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A STUDY ON FINANCIAL SERVICES IN INDIA

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INTRODUCTION :

P. T. Barnum, the nineteenth-century showman and politician, once said that money is a great master but an excellent servant. He was only repeating what man had realized centuries before him. Indeed, the well-to-do had already started trying out ways to make wealth work for them. Today's financial services industry, with its many products and services, is the result of this age-old endeavor. The financial services industry manages money for individuals and corporations. It comprises such organizations as commercial and investment banks, insurance companies, hedge funds, credit-card companies, consumer finance firms, accounting agencies, and brokerage firms. The industry's services are mainly related to banking and insurance services, asset management, investments, foreign exchange, and accounting. Financial services form the lifeblood of economic growth and development. They facilitate the setting up of big and small businesses and the expansion of businesses. Employment and entrepreneurship created with the help of the services enable people to earn and save. Financial services show the poor ways out of poverty and of leading better lives. To the wealthy, financial services offers opportunities to make money grow. The financial services industry is the largest-earning sector in the world. Through interventions in industry and agriculture and other formal sectors, they provide lines of credit and investment.

The financial services sector in India, which accounts for 6 percent of the nation's GDP, is growing rapidly. Although the sector consists of commercial banks, development finance institutions, nonbanking financial companies, insurance companies, cooperatives, mutual funds, and the new "payment banks," it is dominated by banks, which holds over 60 percent share. The Reserve Bank of India (RBI) is the apex bank of the country, controlling all activities in the financial sector. Commercial banks include public sector and private sector banks and are under the regulatory supervision of the RBI. Development finance institutions include industrial and agriculture banks.

Non-banking finance companies (NBFC) provide loans, purchase stocks and debentures, and offer leasing, hire purchase, and insurance services. Insurance companies function in both public and private sectors and are controlled by the Insurance Regulatory and Development Authority (IRDA). India also has a vibrant capital market with stocks exchanges controlled by the Securities and Exchange Board of India (SEBI). According to "India in Business," a website of the Union Government, India's banking sector assets were worth $1.8 trillion in the 2014-15 financial year.

According to a report by KPMG-CII, India's banking sector is on the way to becoming the fifth largest in the world by 2020. The country's life insurance sector is the biggest in the world, and the market size is expected to touch about $400 billion by 2020. The assets of the mutual fund industry are worth $190 billion. The pension corpus fund is projected to record $1 trillion by 2025. Reforms to put the financial services industry and the economy on the fast track include measures to make finance available to medium, small, and micro industries. India once had a heavily government-dominated financial services industry, and most services were provided by nationalized banks. Financial sector reforms were initiated in 1991 with the aim of accelerating economic growth.

In the following years, industry and service sectors were opened up for foreign direct investment. The reforms ended the dominance of the public sector and reduced direct government control on industrial investments. Financial sector reforms in India have improved resource mobilizations and allocation. The liberalization of interest rates and the easing of cash reserve norms have helped make funds available to various sectors. However, prudential norms have been tightened and transparency and regulation increased to avoid a systemic collapse that other countries have suffered.

FEATURES OF FINANCIAL SERVICES

Customer-Specific: Financial services are usually customer focused. The firms providing these services, study the needs of their customers in detail before deciding their financial strategy, giving due regard to costs, liquidity and maturity considerations. Financial services firms continuously remain in touch with their customers, so that they can design products which can cater to the specific needs of their customers. The providers of financial services constantly carry out market surveys so they can offer new products much ahead of need and impending legislation. Newer technologies are being used to introduce innovative, customer friendly products and services which clearly indicate that the concentration of the providers of financial services is on generating firm/customer specific services.

Intangibility : In a highly competitive global environment, brand image is very crucial. Unless the financial institutions providing financial products and services have a good image, enjoying the confidence of their clients, they may not be successful. Thus institutions have to focus on the quality and innovativeness of their services to build up their credibility.

Concomitant : Production of financial services and supply of these services have to be concomitant. Both these functions i.e. production of new and innovative financial services and supplying of these services are to be performed simultaneously.

The tendency to Perish : Unlike any other service, financial services do tend to perish and hence cannot be stored. They have to be supplied as required by the customers. Hence financial institutions have to ensure proper synchronization of demand and supply.

People Based Services : has to be people-intensive and hence it's subjected to the variability of performance or quality of service. The personnel in financial services organization need to be selected on the basis of their suitability and trained properly so that they can perform their activities efficiently and effectively.

Market Dynamics : The market dynamics depends to a great extent, on socioeconomic changes such as disposable income, the standard of living and educational changes related to the various classes of customers. Therefore financial services have to be constantly redefined and refined taking into consideration the market dynamics. The institutions providing financial services, while evolving new services could be proactive in visualizing in advance what the market wants, or being reactive to the needs and wants of their customers.

FINANCIAL SERVICES IN INDIA

In India, there are various financial services offered for efficient management of finance by different intermediaries. A few major ones among them are:

1.Merchant Banking: it can be defined as a skill oriented professional service provided by merchant banks to their clients, concerning their financial needs, for adequate consideration in the form of a fee.

2.Loan Syndication: it is the process of involving a group of lenders in funding various portions of a loan for a single borrower. It most often occurs when a borrower requires an amount too large for a single lender to provide or when the loan is outside the scope of a lender's risk-exposure levels.

3. Mutual Funds: it is an investment programme funded by shareholders that trades in diversified holdings and is professionally managed.

4. Venture Capital: it is a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth.

5. Reverse Mortgage: it is a financial agreement in which a homeowner relinquishes equity in their home in exchange for regular payments, typically to supplement retirement income.

6. Forfaiting: is a method of trade finance that allows exporters to obtain cash by selling their medium and long-term foreign accounts receivable at a discount on “without recourse” basis.

7. Securitization: it is the financial practice of pooling various types of contractual debt such as residential mortgages, auto loans or credit card debt obligations and selling their related cash flows to a third party investors as securities, which may be described as bonds, pass-through securities, or collateralized debt obligations (CODs).

8. Factoring: it is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e.,invoice) to a third party (called a factor) at a discount.

TRENDS IN THE FINANCIAL SERVICES INDUSTRY IN INDIA

1. The Boom of Big Data

Big Data has almost made the pandemonium break loose in the field of data science. Data science, business intelligence, and business analytics have penetrated in almost all areas. This has played a pivotal role in redefining the way data is used. The management of finance industry is looking out for professionals who are well equipped with the knowledge of business analytics. Rather, it is a golden period for Business Analytics professionals, who will witness a sudden increase in their demand. With the ease in the collection of data of consumers and their transactions in addition to the development of techniques to use this information to build potential clients, the financial services industry is certainly up for a big change. This sea wave of change is sure to bring a huge demand for business analytics professionals.

2. Startups in India

Not to mention in India has witnessed a growth in the start-up industry deals by leaps and bounds. The recent government also announced financial assistance for start-ups. You’ll see many ideas lined up for investors and the financial services industry has much to do in this case.

With rising startups who need investments, there is a need for finance modeling professionals who will prepare financial models to represent the financial viability of the projects.

3. Outsourcing

Most Indian companies, considering the increasing costs of setting up head offices in top cities such as Mumbai, Delhi, Bangalore, etc., have decided to outsource their KPO activities to Tier II and Tier III cities such as Pune, Jaipur, etc. Overcrowding of resources in Tier I cities has induced the companies to set up centers in other cities, thereby increasing the employment opportunities in these areas. This proves there are increasing employment opportunities for finance professionals in Tier II and Tier III cities.

4. NPAs

The menace of NPAs (Non-Performing Assets) has given birth to responsible debt payment since the attitude of MNCs is slowly changing these days. Companies no longer keep the attitude of looking at debts as a primary source of funds or engage in siphoning of funds. This can serve as a big booster to honest entrepreneurs and discourage defaults in payments. In fact, as per latest news, almost four banks are planning to sell the assets of Kingfisher Airlines, the company who came into limelight after being declared as a defaulter of payments. Considering the change, there is bound to be increasing demand for credit analysts and project finance experts who will review the credibility and financial viability of the firm.

5. IFRS

With the much ado about IFRS, it has finally started making its impact in the financial accounting of Indian companies. While voluntary adoption has already begun, some companies have come under the ambit of compulsory adoption since 1st April 2016. This has necessitated the demand of IFRS professionals who can guide into a successful change in the financial accounting.

6. Payment Banks

Payment banks are redefining traditional banking since it is possible for them to reach out as many rural areas who’ve never availed formal banking services. With more and more payment banks getting licenses from the RBI, this move has become widely popular. the big names in this industry include Paytm, Vodafone M-Pesa, National Securities Depositary, etc. Payment Banks will ensure that even rural areas are availing facilities of formal banking services, which in turn, will ensure that there is an increase in demand of support and finance professionals. The Indian economy is making its mark on the global map. That is the reason many MNCs are opening up their units in India or outsourcing their activities to India. The Internet has already created a revolution and the financial service industry is making its mark.

ANALYSIS AND GROWTH OF THE INDIAN FINANCIAL SECTOR

Analysis of Indian Financial Sector reveals that it is at present going through a phase of stable growth rate which is experiencing a upward swing. The rise can be maintained over a long period by keeping the inflation down. The financial sector in India has experienced a growth rate of 8.5% per annum. The rise in the growth rate suggests the growth of the economy. The financial policies and the monetary policies are able to sustain a stable growth rate. The reforms pertaining to the monetary policies and the macroeconomic policies over the last few years has influenced the Indian economy to the core.

The major step towards opening up of the financial market further was the nullification of the regulations restricting the growth in the financial sector. To maintain such a growth for a long term the inflation has to come down further. The analysis of Indian financial sector shows the growth of the sector was the result of the individual development of the divisions under the sector.

Analysis of the Indian Capital market

- The ratio of the transaction was increased with the share ratio and deposit system
- The removal of the pliable but ill-used forward trading mechanism
- The introduction of infotech systems in the National Stock Exchange (NSE) in order to cater to the various investors in different locations
- Privatization of stock exchanges

Analysis of the Indian Venture Capital market

- The venture capital sector in India is one of the most active in the financial sector inspite of the hindrances by the external set up.
- Presently in India there are around 34 national and 2 international SEBI registered venture capital funds.

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Analysis of the Indian Banking sector

The banking system in India is the most extensive. The total asset value of the entire banking sector in India is nearly US$ 270 billion. The total deposits is nearly US$ 220 billion. Banking sector in India has been transformed completely. Presently the latest inclusions such as Internet banking and Core banking have made banking operations more user friendly and easy.

Analysis of the Indian Insurance sector

- With the opening of the market, foreign and private Indian players are keen to convert untapped market potential into opportunities by providing tailor-made products.
- he insurance market is filled up with new players which has led to the introduction of several innovative insurance based products, value add-ons, and services. Many foreign companies have also entered the arena such as Tokio Marine, Aviva, Allianz, Lombard General, AMP, New York Life, Standard Life, AIG, and Sun Life.
- The competition among the companies has led to aggressive marketing, and distribution techniques.
- The active part of the Insurance Regulatory and Development Authority (IRDA) as a regulatory body has provided to the development of the sector.

Growth of the sector

The growth of financial sector in India at present is nearly 8.5% per year. The rise in the growth rate suggests the growth of the economy. The financial policies and the monetary policies are able to sustain a stable growth rate.

The reforms pertaining to the monetary policies and the macro economic policies over the last few years has influenced the Indian economy to the core. The major step towards opening up of the financial market further was the nullification of the regulations restricting the growth of the financial sector in India. To maintain such a growth for a long term the inflation has to come down further.

The financial sector in India had an overall growth of 15%, which has exhibited stability over the last few years although several other markets across the Asian region were going through a turmoil. The development of the system pertaining to the financial sector was the key to the growth of the same. With the opening of the financial market variety of products and services were introduced to suit the need of the customer. The Reserve Bank of India (RBI) played a dynamic role in the growth of the financial sector of India.

Opportunities for the financial sector of India

- The distributed financial gain of the venture capital funds is not taxed. The financial gains are taxed after the investors receive as income.
- The have more insurance and banking products introduced into the market to broaden the spectrum which in turn would boost the growth of the sector.
- Further nullification of the regulations have to take place in order to increase the competition and boost the growth of the financial sector to reach the US$ 51 billion mark.

FINANCIAL SERVICES AND THE NATIONAL ECONOMY

Today Indian economy is considered as the fastest growing economies in the world. Contributing to its high growth are many critical sectors, amongst which 'financial services sector' is unarguably one of the most distinguished sectors of Indian economy. The role of financial sector in shaping fortunes for Indian economy has been even more critical, as India since independence lacked prowess of a resilient industrial sector. This prompted India to depend on other sectors for its sustenance. These other sectors mostly constituted of 'financial service sector and 'agricultural sector'.

India's watershed decision to nationalize 14 commercial banks in 1969 validated how critical was 'financial sector'. Its importance after economic reforms of 1992 has grown only manifolds to the extent that today it presently contributes to over 6% of India's GDP. It is the dynamic growth of financial services sector during post reform age that has helped it in assuming such an important place in Indian economy. Unlike in past when financial services sector mainly constituted of banking sector, today financial sector has broaden its reach to include sectors like insurance services, non-banking financial services, co-operatives, pension funds, mutual funds, capital market etc. Financial sector's contribution comes across even more strong when we look at sheer number of employment and tax revenue it generates. Especially employment generated by banking and insurance sector every year runs in millions. Equally revenue generation through tax and dividend collection by the government surpasses billions of rupees every year. While revenue and employment generation are two very important contributions, successfully maintaining healthy credit line to industrial sector as well as to overall economy is another important contribution of financial sector. Banks and non banks in India have been discharging credit in billions to big, medium/small industries, entrepreneurs etc every financial year.

With improved availability of credit, the Indian economy during past two decades has managed to march towards higher economic growth. Reforms within banking sector during post liberalization era have especially proven to be prudent for credit disbursement in the country. The advent of private sector banks in particular opened a new chapter for Indian economy. The enormous success of private sector banks helped large corporate paving the way for consolidated growth in industrial sector encompassing MSME.

Recent important reforms have made financial sector even robust

Over past few years government has taken many reformative steps to make financial sector even more robust. Although it will take quite a few years to see positive impact of these reforms, there is a general consensus that these reforms will rewrite a chapter in Indian economy. More specifically, these reforms will open new stream of revenue and employment generation for the economy.

Listed below are some of these reforms:

1) In 2015, RBI took unprecedented step by opening up the much anticipated 'payment bank' sector. It awarded payment bank licenses to 11 entities. Along with redefining consumer experience, these 11 payment banks are expected to give further boost to growth of financial sector as well as to overall Indian economy.
2) To make banks more 'credit friendly', RBI has allowed banks to raise funds via long-term bonds for financing the critical infrastructure sector. This means banks no longer have to meet cash reserve ratio, statutory liquidity ratio or priority sector norms to disburse credit for big infrastructure projects.
3) In a welcome step, in 2015 Indian government raised the cap of FDI in insurance sector by 49%. Thereby, making way for more foreign direct investment in insurance as well as financial sector. Following this decision, many foreign insurance companies operating in India have already raised their stake to 49% in their joint venture with Indian insurance companies.
4) In 2015, Indian government started Mudra Scheme, under which Indian banks will be providing cheap and affordable credit to new & small entrepreneurs.

Road ahead for financial sector

With the above mentioned reforms, road ahead for financial sector indeed looks very bright. More so for banking and insurance sector the two most important parts of financial sectors. According to joint report prepared by KPMG-Confederation of Indian Industry (CII), Indian banking sector is poised to become fifth largest by 2020. The report also states that bank credit is expected to grow at a compound annual growth rate of 17 per cent in coming years. As for insurance sector, it is expected to touch US$ 350-400 billion by 2020. India's life insurance sector will continue to remain world's largest life insurance sector in coming decades. The road ahead for other sectors like pension funds, mutual sector, non-banking financial etc looks equally very promising.

In the midst of all these bright projection, there is a growing concern about increasing NPAs in banking sector. Many analysts, however, feel that some tough steps by RBI coupled with 'special financial stimulus' to banks is necessary to overcome the incremental issue of NPAs. Over all, the impressive figures and projection highlighted above only means that financial services contribution to Indian economy is going to improve in coming years, thereby adding to India's GDP growth rate.

CONCLUSION

Financial service is part of financial system that provides different types of finance through various credit instruments, financial products and services. In services we have leasing, factoring, hire purchase finance etc., through which various types of assets can be acquired either for ownership or on lease. There are different types of leases as well as factoring too. Thus, financial services enable the user to obtain any asset on credit, according to his convenience and at a reasonable interest rate. It is the presence of financial services that enables a country to improve its economic condition whereby there is more production in all the sectors leading to economic growth. The benefit of economic growth is reflected on the people in the form of economic prosperity wherein the individual enjoys higher standard of living. It is here the financial services enable an individual to acquire or obtain various consumer products through hire purchase. In the process, there are a number of financial institutions which also earn profits. The presence of these financial institutions promote investment, production, saving etc.

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