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# Indian Financial System (Organised and Unorganised)

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**Abstract :**

Financial systems play a crucial role in economic growth of a country. A 'financial system' is a system that allows the exchange of funds between lenders, investors, and borrowers. Financial systems operate at national and global levels. They consist of complex, closely related services, markets, and institutions intended to provide an efficient and regular linkage between investors and depositors. Financial system divided in organized and unorganized system. It consists financial institutions, banks, non- banking financial institutions, financial markets, financial instruments, cash instruments, financial services. Finance is blood of every economy without finance and financial system no country can run properly. In financial system also two sectors are there. One is organized and second is unorganized system. The organised sector of the money market con¬sists of the Reserve Bank of India, commercial banks, companies lending money, financial inter¬mediaries such as the Life Insurance, Credit and Investments Corporation of India, Unit Trust of India, Land Mortgage Banks, Cooperative Banks, Insurance Companies etc. and call loan brokers, and stock brokers.Theunorganised sector of the money market is largely made up of indigenous bankers, money lenders, traders, commission agents etc., some of whom combine money lending with trade and other activities.

**Keywords :** Lenders, Linkage, instruments, financial intermediaries, mortgage banks.

**Objectives :**

- Importance of Indian financial system.
- To study financial systems of India
- To understand organized and unorganized systems of India
- To study the existing transaction system of Indian economy
- To study financial services offered by financial institutions
- To study financial sector reforms in India
- To study financial structure and markets in India

**Methodology :**

Research Methodology Data for the purpose of research has been collected form secondary sources. Resources are used Government publications, Government data and Government websites. The study is exploratory and quantitative in nature.

**Introduction to Indian Financial System :**

Major changes in Indian Economy started with New economic Policy of 1991. PM NarsimhaRao and Finance Minister Manmohansingh took initiative towards changing economic system of |India with objective of Liberalization, Privatization, and Globalization. With Privatization aspect many changes took place with financial system of India. The financial system of a country is an important tool for economic development of the country, as it helps in creation of wealth by linking savings with investments. It facilitates the flow of funds form the households (savers) to business firms (investors) to aid in wealth creation and development of both the parties.

The financial system of a country is concerned with :

- Allocation and Mobilization of savings
- Provision of funds
- Facilitating the Financial Transactions
- Developing financial markets
- Provision of legal financial framework
- Provision of financial and advisory services

According to Robinson, the primary function of a financial system is "to provide a link between savings and investment for creation of wealth and to permit portfolio adjustment in the composition of existing wealth"

A Financial System consists of various financial Institutions, Financial Markets, Financial Transactions, rules and regulations, liabilities and claims etc.

**Features of Financial System :**

- It plays a vital role in economic development of a country
- It encourages both savings and investment
- It links savers and investors
- It helps in capital formation
- It helps in allocation of risk
- It facilitates expansion of financial markets
- It aids in Financial Deepening and Broadening

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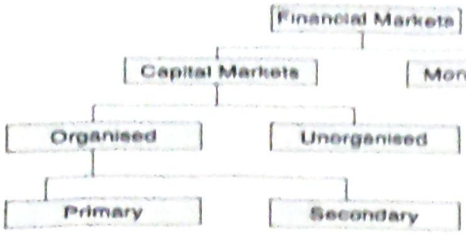
**Financial Market Divided Into Two Parts :**




**I. Organized Market :**

The organized market consists of standard rules and regulations which govern the functioning of financial dealings. Moreover, the financial organizations which follow the rules and regulations of apex institutions while dealing with their financial functions belong to the organized financial market. Therefore, there is a high degree of institutionalization and instrumentalization. Moreover, these markets are often also subject to high supervision and strict control of the RBI or any other regulatory body.

They are further subclassified into capital market and money market.

**1. Capital Market :**

The capital market is a market that deals with financial assets. These financial assets have a long maturity period or an indefinite maturity period. Moreover, the capital market deals with any long-term securities which have a maturity period of above one year. In simple words, the capital market is a financial market that deals with:

- financial assets with long or indefinite maturity period; and
- long-term (wherein the maturity period is beyond 1 year) securities

Furthermore, the capital market is further sub-classified into 3 broad

**a. Industrial securities market :**

It is a market for industrial securities only. It deals with industrial securities like equity shares, preference shares, debentures, bonds, etc. Moreover, it is a market where industrial organizations raise their capital by issuing investment instruments to the public.

Furthermore, this market is of 2 types, primary market and secondary market.

**(i)** **Primary Market** – is also another name for 'new issue market' or 'new financial claims'. The primary market or the new issues market deals with those financial securities that are issued to the investing public for the first time. Moreover, the borrowers in the primary market exchange new financial securities for long-term funds. And thus primary market helps in the formation of capital.

There are 3 ways in which the company can raise capital in the new issues market. The company can either choose the public issue, the rights issue or the private placements. In addition, the public issue is common when new companies want to raise capital for the first time. However, if an existing company wants to raise further capital, it first offers to the existing shareholders. This is the rights issue. Finally, private placements are the way of selling securities privately to small groups of investors.

**(ii)** **Secondary Market** – is also another name for the stock exchange. The secondary market is a market for the secondary sale of securities. In simple words, securities which were already a part of the primary market are a part of this market. However, the secondary market facilitates the buying and selling of secondary securities. Moreover, these securities are often a part of the stock exchange trades. This market provides for a continuous and regular market for the buying and selling of secondary securities.

**b. Government securities market :**

This securities market indulges in the trading of government securities. Moreover, there are 2 types of government securities: long-term and short-term. Therefore, the long-term government securities are a part of the capital market and the short-term government securities are a part of the money market. Some examples of government securities that are a part of this market are securities issued by the:

- Central government
- State government
- Port trust
- Semi-government authorities

Furthermore, these government securities may be in the form of:

- promissory note
- stock certificates
- bearer bonds

**2. Money Market :**

The money market is a market that deals with financial assets. These financial assets have a short maturity period or a definite maturity period. Moreover, the money market deals with any short-term securities which have a maturity period of under one year. In simple words, the money market is a financial market that deals with:

- financial assets with short or definite maturity period; and

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- short-term (wherein the maturity period is below 1 year) securities

Furthermore, the capital market is further sub-classified into 4 broad categories

**a. Call money market** – is a market for extremely short period loans. These loans mature within 1 to 14 days. Therefore, they are highly liquid in nature. Moreover, these loans are repayable on demand, either at the option of the lender of the borrower.

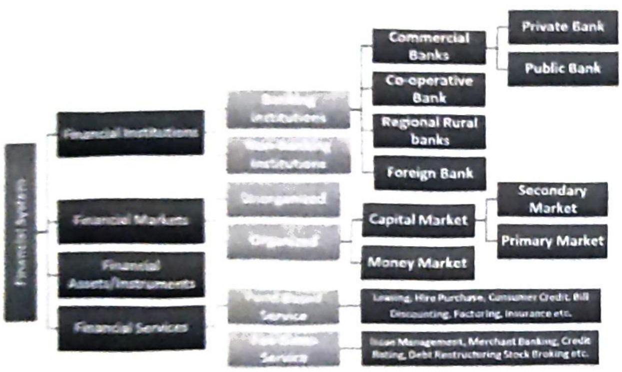
**b. Commercial bill market** – is a market for bills of exchange arising out of trade transactions that are genuine in nature. However, the bill market is underdeveloped in India. Although the RBI is taking many steps to develop a proper bill market, it seems to be difficult to establish one in India.

**c. Treasury bill market** – is a market for treasury bills which has a very short-term maturity period. In addition, a treasury bill is a promissory note that is issued by the Government. However, there are 2 types of treasury bills: (i) the ordinary and (ii) the ad hoc treasury bills.

**II. Unorganized Market :**

There are many money lenders and indigenous bankers who lend money to the public. These money lenders do not fall under the supervision of any specific apex institute. And hence, they do not have to follow strict principles, rules and regulations. Many private finance companies and chit funds do not fall under the control of the RBI. Such institutions comprise of the unorganized financial markets.

**Structure of Indian Financial System/Components of Indian Financial System :**




**Details of financial systems are as follows :**

**(1) Financial Institutions** – Financial institutions are intermediaries of financial markets which facilitate financial transactions between individuals and financial customers.

It simply refers to an organization (set-up for profit or not for profit) that collects money from individuals and invests that money in financial assets such as stocks, bonds, bank deposits, loans etc.

**There can be two types of financial institutions :**

- **Banking Institutions or Depository institutions** – These are banks and credit unions that collect money from the public in return for interest on money deposits and use that money to advance loans to financial customers.
- **Non-Banking Institutions or Non-Depository institutions** – These are brokerage firms, insurance and mutual funds companies that cannot collect money deposits but can sell financial products to financial customers.

**Financial Institutions may be classified into three categories :**

- Regulatory – It includes institutions like SEBI, RBI, IRDA etc. which regulate the financial markets and protect the interests of investors.
- Intermediaries – It includes commercial banks such as SBI, PNB etc. that provide short term loans and other financial services to individuals and corporate customers.
- Non – Intermediaries – It includes financial institutions like NABARD, IDBI etc. that provide long-term loans to corporate customers.

**(2) Financial Markets** – It refers to any marketplace where buyers and sellers participate in trading of assets such as shares, bonds, currencies and other financial instruments. A financial market may be further divided into capital market and money market. While the capital market deals in long term securities having maturity period of more than one year, the money market deals with short-term debt instruments having maturity period of less than one year.

**(3) Financial Services** – Financial Services are concerned with the design and delivery of financial instruments and advisory services to individuals and businesses within the area of banking and related institutions, personal financial planning, leasing, investment, assets, insurance etc.

**Importance of Indian Financial System :**

- It accelerates the rate and volume of savings through provision of various financial instruments and efficient mobilization of savings
- It aids in increasing the national output of the country by providing funds to corporate customers to expand their respective business
- It protects the interests of investors and ensures smooth financial transactions through regulatory bodies such as RBI, SEBI etc.
- It helps economic development and raising the standard of living of people

- It helps to promote the development of weaker section of the society through rural development banks and co-operative societies
- It helps corporate customers to make better financial decisions by providing effective financial as well as advisory services
- It aids in Financial Deepening and Broadening

**Conclusion :**

A market is any arrangement that allows buyers and sellers to come together to exchange money for goods, services, or financial assets. Markets can be physical or virtual. Examples of capital markets are markets for buying and selling stocks and bonds. They include primary markets, where newly issued stocks and bonds are sold to investors, and secondary markets in which existing stocks and bonds are traded. Capital markets play an important role in the economy. Through primary capital markets, businesses and entrepreneurs can issue stocks and bonds to raise financial capital to start or expand businesses.

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