

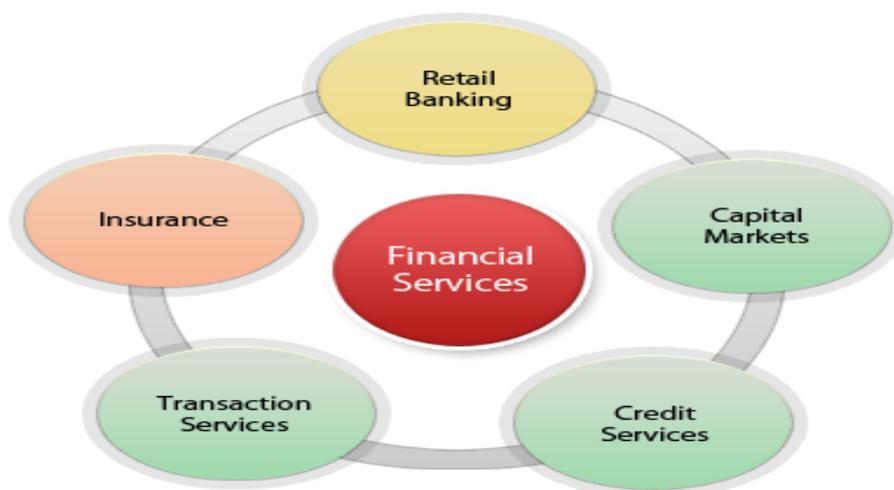
# FINANCIAL SERVICES

## UNIT-I

### MEANING OF FINANCIAL SERVICE

As per section 65(10) of the Finance Act, 1994, “banking and financial services” means the following services provided by a banking company or a financial institution including a non banking financial company, namely;

- (i) financial leasing services including equipment leasing and hire-purchase by a body corporate;
- (ii) credit card services;
- (iii) merchant banking services;
- (iv) securities and foreign exchange (forex) broking;
- (v) asset management including portfolio management, all forms of fund management, pension fund management, custodial depository and trust services, but does not include cash management;
- (vi) advisory and other auxiliary financial services including investment and portfolio research and advice, advice on mergers and acquisition and advice on corporate restructuring and strategy; and
- vii) Provision and transfer of information and data processing.



## **DEFINITION OF FINANCIAL SERVICE:**

**Financial services** can be defined as the products and services offered by institutions like banks of various kinds for the facilitation of various financial transactions and other related activities in the world of finance like loans, insurance, credit cards, investment opportunities and money management as well as providing information on the stock market and other issues like market trends.

## **FEATURES OF FINANCIAL SERVICES:**

- It is a customer-intensive industry. Identification of need and wants of customer is the first step.
- It will help the financial service firms to design the financial strategy, which gives due respect to costs, liquidity and maturity consideration.
- Demand and supply must be properly balanced.

## **FUNCTIONS OF FINANCIAL SERVICES:**

- ❖ Facilitating transactions (exchange of goods and services) in the economy.
- ❖ Mobilizing savings (for which the outlets would otherwise be much more limited).
- ❖ Allocating capital funds (notably to finance productive investment).
- ❖ Monitoring managers (so that the funds allocated will be spent as envisaged).
- ❖ Transforming risk (reducing it through aggregation and enabling it to be carried by those more willing to bear it).

## **CHARACTERISTICS AND 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.

**Intangibility:**

In a highly competitive global environment brand image is very crucial. Unless the financial institutions providing financial products and services have good image, enjoying the confidence of their clients, they may not be successful.

**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.

**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 a proper synchronization of demand and supply.

**People Based Services:**

Marketing of financial services has to be people intensive and hence it's subjected to variability of performance or quality of service. The personnel in financial services organisation 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, standard of living and educational changes related to the various classes of customers.

## **IMPORTANCE OF FINANCIAL SERVICE:**

1. Vibrant Capital Market.
2. Expands activities of financial markets.
3. Benefits of Government.
4. Economic Development.
5. Economic Growth.
6. Ensures Greater Yield.
7. Maximizes Returns.
8. Minimizes Risks.
9. Promotes Savings.
10. Promotion of Domestic & Foreign Trade.

### **Promoting investment**

The presence of financial services creates more demand for products and the producer, in order to meet the demand from the consumer goes for more investment.

### **Promoting savings**

Financial services such as mutual funds provide ample opportunity for different types of saving. In fact, different types of investment options are made available for the convenience of pensioners as well as aged people so that they can be assured of a reasonable return on investment without much risk.

### **Minimizing the risks**

The risks of both financial services as well as producers are minimized by the presence of insurance companies. Various types of risks are covered which not only offer protection from the fluctuating business conditions but also from risks caused by natural calamities.

### **Maximizing the Returns**

The presence of financial services enables businessmen to maximize their returns. This is possible due to the availability of credit at a reasonable rate. Producers can avail various types of credit facilities for acquiring assets.

### **Ensures greater Yield**

As seen already, there is a subtle difference between return and yield. It is the yield which attracts more producers to enter the market and increase their production to meet the demands of the consumer.

### **Economic growth**

The development of all the sectors is essential for the development of the economy. The financial services ensure equal distribution of funds to all the three sectors namely, primary, secondary and tertiary so that activities are spread over in a balanced manner in all the three sectors.

### **Economic development**

Financial services enable the consumers to obtain different types of products and services by which they can improve their standard of living.

### **Benefit to Government**

The presence of financial services enables the government to raise both short-term and long-term funds to meet both revenue and capital expenditure.

### **Promotion of domestic trade**

Financial services ensure promotion of domestic as well as foreign trade. The presence of factoring and forfeiting companies ensures increasing sale of goods in the domestic market and export of goods in the foreign market.

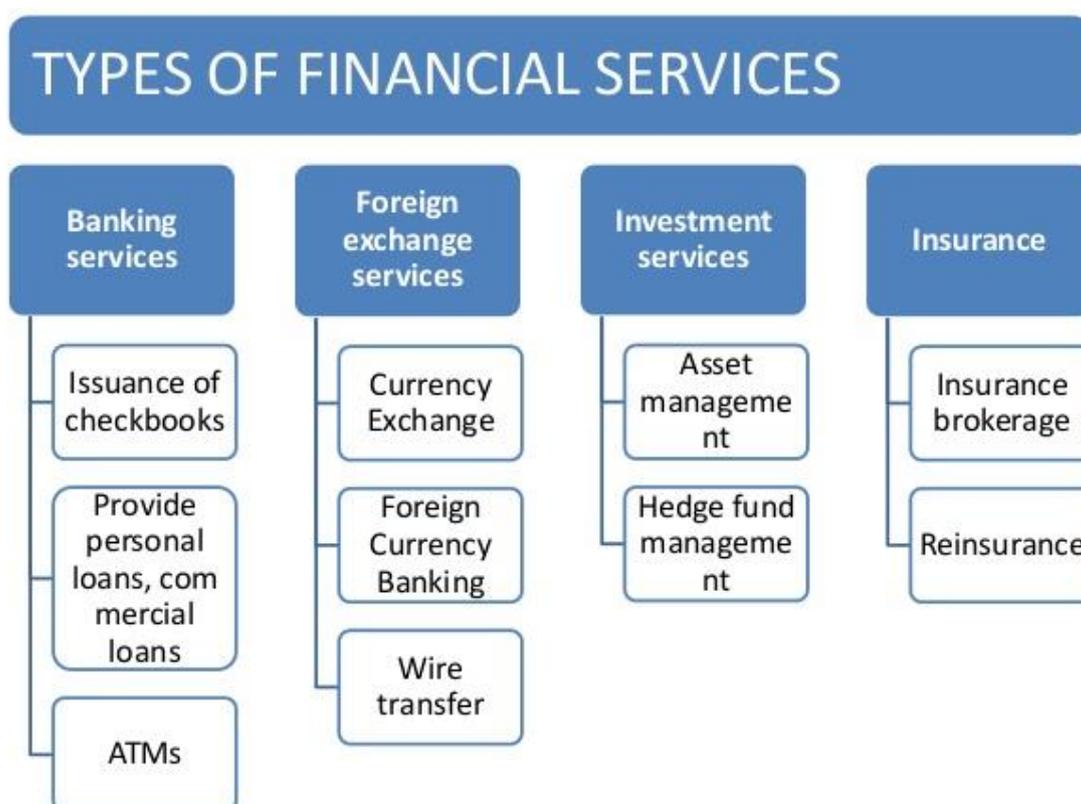
### **TYPES OF FINANCIAL SERVICE:**

- ❖ Banking
- ❖ Professional Advisory
- ❖ Wealth Management
- ❖ Mutual Funds
- ❖ Insurance
- ❖ Stock Market
- ❖ Treasury/Debt Instruments
- ❖ Tax/Audit Consulting
- ❖ Capital Restructuring
- ❖ Portfolio Management

## Banking

The banking industry is the backbone of India's financial services industry. The country has several public sector (27), private sector (21), foreign (49), regional rural (56) and urban/rural cooperative (95,000+) banks. The financial services offered in this segment include:

- Individual Banking (checking accounts, savings accounts, debit/credit cards, etc.)
- Business Banking (merchant services, checking accounts and savings accounts for businesses, treasury services, etc.)
- Loans (business loans, personal loans, home loans, automobile loans, working-capital loans, etc.)



## **Professional Advisory**

India has a strong presence of professional financial advisory service providers, which offer individuals and businesses a wide portfolio of services, including investment due diligence, M&A advisory, valuation, real-estate consulting, risk consulting, taxation consulting.

## **Wealth Management**

Financial services offered within this segment include managing and investing customers' wealth across various financial instruments- including debt, equity, mutual funds, insurance products, derivatives, structured products, commodities, and real estate, based on the clients' financial goals, risk profile and time horizons.

## **Mutual Funds**

Mutual fund service providers offer professional investment services across funds that are composed of different asset classes, primarily debt and equity-linked assets. The buy-in for mutual fund solutions is generally lower compared to the stock market and debt products.

## **Insurance**

Financial services offerings in this segment are primarily offered across two categories:

- General Insurance (automotive, home, medical, fire, travel, etc.)
  
- Life Insurance (term-life, money-back, unit-linked, pension plans, etc.)

Insurance solutions enable individuals and organizations to safeguard against unforeseen circumstances and accidents. Pay-outs for these products vary across the nature of the product, time horizons, customer risk assessment, premiums, and several other key qualitative and quantitative aspects.

## **Stock Market**

The stock market segment includes investment solutions for customers in Indian stock markets (National Stock Exchange and Bombay Stock Exchange), across various equity-linked products. The returns for customers are based on capital appreciation – growth in the value of the equity solution and/or dividends – and pay-outs made by companies to its investors.

## **Treasury/Debt Instruments**

Services offered in this segment include investments into government and private organization bonds (debt). The issuer of the bonds (borrower) offers fixed payments (interest) and principal repayment to the investor at the end of the investment period.

## **Tax/Audit Consulting**

This segment includes a large portfolio of financial services within the tax and auditing domain. This services domain can be segmented based on individual and business clients. They include:

- Tax – Individual (determining tax liability, filing tax-returns, tax-savings advisory, etc.)
- Tax – Business (determining tax liability, transfer pricing analysis and structuring, GST registrations, tax compliance advisory, etc.)
- In the auditing segment, service providers offer solutions including statutory audits, internal audits, service tax audits, tax audits, process/transaction audits, risk audits, stock audits, etc.

## **Capital Restructuring**

These services are offered primarily to organizations and involve the restructuring of capital structure (debt and equity) to bolster profitability or respond to crises such as bankruptcy, volatile markets, liquidity crunch or hostile takeovers.

## **Portfolio Management**

This segment includes a highly specialized and customized range of solutions that enables clients to reach their financial goals through portfolio managers who analyze and optimize investments for clients across a wide range of assets (debt, equity, insurance, real estate, etc.).

## **ROLE FINANCIAL SERVICES IN ECONOMIC ENVIRONMENT:**

The development of any country depends on the economic growth the country achieves over a period of time. Economic growth deals about investment and production and also the extent of Gross Domestic Product in a country. Only when this grows, the people will experience growth in the form of improved standard of living, namely economic development.

The following are the **roles of financial system** in the economic development of a country.

### **Savings-investment relationship:**

To attain economic development, a country needs more investment and production. This can happen only when there is a facility for savings. As, such savings are channelized to productive resources in the form of investment.

### **Financial systems help in growth of capital market:**

Any business requires two types of capital namely, fixed capital and working capital. Fixed capital is used for investment in fixed assets, like plant and machinery. While working capital is used for the day-to-day running of business. It is also used for purchase of raw materials and converting them into finished products.

- **Fixed capital** is raised through capital market by the issue of debentures and shares. Public and other financial institutions invest in them in order to get a good return with minimized risks.
- **For working capital**, we have money market, where short-term loans could be raised by the businessmen through the issue of various credit instruments such as bills, promissory notes, etc.

### **Government Securities market:**

Financial system enables the state and central governments to raise both short-term and long-term funds through the issue of bills and bonds which carry attractive rates of interest along with tax concessions.

**Financial system helps in Infrastructure and Growth:**

Economic development of any country depends on the infrastructure facility available in the country. In the absence of key industries like coal, power and oil, development of other industries will be hampered.

**Financial system helps in development of Trade:**

The financial system helps in the promotion of both domestic and foreign trade. The financial institutions finance traders and the financial market helps in discounting financial instruments such as bills. Foreign trade is promoted due to pre-shipment and post-shipment finance by commercial banks.

**Employment Growth is boosted by financial system:**

The presence of financial system will generate more employment opportunities in the country. The money market which is a part of financial system, provides working capital to the businessmen and manufacturers due to which production increases, resulting in generating more employment opportunities.

**Venture Capital:**

There are various reasons for lack of growth of venture capital companies in India. The economic development of a country will be rapid when more ventures are promoted which require modern technology and venture capital. Venture capital cannot be provided by individual companies as it involves more risks.

**Financial system helps in fiscal discipline and control of economy:**

It is through the financial system, that the government can create a congenial business atmosphere so that neither too much of inflation nor depression is experienced. The industries should be given suitable protection through the financial system so that their credit requirements will be met even during the difficult period.

**Financial system's role in Balanced regional development:**

Through the financial system, backward areas could be developed by providing various concessions or sops. This ensures a balanced development throughout the country and this will mitigate political or any other kind of disturbances in the country. It will also check migration of rural population towards towns and cities.

**Role of financial system in attracting foreign capital:**

Financial system promotes capital market. A dynamic capital market is capable of attracting funds both from domestic and abroad. With more capital, investment will expand and this will speed up the economic development of a country.

**Role of financial system in Political stability:**

The political conditions in all the countries with a developed financial system will be stable. Unstable political environment will not only affect their financial system but also their economic development.

**Financial system helps in Uniform interest rates:**

The financial system is capable of bringing an uniform interest rate throughout the country by which there will be balanced movement of funds between centers which will ensure availability of capital for all kinds of industries.

**Financial system role in Electronic development:**

Due to the development of technology and the introduction of computers in the financial system, the transactions have increased manifold bringing in changes for the all round development of the country. The promotion of World Trade Organization (WTO) has further improved international trade and the financial system in all its member countries.

**References**

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2. BhallaV.K, (2013), "Investment Management Security Analysis and Portfolio Management", S. Chand & Company Pvt. Ltd., Ram Nagar, New Delhi.
3. Dr.SUNDAR,K 2017, Business Organisation, Vijay Nicble Imprints Pvt Ltd.,Chennai.
4. Dr.S.GURUSAMY 2012, Financial Markets and Institutions
5. <https://dollarsandsense.sg/10-biggest-stock-exchanges-world-heres-much-theyve-gained-2017/>
6. [www.google.com](http://www.google.com)

## **Questions:**

### **Two Marks question:**

1. What is financial Service?
2. Definition of Financial Service.
3. Write any two features of financial services.
4. Write any four Functions of Financial Services?

### **Five marks question:**

1. Discuss the Characteristics and Features of Financial Services.
2. Discuss the Importance of Financial service.

### **Ten marks question:**

1. What are the Types is financial service?
2. What are the Role Financial Services in Economic Environment?