SYLLABUS
Class: - B.Com I Year
Subject: - Financial Services & Insurance

Units	Syllabus
Unit 1	Meaning Importance and scope of financial services, Indian Financial System, Brief study of financial institutions- RBI , commercial and Cooperative banks, Non banking financial institutions, development bank, merchant bank, Basics of Mutual funds, Credit Rating, An overview of micro finance.

Meaning of Financial Services

Financial Services refer to economic services provided by various financial institutions that deal with the management of money. It is an intangible product of financial markets like loans, insurance, stocks, credit card, etc. Financial services are products of institutions such as banking firms, insurance companies, investment funds, credit unions, brokerage firms, and consumer finance companies.

1. **Customer Oriented:** Financial services are customer-focused services that are offered as per the requirements of customers. Financial institutions properly study customer needs before designing and offering such services. They are meant to fulfill the specific needs of a customer which differs from person to person.
2. **Intangibility**: These services are intangible which makes their marketing a challenging task for financial institutions. Such institutions need to focus on building their brand image by providing innovative and quality products to customers. Firms enjoying better credibility in market are easily able to sell off their products.
3. **Inseparable:** Financial Services are produced and delivered at the same time simultaneously. These services are inseparable and can't be stored in advance. Here production and supply function both occurs at the same time.
4. **Manages Fund:** Financial services are specialized at managing funds of people. These services enable peoples in allocating their idle lying funds into useful means for earning revenues. Financial services provide various means to people for converting their savings into investment.
5. **Financial Intermediation:** These services does the work of financial intermediation as it brings together the lender and borrower. Financial services mobilize the funds of people who are having enough of it and made it available to the one who are in need of it.
6. **Market Based:** Financial services are market based which changes as per the changing conditions. It is a dynamic activity which varies as per the variations in socio-economic environment and varying needs of customers.

7. **Distributes Risk:** Risk distribution is the key feature offered by financial services. These services transfer the risk of an individual not willing to take among different persons who all are willing to bear it. Financial institutions diversify the risk and secure people against damages by providing them various insurance policies.

Meaning of Indian financial system

The Financial system enables lenders and borrowers to exchange funds. India has a financial system that is controlled by independent regulators in the sectors of insurance, banking, capital markets and various services sectors. Thus, a financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes.

FEATURES OF INDIAN 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

COMPONENTS/ CONSTITUENTS OF INDIAN FINANCIAL SYSTEM

The following are the four major components that comprise the Indian Financial System:

1. Financial Institutions
2. Financial Markets
3. Financial Instruments/ Assets/ Securities
4. Financial Services.

FINANCIAL INSTITUTIONS

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities (individual, business, government) seeking advice on various issue ranging from restructuring to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets or elsewhere. Financial institutions are also termed as financial intermediaries because they act as middle between savers by accumulating Funds them and borrowers by lending these fund.

TYPES OF FINANCIAL INSTITUTIONS

Financial institutions can be classified into two categories:

A. Banking Institutions

B. Non - Banking Financial Institutions

Reserve Bank of India

The Reserve Bank o India is a supreme monetary and banking authority in the country and has the responsibilities to control the entire banking system in India. It was established on 1st April 1935 under Reserve Bank of India Act.

Commercial banks

The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking.

Commercial banks make money by providing and earning interest from loans such as mortgages, auto loans, business loans, and personal loans. Customer deposits provide banks with the capital to make these loans.

Commercial banks are an important part of the economy. Not only do they provide consumers with an essential service, but they also help create capital and liquidity in the market.
They ensure liquidity by taking the funds that their customers deposit in their accounts and lending them out to others. Commercial banks play a role in the creation of credit, which leads to an increase in production, employment, and consumer spending, thereby boosting the economy.

Role of Commercial Banks in Developing Economy

1) Banks promote capital formation
2) Banks help in balanced regional development
3) Banks promote the right type of Industries
4) Banks create employment opportunities
5) Banks helps in trade and industry
6) Banks helps in developing nation to develop

Public sector Banks

Public Sector Banks consist of the State Bank Group and Other Nationalised Banks. It was wholly and controlled by Government.

State Bank of India and its group

The Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 1 July 1955, the Imperial Bank of India became the State Bank of India. In 2008, the Government of India acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. This made eight banks that had belonged to princely states into subsidiaries of SBI. This was at the time of the First Five Year Plan, which prioritised the development of rural India. The government integrated these banks into the State Bank of India system to expand its rural outreach. In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est.1944).

Nationalised Banks

It refers to a bank in which govt. of India has ***more than 50% stake***. It is also called the Public Sector Bank. So, there is no difference between public sector bank and nationalised bank.

Private Sector Banks

Private Sector Banks are those banks, where private individuals or private companies own a major part of the bank's equity. Even though these banks follow the nation's central bank's guidelines, but they can formulate their independent financial strategy for the customers. A large part of these banks are traded on the stock market and anyone can buy a significant part of these bank's shares from the stock market.

Most private sector banks are very agile in their financial strategy. These privates can make a quick financial decision according to the market condition. For this reason, interest rates fluctuate quickly on both deposits and loans. They offer very reliable services to the customers. They also offer various customized services to the customer to fulfil their individual financial needs. There is no job security in private banks. Most employees work very hard to satisfy the customer's financial requirements. In these banks, the employees get promotions on their merit and performance.

However, private sector banks charge a little extra for their financial services. Compared to other banks, the interest rate on deposits is low in most private sector banks. Even though getting a loan in the private banks is very easy, but they charge more interest on these loans. Axis Bank is one of the best examples of private sector banks in India. This bank is very competitive and offers the best services to its customers.

The Regional Rural Banks (RRBs)

The Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on 26th September, 1975 and Regional Rural Banks Act, 1976 with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto.

Co-operative banks

Co-operative banks are financial entities established on a co-operative basis and belonging to their members. This means that the customers of a co-operative bank are also its owners. These banks provide a wide range of regular banking and financial services. However, there are some points where they differ from other banks.

Non-banking financial institution (NBFI)

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFC facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

Development bank

Development bank, national or regional financial institution designed to provide medium- and long-term capital for productive investment, often accompanied by technical assistance, in poor countries.

The number of development banks has increased rapidly since the 1950s; they have been encouraged by the International Bank for Reconstruction and Development and its affiliates. The large regional development banks include the Inter-American Development Bank, established in 1959; the Asian Development Bank, which began operations in 1966; and the African Development Bank, established in 1964. They may make loans for specific national or regional projects to private or public bodies or may operate in conjunction with other financial institutions. One of the main activities of development banks has been the recognition and promotion of private investment opportunities. Although the efforts of the majority of development banks are directed toward the industrial sector, some are also concerned with agriculture.

Merchant Bank

The term merchant bank refers to a financial institution that conducts underwriting, loan services, financial advising, and fundraising services for large corporations and high-net-worth individuals (HWNIs). Merchant banks are experts in international trade, which makes them specialists in dealing with multinational corporations. Unlike retail or commercial banks, merchant banks do not provide financial services to the general public. Some of the largest merchant banks in the world include J.P. Morgan Chase, Goldman Sachs, and Citigroup.