging funds rather than providing them. The merchant banker merely acts as an intermediary. Its main job is to transfer capital from those who own it to those who need it.
 - **Lease financing:** A lease is an agreement under which a firm acquires a right to make use of a capital asset like machinery etc. on payment of an agreed fee called lease rentals.
- 

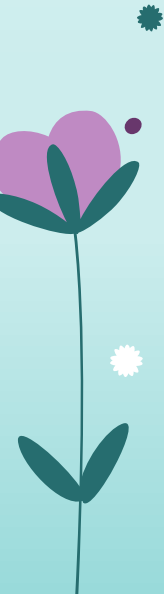
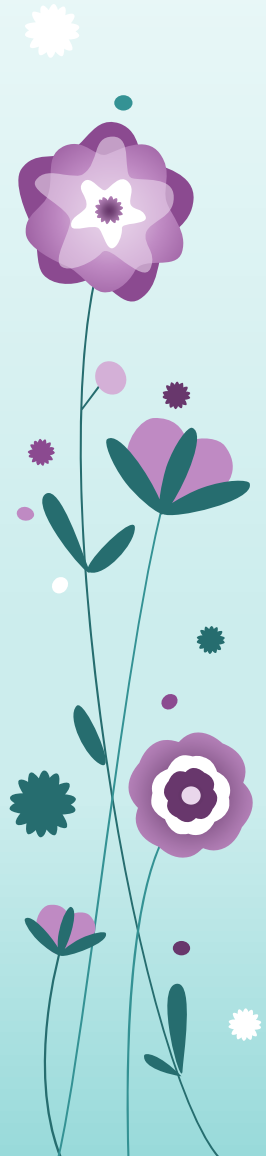
- 
- **Foreign exchange Market** – One of the most developed markets across the world, the Foreign exchange market, deals with the requirements related to multi-currency. The transfer of funds in this market takes place based on the foreign currency rate.
 - **Credit Market** – A market where short-term and long-term loans are granted to individuals or Organisations by various banks and Financial and Non-Financial Institutions is called Credit Market
- 

Regulatory

- **Reserve Bank of India (RBI)** is India's central bank. It controls the monetary policy concerning the national currency, the Indian rupee. The basic functions of the RBI are the issuance of currency, to sustain monetary stability in India, to operate the currency, and maintain the country's credit system.
- **SEBI** is a statutory regulatory body established on the 12th of April, 1992. It monitors and regulates the Indian capital and securities market while ensuring to protect the interests of the investors, formulating regulations and guidelines. The head office of SEBI is at Bandra Kurla Complex, Mumbai.
- **The Insurance Regulatory and Development Authority (IRDA)** is a **Statutory, autonomous** and apex body to regulate the insurance sector in India. It was created upon the recommendations by the **Malhotra Committee** report of 1994. The report recommended that an independent authority to regulate the insurance industry in India should be established.

Function of Financial System

- Pooling of funds
- Capital formation
- Facilitates payment
- Provides liquidity
- Short and long term needs
- Risk function
- Better decision
- Finances government needs
- Economic Development



What is Commercial Bank?

- A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit.
- The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate

Function of Commercial Bank:

- **(a) Primary functions**

- **Accepts deposit :** The bank takes deposits in the form of saving, current, and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary requirements of the commercial transactions.
- **Provides loan and advances :** Another critical function of this bank is to offer loans and advances to the entrepreneurs and business people, and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains a small number of deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit, short-run loans, and more such banks.
- **Credit cash:** When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows the bank to create money.

Cont.....

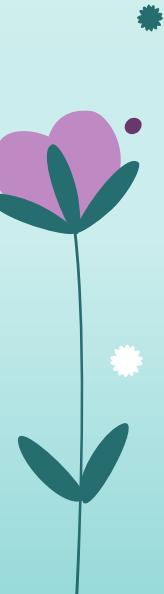
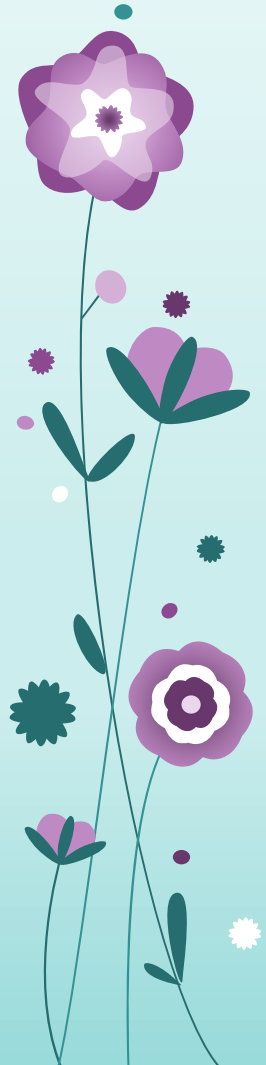
- **(b) Secondary functions**
- **Discounting bills of exchange:** It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.
- **Overdraft facility:** It is an advance given to a customer by keeping the current account to overdraw up to the given limit.
- **Purchasing and selling of the securities:** The bank offers you with the facility of selling and buying the securities.
- **Locker facilities:** A bank provides locker facilities to the customers to keep their valuables or documents safely. The banks charge a minimum of an annual fee for this service.
- **Paying and gathering the credit :** It uses different instruments like a promissory note, cheques, and bill of exchange.

Types of Commercial Banks:

- There are three different types of commercial banks.
- **Private bank** –: It is a type of commercial banks where private individuals and businesses own a majority of the share capital. All private banks are recorded as companies with limited liability. Such as Housing Development Finance Corporation (HDFC) Bank, Industrial Credit and Investment Corporation of India (ICICI) Bank, Yes Bank, and more such banks.
- **Public bank** –: It is a type of bank that is nationalised, and the government holds a significant stake. For example, Bank of Baroda, State Bank of India (SBI), Dena Bank, Corporation Bank, and Punjab National Bank.
- **Foreign bank** –: These banks are established in foreign countries and have branches in other countries. For instance, American Express Bank, Hong Kong and Shanghai Banking Corporation (HSBC), Standard & Chartered Bank, Citibank, and more such banks.

Different types of loans and Advances

1. Cash Credit
2. Demand Loans
3. Short term loans
4. Bills Discounting
5. Remitting Funds
6. Miscellaneous function
7. Agency Function



Cooperative Bank

The cooperative banking started in India 1904 when official efforts were initiated to create new type of institution based on the principles of cooperation.

The cooperative banking system comprises state cooperative banks, central cooperative bank, urban cooperative bank, primary Agricultural credit societies and land development banks

Cooperative credit Institution

1 Urban cooperative banks

a. Scheduled UCB

i Mult-State

ii Single State

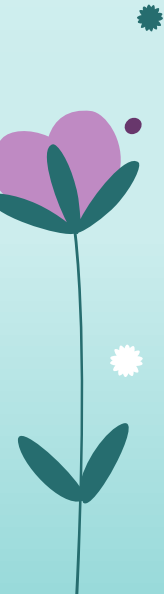
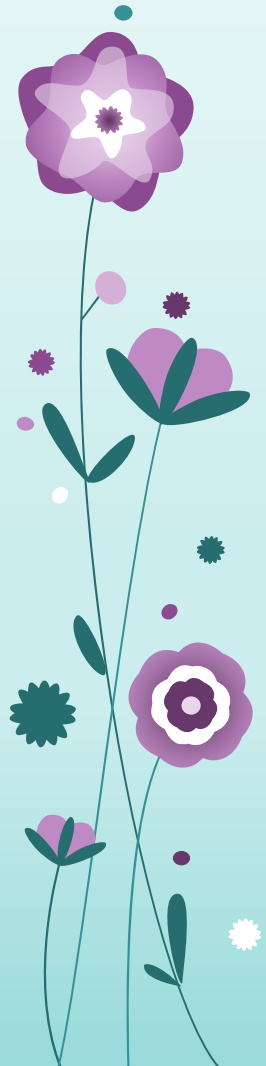
a. Non-Scheduled UCB

i Single state

ii Multistate

a. Tier-I

b. Tier-II



Cont..

Rural cooperative Banks

1. Short- Term
 - a. State Cooperative Banks
 - b. District central Cooperative Banks
 - c. primary Agricultural Credit societies
1. Long Term
 - a. SCARDB (state cooperative Agriculture and Rural Development Bank)
 - b. PCARDB(Primary Cooperative Agriculture and Rural Development bank)

Function of Cooperative Bank

1. **Agricultural Finance**- It provides short term loan for meeting the cost of cultivation, which is repayable form 3 to 15 months.
1. **Non-Agricultural Finance** - The finance self employed artisans such as weavers, blacksmiths, carpenters, etc. small scale industries started on cooperative basis will get assistance from these banks

Difference between commercial bank and Development bank

Commercial Bank	Development Bank
1. Provides short term loan	Provide long term loan
2. Accept deposits from the Public	2. Accepts deposits from commercial banks, central and state government
3. Direct finance to customers	3. Provide refinancing facilities to commercial bank
4. Play an important role in the money market	4. Play an important role in the capital market
5. Promote savings amongs the public and help commercial activities	5. They promote economic growth of the country

Importance Development banking Institution in India

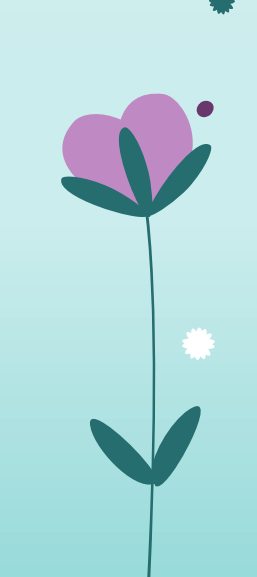
1. Industrial Finance corporation of India (IFCI)

Function of IFCI

1. Granting of Loans
2. Guaranteeing of Loans
3. Contributing to share capital
4. Underwriting of securities
5. Agent of central government
6. Project finance
7. Promotional activities
8. Under merchant banking activities



Cont....

- a. Special Assistance
 - b. Institution that are promoted by IFCI
 - c. Industrial credit and Investment corporation of India (ICICI)
 - d. Industrial Development Bank of India (IDBI)
- 

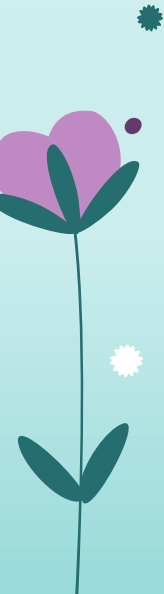
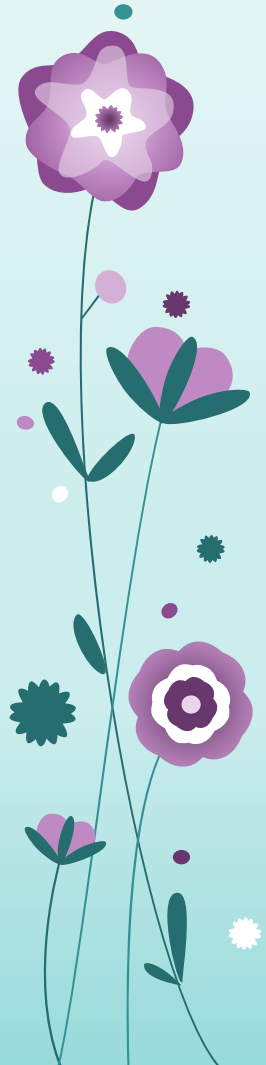
An Outline of the Functions of IDBI

1. Direct Finance

- a. Project loan
- b. Underwriting securities
- c. Soft loan
- d. Technical and development fund loan
- e. Equipment finance
- f. National Bank for Agricultural and Rural Development (NABARD)
- g. Small Industries Development Bank of India(SIDBI)
- h. Discount and Finance House of India (DFHI)

Cont.....

- i. Exim Bank
- j. National Housing Bank(NHB)
- k. Stock Holding corporation of India Limited (SHCIL)
- l. State Financial Corporations (SFCs)



Bharatiya Mahila Bank

It is an Indian financial service banking company based in New Delhi India.

Main Objective

1. It emphasise on funding for skills developments to help in economic activity.
2. To inspire people with entrepreneurs skills and with the help of NGO to train women in SHCs.
3. The main objective of the bank is to promote asset ownership amongst women customers

Marketing Structure

1. Currency and Money supply
2. Banking Sector
3. Small Savings
4. Insurance Funds
5. Stock Market
6. Public Deposits
7. Government Securities and Treasury Bills
8. Interest Rates



Financial Instrument

1. Shares

Share categories are blue chip shares, growth shares, income shares and so no

1. Bonds and Debentures

IDBI issues flexibonds, deep discount bonds, retirement bonds, growing interest bonds and regular income bonds

1. Mutual Fund Schemes



Mutual Fund Schemes

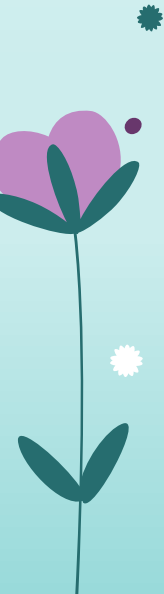
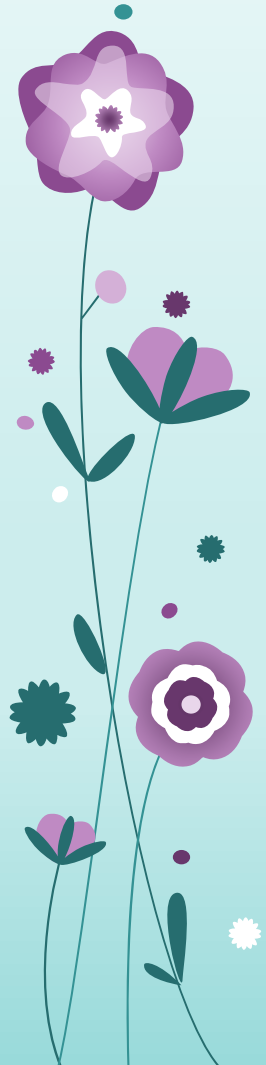
Advantage of Investing in Mutual Funds

1. Professional Management
2. Diversification
3. Convenient administration
4. Return Potential
5. Low costs
6. Liquidity
7. Transparency
8. Flexibility
9. Choice of schemes
10. Regularized

Bank Deposits

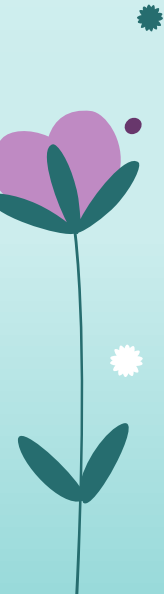
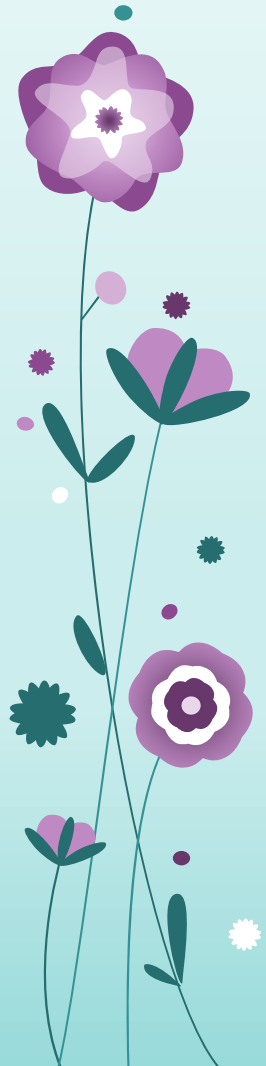
Different types of Deposit Account

1. Current Account
2. Saving Bank Account
3. Fixed Deposits Account
4. Recurring Deposit Account



Post Office Schemes

1. Post Office Operates as a Financial institution
2. Kisan Vikas Patras, National Saving Certificates.



Post Office Operates as a Financial institution

The Financial service offered by Post office includes Savings and Postal Life Insurance (PLI) / Rural Postal Life Insurance (RPLI). The Post Office small savings scheme provides a secure, risk free and attractive investment option for the small investors and offers the savings products across its 1,55,000 Post offices.

The Post Office savings bank is the oldest and by far the largest banking system in the country, serving the investment need of both urban and rural clientele. These services are offered as an agency service for the Ministry of Finance, Government of India. Several products on offer serve various investment requirements of the customers.

Kisan Vikas Patras

The Kisan Vikas Patra was introduced by India Post in the year 1988. It is a saving certificate scheme that was launched to encourage long-term financial discipline. The scheme was closed in 2011 by the Government of India after a Government Committee suggested that this scheme can be misused for money laundering purposes. The Kisan Vikas Patra (KVP) was later relaunched in the year 2014. According to the 2014 amendment of Kisan Vikas Patra, the scheme provides a tenure period of 118 months with a minimum investment of Rs. 1000.

National Saving Certificates.

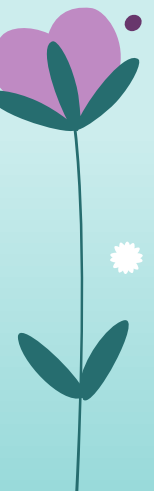
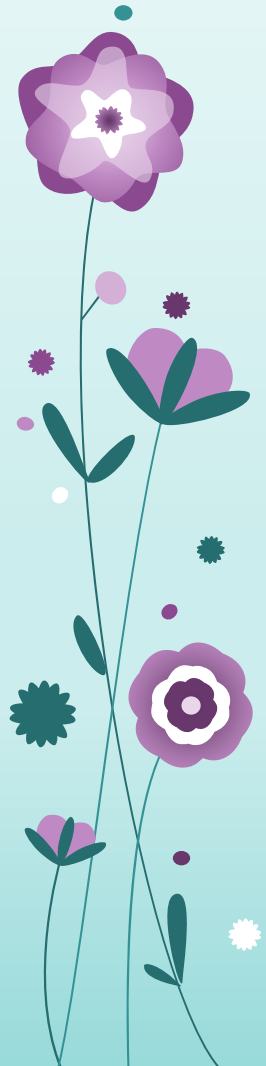
The National Savings Certificate (NSC) is a fixed income investment scheme that you can open with any post office branch. The scheme is a Government of India initiative. It is a savings bond that encourages subscribers – mainly small to mid-income investors – to invest while saving on income tax.

Treasury Bills

Treasury bills or T-bills are money market instruments and short term debt instruments issued by the Government of India and are presently issued in three tenors. This article will detail the definition and use of Treasury Bills.

Treasury Bills are short term (up to one year) borrowing instruments of the Government of India or by a central authority of any country which enable investors to park their short term surplus funds while reducing their market risk. They are auctioned by the Reserve Bank of India (RBI) at regular intervals and issued at a discount to face value.

The bill market is a sub-market of the money market in India. There are two types of bills viz. Treasury Bills and commercial bills. While Treasury Bills or T-Bills are issued by the Central Government; Commercial Bills are issued by financial institutions.'



Gilt-Edged Securities

Gilt-edged securities are high-grade bonds issued by certain national governments and private organizations. In the past, these instruments referred to the certificates issued by the [Bank of England](#) (BOE) on behalf of the Majesty's Treasury, so named because the paper they were printed on customarily featured gilded (golden) edges.

In India Government securities and securities issued by financial institutions such as IDBI, ICICI are called gilt-edged securities.

The maturity period is varying generally upto 10 years to 20 years.

Commercial Paper

Commercial paper is an unsecured, short period debt tool issued by a company, usually for the finance and inventories and temporary liabilities. The maturities in this paper do not last longer than 270 days. These papers are like a promissory note allotted at a huge cost and exchangeable between the All-India Financial Institutions (FIs) and Primary Dealers (PDs).

Most of the commercial paper investors are from the banking sector, individuals, corporate and incorporated companies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs), etc. However, FII can only invest according to the limit outlined by the Securities and Exchange Board of India (SEBI)

In India, commercial paper is a short-term unsecured promissory note issued by the Primary Dealers (PDs) and the All-India Financial Institutions (FIs) for a short period of 90 days to 364 days.

What Is a Certificate of Deposit (CD)?

Certificate of deposit (CD) is an agreement between the depositors and the authorized bank or financial institution. This agreement is for a specific period of time with a certain amount of money to invest where the financial institution pays interest. You can redeem at the time of maturity of the instrument. Hence, you cannot withdraw before the completion of the tenure.

CDs are issued in a dematerialized form. It is a promissory note that a bank or financial institution issues. Federal Deposit Insurance Corporation (FDIC) insures it. And Reserve Bank of India (RBI) regulates it. The RBI lays the guidelines regarding the investments in CDs.

At the time of maturity of a CD, the depositor gets a grace period of 7 days to decide about the matured amount. In case the depositor does not withdraw within the seven days grace period, the maturity amount is reinvested. Furthermore, one can also withdraw the matured amount after the grace period by paying the penalty. Otherwise, the actual investment cannot be redeemed on demand or penalty payment.

CDs were introduced in the year 1989 to increase the range of money market instruments. This enables investors to manage short term funds more effectively.

Public Deposit

To meet temporary financial needs, companies accept deposits from the investors. Such deposits are called public deposits or company fixed deposits. All most all companies collect crores of rupees through such deposits. Companies were offering attractive interest rates previously. However the interest rates are now reduced considerably. At present the interest rate offered is 9 -12 percent.

Life Insurance

Life Insurance business was nationalised in India since long (1956) and is run by the Life Insurance Corporation of India. In addition, we have also Postal life insurance scheme run by Postal Department.

LIC is one avenue for investment of money out of regular income. It also gives protection to the family members of the policyholder. Life insurance business is no more the monopoly

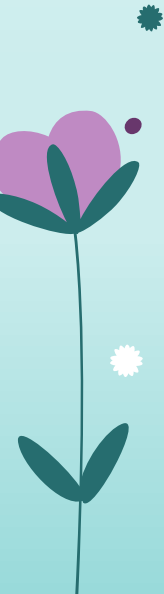
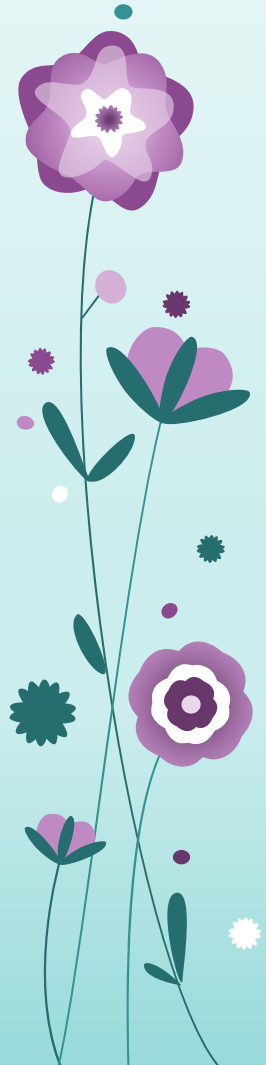
Financial Services

“A financial service is any service of financial nature offered by a financial service supplier of a member”

These include all the insurance and insurance related services and all banking and other financial service

Feature of Financial services

1. Intangibility
2. Inseparability
3. Perishability
4. Variability



Fund Based Financial Services (Need Expl)

1. Leasing

a. Operating Lease

1. Hire purchase
2. Bill discounting
3. Venture capital
4. Housing Finance
5. Factoring
6. Forfaiting
7. Consumer credit
8. Credit Rating

Chapter 2 Banking and Insurance

Introduction

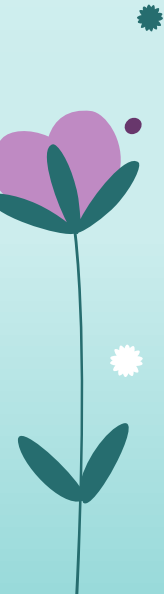
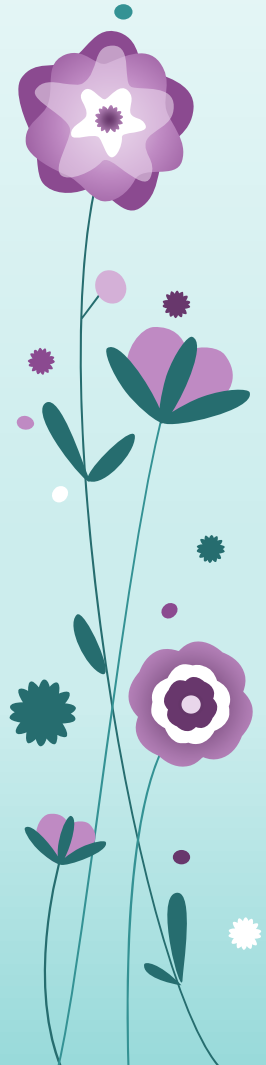
Indian Banking system over the years has gone through various phases after establishment of RBI in 1935 during the British Rule to function as central Bank of the country.

Definition of banking

“Accepting for the purpose of lending and investment of deposits of money form the public, repayable on demand , order or otherwise and withdrawable by cheque or otherwise”.

Feature of Banking

1. Dealing in Money
2. Agency
3. Credit Creation
4. Commercial nature
5. Withdrawable Deposits



Scope of Banking

1. Borrowing ,raising or taking up of money
2. Banks Services
3. Granting and issuing of letter
4. Buying and selling
5. Deals with stocks , share, funds etc.
6. Safe deposit vaults
7. Agent for Government
8. Granting pension and allowances
9. Leasing and mortgaging
- 10.Acquiring undertaking
- 11.Innovating services

Insurance

Meaning

It is founded on a simple idea. Even though an event like death or a fire can come as a terrible economic blow to someone, when we take the society as a whole, during any given year, only a few would suffer in such manner. If a small contribution is collected from everyone in the community and pooled to create a common fund, the amount so pooled can be used to pay money to the few unfortunate members who have been subject to the loss.

Definition of Insurance

“Insurance may be defined as a social device providing financial compassion for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the schemes”

-by D.S. Hansell

