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A Study on Recent Development of Indian Financial System

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ABSTRACT

India has a financial system that is regulated by self-governing regulators in the sectors of banking, insurance, capital markets, opposition and various services sectors. In a number of sectors Government plays the role of controller. Ministry of Finance, Government of India looks after financial sector in India.Financial markets are markets in which securities, supplies, and fungible items are traded at prices representing supply and demand. Reserve bank of India (RBI) established in 1935 is the Central bank. RBI is regulator for financial and banking system, formulates monetary policy and prescribes exchange control norms. India has commercial banks, co-operative banks and regional rural banks. A major object of the Reserve -Bank of India has also been to assist the scheduled process of development of the Indian economy. Further the traditional central banking functions, with the launching of the five-year plans in the country, the Reserve Bank of India has been moving ahead in performing a host of developmental and positive functions, which are normally outside the preview of a traditional Central Bank. The commercial banking sector includes public sector banks, private banks and foreign banks. Non-banking Financial Organizations provide loans and hire-purchase finance, mostly for retail assets and are controlled by RBI. Insurance sector in India has been traditionally conquered by state owned Life Insurance Corporation and General Insurance Corporation and its four divisions.

Keywords: Reserve bank of India, Non-banking Financial Organisations, Life Insurance Corporation, commercial banks.

I. INTRODUCTION

A financial system is a system that allows the interchange of funds between lenders, depositors, and debtors. Financial systems operate at national, global, and firm-specific levels. They consist of complex, closely related to services, markets, and institutions intended to provide an effective and regular relation between investors and creditors.

Money, credit, and finance are used as broadcasting of exchange in financial systems. They serve as a middle of known value for which goods and services can be exchanged as an alternative to bartering. A modern financial system may include banks financial, financial instruments, and financial services. Financial systems allow funds to be allocated, invested, or moved between economic sectors. They enable individuals and companies to share the associated risks.

II. OBJECTIVES OF THE STUDY

The objectives of this paper are to:

- The explain of the components of a financial system
- Explain objectives, functions, importance, features of the financial system
- The explain about the recent development of Indian finance system
- To find out the Mediators in Indian financial system

III. METHODOLOGY

This research paper is conceptual in nature. It is based on secondary data the information which is taken from secondary sources.

IV. THE COMPONENTS OF A FINANCIAL SYSTEM

1. Financial institutions

Financial institutions provide financial services for associations and clients. Banks are financial intermediaries that lend money to borrowers to generate revenue. They are typically controlled seriously, as they provide market stability and consumer safety. Banks include:

- Public banks
- Commercial banks
- Central banks
- Cooperative banks
- State-managed cooperative banks
- State-managed land development banks

2. Non-bank financial institutions

Non-bank financial institutions facilitate financial services like investment, risk sharing, and market brokering. They normally do not have full banking licenses or are not controlled by a bank instruction agency. Non-bank financial institutions include:

- Finance and loan companies
- Insurance companies
- Mutual funds
- Commodity traders\

3. Financial markets:

Financial markets are markets in which securities, supplies, and fungible items are traded at prices representing supply and demand. The term "market" logically means the institution of aggregate exchanges of possible customers and suppliers of such items.

4. Primary markets:

The primary market generally mentions to new issues of stocks, bonds, or other financial instruments. Primary market allocated into two segment

1. Money market
2. Capital market

5. Secondary markets:

The secondary market refers to transactions in financial instruments that were mainlyy issued.

- Cash instruments
- Derivative instruments
- Financial services
- Financial infrastructures

V. OBJECTIVES OF THE RESERVE BANK OF INDIA

The Explanation to the Reserve Bank of India Act, 1934 spells out the objectives of the Reserve Bank as:

- "To regulate the issue of Bank notes and the protection of reserves with a view to safeguarding monetary stability in India and generally to operate the currency and credit system of the country to its benefit."
- Prior to the establishment of the Reserve Bank, the Indian financial system was totally inadequate on account of the inherent weakness of the dual control of currency by the Central Government and credit by the Imperial Bank of India.
- The Hilton-Young Commission, therefore recommended that the opposition of functions and division of responsibility for control of currency and credit and the deviating policies in this reference must be ended by setting-up of a central bank called the Reserve Bank of India which would regulate the financial policy and advance banking services throughout the country.

- Another objective of the Reserve Bank has been to endure free from political influence and be in successful operation for maintaining financial stability and credit. The fundamental object of the Reserve Bank of India is to liberation purely central banking purposes in the Indian money market, i.e., to act as the note-issuing power, bankers' bank and banker to government, and to encourage the growth of the economy within the structure of the universal economic policy of the Government, consistent with the need of maintenance of price stability.
- A major object of the Reserve -Bank of India has also been to assist the planned process of development of the Indian economy.
- Further the traditional central banking functions, with the beginning of the five-year plans in the country, the Reserve Bank of India has been moving ahead in performing a host of developmental and promotional functions, which are normally outsideof the purview of a traditional Central Bank.

VI. FUNCTIONS OF RBI

The Reserve Bank of India performs all the typical functions of a good Central Bank. In addition, it carries out a variety of developing and promotional functions agreed to the course of economic forecasting in the country:

(1) Issuing currency notes, Le, to act as a currency authority.
(2) Exchange management and control.
(3) Serving as banker to the Government.
(4) Collection of data and their publication.
(5) Monetary regulation and management
(6) Acting as bankers' bank and supervisor.
(7) Miscellaneous developmental and advertising functions and activities.
(8) Manufacturing Finance
(9) Farmed Finance.
(10) Exports
(11) Institutional advancement

VII. FEATURES OF FINANCIAL SYSTEM

- It plays a vital role in economic development of a country.
- It helps in division of risk.
- It facilitates enlargement of financial markets.
- It helps in capital construction.
- It encourages both savings and investment.
- It links savers and investors.
- It aids in financial depending and lengthening.

IX. IMPORTANCE OF INDIAN FINANCIAL SYSTEM

- It helps to encourage the development of weaker section of the society through rural expansion banks and co-operative humanities.
- It accelerates the rate and capacity of savings through provision of many financial instruments and effectual mobilization of savings.
- It helps corporate customers to make better financial decisions by providing active financial as well as optional services.
- It aids in increasing the national output of the country by providing funds to corporate customers to enlarge their respective business.
- It protects the interests of investors and confirms smooth financial transactions through regulatory forms such as RBI, SEBI, etc..,
- It helps economic development and raising the regular of living of people.
- It aids in financial depending and broadening :

- **Financial depending**: It refers to the increase in financial assets as a proportion of GDP.

- **Financial broadening:** It refers to increasing number of contributors in the financial system.

X. RECENT DEVELOPMENT OF INDIAN FINANCIAL SYSTEM

India has a financial system that is controlled by self-governing regulators in the sectors of banking, insurance, capital markets, opposition and various services sectors. In a number of sectors Government plays the role of regulator. Ministry of Finance, Government of India looks after financial sector in India. Finance Ministry every year presents annual economical on February 28 in the Parliament. The annual budget proposes changes in taxes, changes in government policy in almost all the sectors and budgetary and other allocations for all the Ministries of Government of India.

Indian financial system was characterised by:

- absence of organised capital market
- Dependence of industries and other users on internal sources
- Rare cases of public issues of capital for expansion and modernisation
- Few financial institutions and players in the market
- Very strict conditions for loan assistance to companies

The top 5 developments in Indian financial system in 2016.

Below are our picks:

1) Withdrawal of legal tender status for Rs 500 and Rs 1000 notes
2) Setting up of the monetary policy committee
3) Passage of the goods and services tax bill
4) Passage of the insolvency and bankruptcy code
5) Thrust towards digitisation of government payments

(1) Withdrawal of legal tender status for Rs 500 and Rs 1000 notes

“To break the grip of corruption and black money, we have decided that the five hundred rupee and thousand rupee currency notes presently in use will no longer be legal tender from midnight tonight that is 8th November 2016….”With these words the Indian Prime Minister in one stroke announced the withdrawal of what constituted 86% of Indian currency in circulation at that point in time. The announcement initially came with a list of caveats for exchange and withdrawal that have since seen frequent additions/revisions by the day and accompanied by stories of unprecedented disruptions to the daily life of citizens and businesses in the aftermath of the ban.

(2) Setting up of the monetary policy committee

October 4th, 2016 marked the first time that a committee, rather than one person, until then the RBI Governor, would decide the policy interest rates in the economy. Entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level, the Monetary Policy Committee was set-up with six members – three nominated from the Central Government and three from the Reserve Bank of India, with the RBI Governor getting the casting vote in case of a tie.

(3) Passage of the goods and services tax bill

Aimed at doing away with a host of Central and State taxes and ushering in a one tax regime for the entire country, both the Houses of Parliament passed the Goods & Services Tax Bill in August 2016, with the President giving his assent in September. Including most of the Central and State taxes such as the Value Added Tax (VAT), excise duty, service tax, central sales tax, additional customs duty and special additional duty of customs, GST would lead to a uniform consumption-based tax structure across the land for almost all goods and services and the government has set a deadline of April 1, 2017 to roll this out. GST implementation would integrate the economy and provide for a common national market that enables businesses to leverage a simplified tax regime.

(4) Passage of the insolvency and bankruptcy code

In May 2016, both Houses of the Parliament passed the Insolvency and Bankruptcy Code that set in motion a national bankruptcy law to deal with insolvencies. The new law, which does away with at least 12 different rules, some of which are centuries old, is expected to usher in an effective bankruptcy resolution system that improves the ease of doing business in India. The Central Government in December notified the final regulations related to the insolvency resolution process under the Liquidation and Bankruptcy Code 2016, paving way for the operationalization of the 10-member Liquidation and Bankruptcy Board (IBBI).

(5) Thrust towards digitisation of government payments

2016 saw extensive measures to incentivise greater implementation of digital payments with an all-round push by different Ministries and controllers. For instance, the Ministry of Electronics and Information Technology laid out Procedures for Acceptance of Electronic Payments and Receipts in November 2016 that covers a time-bound process for the integration of digital payments and receipts connecting all Government divisions. It has set an ambitious deadline of 31 December 2016 by which 90% of outflows and receipts of all Government Divisions are to be made online.

IX. MEDIATORS IN INDIAN FINANCIAL SYSTEM

- ✓ Insurance companies
- ✓ Profitable Banks (Commercial banks)
- ✓ Improvement banks
- ✓ Co-operative
- ✓ Regional rural banks
- ✓ Non-Banking financial companies
- ✓ Mutual fund companies

CONCLUSION

Hence it can be said that a financial provides a platform to the lenders and borrowers to interact with each other for their mutual benefits. The ultimate profits of this interaction come in the form of capital accumulation and economic development of the country. The Indian financial system has undergone structural transformation over the past decade. The financial sector has acquired strength, efficiency and stability by the combined effect of competition, regulatory measures, and policy environment. While competition, consolidation and convergence have been recognized as the key drivers of the banking sector in the coming years

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