Role of financial intermediaries in the modern world

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A financial intermediary is an institution ‘ that provides indirect means for funds from those who wish to save or lend to be channeled to those who wish to invest or borrow’. Financial intermediaries have become crucial drivers of modern economies due to their role in acting as mediators who facilitate the flow of funds between deficient and surplus units. Financial intermediaries have played a key role in the development of the world’s economy throughout the years. Role of financial intermediaries in the modern world

The need for financial intermediaries arose when the lenders and borrowers ofmoneywere confronted with the difficulty of finding and dealing directly with each other. Financial intermediaries are engaged in bringing these two parties together by borrowing funds from lenders and lending them to borrowers in such a way that both parties find the transaction more favorable than if they traded directly with each other (Mathur 85). Without financial intermediaries, this task not only becomes tedious, but it would also be costly for both the parties.

Moreover, transactions through financial intermediaries are according to the up-to-date regulatory system, and are reliable and transparent. Financial intermediaries also help in efficient allocation of funds by transferring funds between deficient and surplus units in order to achieve higher productivity and efficiency for the economy as a whole. Financial intermediaries such as banks, investment companies, insurance companies and mutual funds pool funds and resources from various investors, which are then lent to units in need of those funds.

This creates a balanced economic system, where a smooth flow of funds results in efficient allocation of resources (Mathur 89-90). Perhaps it is due to this system of allocation of resources that has resulted in the staggering development of modern economies. Large corporations have become essential for sustained economies. The creation and subsequent maintenance of these corporations would not have been possible without involvement from financial intermediaries.

Financial intermediaries help in as diverse functions as stock broking, underwriting, acquisitions and mergers, capital restructuring, portfolio management and many other functions which have helped corporations of the world in ways unimaginable in the absence of these intermediaries (Brigham and Daves 152). Corporations have direct role in the economies of the modern world. Time and cost of transaction is of essence in modern economies. Financial intermediaries reduce the transaction cost through economies of scale due to their huge size. They reduce transaction time due to their efficient system and their expertise in the field.

A key role of financial intermediaries is their role in facilitating global financing needs. With increasedglobalization, flow of funds among global entities becomes essential. Modern global organizations of United States have expanded into global markets with the help of many financial intermediaries such as global banks which provides these global organizations with timely funds in many forms. Conclusion Financial intermediaries have become crucial for the development of economies of the modern world. Without financial intermediaries, the high productivity and efficiency of modern economies would be very difficult to achieve.

Their role in achieving higher productivity and efficiency has been growing with time. In essence, the modern world could not exist without financial intermediation due to their crucial role in the development of modern economies. Works Cited Brigham, Eugene F. and Daves, Phillip R. Intermediate Financial Management. South-Western College Pub, 2003. Mathur, Iqbal . Introduction to financial management. Collier Macmillan, 1997. " The role of financial intermediaries. " Riskinstitute. 5 Oct 2008 .