**Indian financial system**

**Introduction:** This article provide you the detailed information about the Indian financial system. After reading this article you will get knowledge about financial institutions, financial assets and different types of financial market.

**Definition of financial System-** The various type of services that are provided by the financial institutions like banks, insurance companies, pensions, fund etc. to the people of the country makes a financial system.

**Components of financial system:**

**Financial institutions**

The term [financial institution](https://www.investopedia.com/terms/f/financialinstitution.asp) define those institutions which provide a wide variety of **deposit, lending, and investment products** to individuals, businesses, or both. Some other financial institutions provide services and account for the general public, others are more likely to serve only certain consumers with more specialized offerings.

**1. Central Banks**

These are the financial institutions that regulate, oversight and lookafter the management of all other banks. **RBI** is known as the **central bank of India**.

An individual do not have direct contact with a central bank instead, large financial institutions work directly with the RBI to provide products and services to the general public.

**2. Retail and Commercial Banks**

These Banks provide products to consumers and commercial banks worked directly with businesses. At present, most of the banks offer deposit accounts, lending and financial advices. These banks cater services like checking and savings accounts, **certificate of deposit (CDs),** personal and mortgage loans, credit cards, and business banking accounts.

**3. Internet Banks**

These type of banks work same as the retail banks. Internet bank is of two type-

* **Digital banks-** These are online-only platform affiliated with traditional banks.
* **Neo banks-** These banks are not affiliated to any bank but themselves. These are pure digital native banks.

**4. Credit Unions**

These are the financial institution that was founded and administered by its member and provide standarad banking services.

These unions help a specific population based on their field of membership, such as military personnel or teachers.

**5. Insurance Companies**

These companies help individuals in tranferring the risk of loss. These companies take care of individuals and businesses from financial loss causes due to disability, death, accidents, property damage and other catastrophes.

**Financial Markets**

Marketplace where buyers and sellers participate in trade of assets such as **equities, bonds,**

**currencies, derivatives**.

**Consist of 2 types:**

1. **Money Market –** deals in short-term credit (< 1 yr).

2. **Capital Market –**handles medium term & long-term credit. (> 1 yr).

**Money Market**

It is characterised by two sectors:

1. **Organised sector** — within direct purview of RBI. It includes banking & sub-markets.

a. **Banking sector** - Commercial banks [under Banking regulation act 1949 & consist of both private & public], RRBs, Cooperative Banks.

b. **Sub Markets** - Meet the need of govt fin inst and industries. It includes call money, Bill market [Commercial bill, T-Bill], Certificate of Deposit [CD] & Commercial Paper [CP].

2. **Unorganised sector**– consists of indigenous bankers, money lenders, non-banking

financial institutions, etc.

**Capital Market**

Market which comprises of buyers & sellers, who trade in **equity** (ownership of asset) &**debt**

(loan). It is **regulatedby SEBI** (established in 1992).

The institutions in the capital market are called **NBFC (Non banking financial companies)**. But it’s not necessary that all NBFC are capital market institution.

RBI define NBFC as - ‘A NBFC is a **company registered under the Companies Act, 1956** and is engaged in the buss of loans & advances, acquisition of share/ stock issued by Government. It n’t include any institution whose principal buss is agriculture activity, industrial activity, sale/ purchase of immovable property’.

**Security Market**:

a) G-Securities [gilt edge] and

b) Industrial Sec Market [New Issue Market is primary market & Old Issue Market is secondary market].

**DFIs**: Long-term loan to industry engaged in infrastructure where project have long gestation periods & require long term loans.

**Financial Institutions**: Entities that act as middleman between 2 parties in financial transaction Banking & Non-Banking.

**Financial services:**

The purpose is to cater a person with borrowing, selling or purchasing securities, allowing payments and settlement, lending and borrowing.

They help in the management of fund as the money is invested effficiently and also help to get the required funds. These services are provided by the assets management and liability management companies.

These services are-

* **Banking services-** like cash deposit, issuing debit and credit card, opening accounts, Fixed deposit, loan facility etc.
* **Insurance services-** like issuing of insurance, selling policies, insurance undertaking and brokerages, etc.
* **Foreign exchange services-** currency exchange, foreign exchange, etc
* **Investment services-** like asset management

**Financial Assets:**

1. **Call Money: It is** used by banks to meet their temporary requirement of cash.

a. Duration of call money: **few hrs to 14 days**

a) Overnight market [within 1 day] and

b) Short Notice market [upto 14 days].

b. **Inter-Bank borrowing** - Banks needs money to cover its Cash Reserve ratio requirement. Its participants are **Scheduled Commercial Bank [but not Regional rural banks]**, **Cooperative bank [exclude Land** **Development Bank]**, Payment Banks.

2. **Bill Market**: This marker include short-term funds [usually **90 days**]. It consist of 2 market:

a. **T-Bill** – It is the sale & purchase of **short-term Government-Securities by Central Government** to fulfil its short-term liquidity requirement.

i. They are **promissory notes** or financial bills **issued by RBI on behalf of Government of India**. These are issued for 14 to 364 days.

ii. They’re **zero-coupon bonds** [non-int bearing] i.e. issued at discount rate.

iii. Also function as investment avenues for banks & FI, beside functioning **CRR & SLR of banking institution.**

b. **Commercial Bill** – These are the bills other than Treasury Bills. They are issued by industries & traders.

c. Centre can issue 2 types of Government-Securities [T-Bill &**Dated Securities**, also known as bonds having maturity of 3 yr, 10 yr...]. State Government also allowed to issue bonds but such bonds are known as SDL [State Development loans].

3. **Cash Management Bill**: It was Introduced in 2009 - They’re **T-bills** but are issued for **maturities less than 91 days**.

a. These are issued by RBI on behalf of Government to meet **temporary mismatches** in cash flow of government.

b. Eligible as **Statutory Liquid Ratio**.

c. Sold at discount through auction at e-kuber.

4. **Certificate of Deposits (CD)**: It is issued by **Commercial Banks and Financial Institution** to raise additional fund.

a. **Minimum subscription** is ₹**1 lakh**.

b. **Maturity**: It is issued for 7 days to 1 yr for commercial banks and for Financial institution 1 yr to 3 yr.

c. Banks and financial institutions **can’t grant loans against Certificate of Deposit**.

5. **Commercial Paper [CP]**: It is an **unsecured** money market tool issued in the form of a

promissory note.

a. Issued by a **listed company** having **working capital** more than or equal to ₹**5 crore**.

b. **Minimum subscription** = ₹**1 cr**

c. It has **maturity** period of 3 month to 6 month.

d. Finance working capital requirements of companies.

e. Individuals, bank, corporate (registered or incorporated in India) and unincorporated

bodies, NRI, FII etc. can invest in Commerical Paper.

6. **Repurchase Agreements (Repo Transaction)**:

a. It is also known as repo, is **sale of securities together with an agreement for seller to buy back securities at a later date**.

b. Its repurchase price should be greater than the original sale price.

7. **Short Term Loans**

a. Short term loan requirements of corporate are met by **Commercial banks.**

b. Banks provide short term loans to corporate in form of cash credit or in the form

of overdraft.

c. **Cash credit** is given to **industrialists** and **overdraft** is given to **businessmen**

Q1: What is the maximum period for call money?

1. 60 days
2. 30 days
3. 20 days
4. 15 days
5. 14 days

Answer: E

Q2: The sale of securities with an agreement to purchase them later greater than its original price is called?

1. Repurchase agreements
2. Repo
3. CRR
4. SLR
5. CRAR

Answer: A

**Q3:** Which of the following regulate the scheduled commercial banks of India?

1. RBI
2. SEBI
3. NABARD
4. SIDBI
5. NHB

**Answer:** A

Q4: Which of the following is issued as a promissory note?

1. Commercial paper
2. Treasury bills
3. Participatory notes
4. Certificate of deposits
5. Govt securities

Answer: A

Q5: What is the minimum subscription required for commercial paper?

1. 1 cr
2. 2 cr
3. 3 cr
4. 4 cr
5. 5 cr

Answer: A

Q6: What is minimum subscription required for Certificate of deposits?

1. 1 lakh
2. 3 lakh
3. 2 lakh
4. 4 lakh
5. 5 lakh

Answer: A

Q7: What is the sale and purchase of short term government securities by central government is called?

1. T-bills
2. Commercial bills
3. P notes
4. Promissory notes
5. Cash management bills

Answer: A

Q8: What is the minimum period required to issued certificate of deposits (CDs)?

1. 7 days
2. 30 days
3. 15 days
4. 14 days
5. 60 days

Answer: A

Q9: Which of the following agencies issue T-bills in India?

1. RBI
2. SBI
3. SEBI
4. SIDBI
5. Ministry of finance

Answer: A

**Q10:** Which of the following market deals for the short term period?

1. Financial market
2. Money market
3. Capital market
4. Gilt edged security market
5. Stock market

Answer: B

**Q10:** Which of the following market deals for the medium and long term period?

1. Financial market
2. Money market
3. Capital market
4. Primary market
5. Stock market

Answer: C

Q11: which of the following is not a type of financial services?

1. Banking
2. Insurance
3. Brokerage
4. Foreign exchange
5. Investment

Answer: C

Q12: Which of the following certificate/bill launched to fulfil the mismatches in cash flow of central government?

1. Cash management bills
2. Prommissory notes
3. Certificate of deposits
4. Commerical paper
5. Repo

Answer: A

Q13: Which of the following bills is issued by traders?

1. T-bills
2. Cash management bills
3. Commercial bills
4. Financial bills
5. Prommissory notes

Answer: C

Q14: Which of the following bills is also work as a Zero coupon bond?

1. Commercial paper
2. Cash management bill
3. Repurchase agreement
4. T-bills
5. P notes

Answer: D

**Q15:** Which of the folllowing market is regulated by SEBI**?**

1. Financial market
2. Money market
3. Capital market
4. Primary market
5. Security market

Answer: C