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**Sub: Financial Services**

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**UNIT 1: Introduction to Financial Services**

**Q. Who are the suppliers/ players/ participants/ providers / financial service organizations of financial services? List and explain in detail. 10marks.**

**Or**

**Discuss in brief some of the important players in the financial sector.**

**Or**

**Explain few financial service organizations that provide financial services to industrial enterprises and ultimate consumer markets.**

**Answer:** The various financial service organizations that provide financial services to industrial enterprises and ultimate consumer markets are explained below:

1. **Banking Institutions:** The Indianbanking industry is subject to the control of the Reserve Bank of India**.** The RBIas the apex institution that organizes, runs, supervises, regulates anddevelops the monetary system and financial system of the country. The main legislation governing commercial banks in India is the Banking Regulation Act, 1949. The Indian Banking Institutions can be broadly classified into two categories:

1. **Organized sector:** Theorganized sector comprises of the following:
2. **Commercial Banks:** The commercial banks may be scheduled or non-scheduled banks. A commercial bank is a financial institution, usually incorporated, whose business is to accept money on deposit, cash, cheques or drafts, discount commercial paper, provide loans and issue promissory notes payable to bearer known as ‘**banknotes’**.
       A commercial bank is a monetary institution which serves the interests of its depositors by providing security to the deposits of money and on the other hand, makes profits by investing such deposits in the protective measures by extending loans. Commercial banks are the most common and important type of banking institutions.
3. **Co-operative Banks:** Co-operative banks are the banks whose main objective is to provide financial assistance to economically weaker sections of the society. Co-operative banks are registered under the Co-operative Societies Act. These institutions can be classified into two broad categories- Rural Credit Societies which are primarily agricultural and Urban Credit Societies which are primarily non-agricultural.
4. **Regional Rural Banks (RRBs):** RRBs provide banking services and credit to small farmers, small entrepreneurs in the rural areas. These banks were meant to provide credit facilities to the weaker sections. RRBs are Indian scheduled commercial banks (Government banks) operating at regional level in different states of India.
5. **Foreign Banks:** A foreign bank is a type of international bank that is obligated to follow the regulations of both the home and host countries. It is a bank from a foreign country working in India through its branches. Foreign banks have been in India from the British period.
6. **Unorganized sector:** In the unorganized banking sector, there is the presence of indigenous bankers and money lenders carrying out banking functions. Following is a brief description of the indigenous bankers and money lenders:
7. **Indigenous bankers:** Indigenous bankers are the forefathers of the modern commercial banks. Indigenous bankers are the individuals or partnership firms performing banking functions. They also act as financial intermediaries. They are also referred to as local bankers and the geographical area covered by commercial banks. They can be found in all parts of India although their names, styles and modes of functioning are different.

 They are known by different names in different regions such as **Shroffs, Marwaris, Multanis, Jains, Sahukars, Mahajans, Kharties, Seths and Banias.**

1. **Money Lenders:** Money lenders depend completely on their own funds for the working capital. Their clients are mainly the low-income group people (weaker sections of the society) and they are highly exploitative in nature. They charge a very high rate of interest on the loans provide to the weaker sections of the society. Their operations are completely unregulated and the credit provided is very prompt and flexible. They enjoy monopoly in their areas of operation.
2. **Non- Banking Financial Institutions (NBFIs):** The NBFIs are categorized mainly into two groups:

1. **Organized Financial Institutions:** The organized financial institutions include:
2. All India Development Financial Institutions and
3. The State Level Development Financial Institutions.
4. **Unorganized Financial Institutions:** The unorganized financial institutions include a number of Non-Banking Financial Companies (NBFCs) providing a whole range of financial services. These include hire-purchase and consumer finance companies, leasing companies, housing finance companies, factoring companies, credit rating agencies, merchant banking companies, etc. NBFCs mobilize public funds and provide loanable funds. NBFCs intermediate between the savers and investors. These companies are also known as ‘Finance companies’, ‘Loan Companies’, ‘Finance Corporations’, etc. These companies with very little capital of their have been raising deposits from public by offering attractive rates of interest and other incentives.

 They advance loans to wholesale and retail traders, small-scale industries and self-employed persons.

**\*\*\*\*\*NBFIs can be classified into different categories according to the function they perform:**

1. **Investment companies:** Investment undertakes investments in corporate securities by mobilizing funds from public. They perform a significant role of financial intermediary. They render professional management service by managing the diversified portfolio of corporate securities. Profit or loss to the investor entirely depends upon the efficiency of the investments undertaken by these investment companies. They charge a small management fee for rendering this service.
2. **Hire-purchase companies:** Hire-purchase companies provide credit for a wide range of services and products both consumer and durable. For example, products like automobiles, refrigerators, washing machines, television sets, sewing machines, micro-waves, home-theatre system and any other capital goods.
3. **Equipment Leasing Finance Companies:** Leasing enables a firm to acquire the use of an asset without ranking capital investment in buying the asset. The lessee may avail 100% finance from lease financing company and avoid even initial investment in margin money as required under loan financing.
4. **Loan Companies:** Loan companies may be run by individuals, partnership firms and private companies who are engaged in the business of financing. Loan companies are also called finance companies. Main source of their funds are from public, borrowings, other receipts and net owned funds. They offer high rate of interest on deposits from public along with gifts/prize money schemes to attract investors.
5. **Residuary Non-Banking Companies (RNBCs):** RNBCs accept deposits under various schemes in one lump-sum or installments by way of contributions or subscriptions or by sale of units or certificates or other instruments. RNBCs accept deposits for a period varying between 12 to 84 months. The deposit acceptance activities of the RNBCs are governed by the provisions of Residuary Non- Banking Companies (Reserve Bank) Directions, 1987.
6. **Nidhis or Mutual Benefit Finance Companies (MBFCs):** MBFCs are those finance companies which are notified by the Central Government as Nidhi Company under Section 620 A of the Companies Act, 1956 (1 of 1956). Nidhis are popular among the middle class families in urban areas. They act as mutual benefit funds and work members only. The source of funds is deposits from its members. They maintain Register of deposits, furnish receipts to depositors and submit returns to the RBI. MBFCs provide loans against some security for the purpose of house construction or repairs. The funds are offered at low cost and the rate of interest charged on loans is reasonable.

\*\*\*\*\***Nidhis/ MBFCs** are **not subject to the regulation of RBI and NBFCs directions** relating to acceptance of public deposits. They **do not require** registration, maintain liquid assets or create a Reserve Fund.

1. **Chit Funds or Miscellaneous Non- Banking Companies (MNBCs):** Miscellaneous Non- Banking Companies (MNBCs) are those NBFCs which are engaged in Chit Fund business. MNBCs are very popular in Kerala and Tamil Nadu. The members of Chit Fund make regular subscriptions to funds. Out of the members only a manager is selected who looks after the chit fund and maintain accounts of the collected subscriptions**. Provisions of Chapter III B of the RBI Act are not applicable to chit fund finance companies. The credit involved is totally unregulated. However, the RBI regulates only the deposits accepted by these companies.**
2. **Investment Institutions:** It includes those financial institutions which mobilize savings of the public at large through various schemes and invest these funds in corporate and Government securities. These include the following:
3. **Unit Trust of India (UTI):** The UTI was established on 1st February, 1964 under the Unit Trust of India Act, 1963. It stimulates and pools the savings of the middle and low income groups and invests the savings in diversified blue chip companies.
4. **Life Insurance Corporation of India (LIC):** LIC was established on 1st September, 1956 under an Act passed by the Parliament with a capital of Rs. 5 crore. It aims to maximize mobilization of people’s saving by making insurance linked saving adequately attractive.
5. **General Insurance Company (GIC):** The General Insurance industry in India was nationalized and a government company known as General Insurance Corporation of India (GIC) was formed by the Central Government in November, 1972 w.e.f. 1st January, 1973.