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**Sub: Financial Services**

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**UNIT 1: Introduction to Financial Services**

**Q. Discuss the developments that have taken place in the Indian Financial System since independence. 10 marks**

**Or**

**“The changes in the economic environment since independence have brought a lot of changes in the financial services sector.” Discuss.**

**Answer:** Economic growth and development of any country depends to a large extent on the efficiency of a developed financial system which comprises of financial institutions, financial markets, financial instruments and financial services. Growth of financial sector is an indicator of an economic development of a country. With the liberalization, deregulation and globalization of the Indian economy, financial system has undergone massive change in the financial system. The changes in the financial system are divided into three stages:

Stage 1: Before Independence

Stage 2: After Independence till 1990

Stage 3: After 1990

**Stage 1: Before Independence (pre independence)**

Before independence, the Indian Financial System was characterized by the following:

1. The financial system was highly unorganized;
2. Capital stock exchanges had very few industrial securities being traded in the stock exchange;
3. There was no separate issuing institution;
4. Financial intermediaries were not allowed to participate in long term financing of industries and
5. Industry’s access to outside savings was also restricted.

Due to the above mentioned features, the Indian Financial System was incapable of achieving high rate of industrial growth especially in the growth of new and innovating enterprises.

**Stage 2: After Independence (post Independence) from 1948-1990.**

Post independence period stressed on planned economic development. Under the Directive Principles of State Policy, a scheme of planned economic development was evolved in 1951 with a view to achieve the broad economic and social objectives of the state.

A number of developments took place in the financial system which is listed below:

1. Transfer of ownership from private sector to public sector;
2. Nationalization of the Reserve Bank of India (RBI);
3. Setting up of the State Bank of India (SBI);
4. Nationalization of Life Insurance business;
5. Nationalization of Commercial Banks;
6. Nationalization of General Insurance business;
7. Development of Finance Institutions;
8. Participation of investing institutions such as mutual funds, insurance schemes, etc.
9. Setting up of the Reconstruction Corporation of India Ltd. (RCI) in 1971 and National Bank for Agriculture and Rural Development (NABARD) in 1982;
10. Changing role of commercial banks.

**Stage 3: After 1990’s**

The Indian Financial System has undergone massive changes since the announcement of new economic policy in 1991. Liberalization, globalization and deregulation have transformed Indian economy from closed to open economy. The corporate industrial sector structure has also undergone changes due to de-licensing of industries, financial sector reforms or reforms in banking and capital market, disinvestment in Public Sector Undertakings (PSUs), reforms in taxation and Company Law, etc.

Major developments that have taken place in the Indian Financial System are briefly discussed below:

1. Entry of private sector into banking and insurance sector;
2. Development Finance Institutions (DFIs) performed the role of term-lending institutions extending loans for project finance, underwriting, direct subscription, lease financing, etc.
3. Emergence of Non-Banking Financial Companies(NBFCs);
4. Growth of Mutual Funds Industry;
5. Establishment of the Securities and Exchange Board of India (SEBI) in 1992;
6. Development of the secondary market/ stock market;
7. Introduction of derivatives trading including Index/Stock/Interest Futures and Options;
8. Merger of the ICICI Ltd. and IDBI into ICICI Bank and IDBI Bank respectively;
9. Proposed merger of IFCI into Punjab National Bank;
10. GIC has been delinked from its four subsidiaries.

Therefore, the changes in the economic environment since independence have brought a lot of changes in the financial services sector.