

Financial services provided by indian banks in india

[Literature](#), [Russian Literature](#)



A bank has been described as an institution engaged in accepting deposits and granting loans. It is the institution which deals in money and credit. It can also be described as an institution which borrows idle resources, makes fund available to those who need it and helps in cheap remittance of money from one place to another. In the modern time term bank is used in wider term. Now it does not refer only to particular place of lending and depositing money but it also acts as an agent which looks after the various financial problems of its customers.

History of Banks:

The banking system in India is based on British banking company which is largely branch banking. Commercial banks in India were started during the latter half of 19th century Bank of Bengal, Bank of Bombay and Bank of Madras were later amalgamated to form one bank called as Imperial bank of India under the Imperial bank of India Act 1920. The Imperial bank carried with business of commercial bank manages the public debt office of central and state government. The second half of 19th century saw establishment of Bank of Baroda, Allahabad bank, and Punjab National Bank. These banks were set up by merchants and traders to combined trading with banking. These led to the series if failures of banks. The strengthening of banking system took place after the establishment of reserve bank of India, 1939 as it empowers to regulate the banking money, inspection of mergers and acquisition in terms of Banking Companies Act 1949 which later came to be known as Banking Regulation Act 1949.

Functions of Banks:

Though borrowing and lending constitute the main functions of banking, yet they are not only functions of commercial banks. Commercial banks are involved in diversified activities and perform varieties of function. The functions of a modern bank are classified under the following heads:

Figure 1. 1: Functions of Banks

Banking Products:

Banks in India have traditionally offered mass banking products. Most common deposit products being Savings Bank, Current Account, Term deposit Account and lending products being Cash Credit and Term Loans. Due to Reserve Bank of India guidelines, Banks have had little to do besides accepting deposits at rates fixed by reserve Bank of India and lend amount arrived by the formula stipulated by reserve Bank of India at rates prescribed by the latter. PLR (Prime lending rate) was the benchmark for interest on the lending products. But PLR itself was, more often than not, dictated by RBI. Further, remittance products were limited to issuance of Drafts, Telegraphic Transfers, and Bankers Cheque and Internal transfer of funds. In view of several developments in the 1990s, the entire banking products structure has undergone a major change.

As part of the economic reforms, banking industry has been deregulated and made competitive. New players have added to the competition. IT revolution has made it possible to provide ease and flexibility in operations to customers. Rapid strides in information technology have, in fact, redefined the role and structure of banking in India. Further, due to exposure to global trends after Information explosion led by Internet, customers - both

individuals and Corporate - are now demanding better services with more products from their banks. Financial market has turned into a buyer's market. Banks are also changing with time and are trying to become one-stop financial supermarkets.

A few foreign & private sector banks have already introduced customized banking products like Investment Advisory Services, SGL II accounts, Photo-credit cards, Cash Management services, Investment products and Tax Advisory services. A few banks have gone in to market mutual fund schemes. Eventually, the Banks plan to market bonds and debentures, when allowed. Insurance peddling by Banks will be a reality soon. The recent Credit Policy of RBI announced on 27. 4. 2000 has further facilitated the entry of banks in this sector. Banks also offer advisory services termed as 'private banking' - to " high relationship - value" clients.

Introduction to Financial Services:

The Indian financial services industry has undergone a metamorphosis since 1990. During the late seventies & eighties, the Indian financial services industry was dominated by commercial banks and other financial institution which cater to the requirements of the Indian industry. The economic liberalization has brought in a complete transformation in the Indian financial services industry. The term “ Financial Services” in a broad sense means “ mobilizing and allocating savings”. Thus it includes all activities involved in the transformation of savings into investment. The ‘ financial service’ can also be called ‘ financial intermediation’. Financial intermediation is a process by which funds are Mobilized from a large number of savers and

make them available to all those who are in need of it and particularly to corporate customers.

Thus, financial service sector is a key area and it is very vital for industrial developments. A well developed financial services industry is absolutely necessary to mobilize the savings and to allocate them to various investable channels and thereby to promote industrial development in a country. Financial services, through network of elements such as financial institution, financial markets and financial instruments, serve the needs of individuals, institutions and corporate. It is through these elements that the functioning of the financial system is facilitated. Considering its nature and importance, financial services are regarded as the fourth element of the financial system.

Features of Financial Service:

Customer-Oriented: Like any other service industry financial service industry is also a customer-oriented one. That customer is the king and his requirements must be satisfied in full should be the basic tenant of any financial service industry. It calls for designing innovative financial products suitable to varied risk-return requirements of customer.

Intangibility: Financial services are intangible and therefore, they cannot be standardized or reproduced in the same form. Hence, there is a need to have a track record of integrity, reputation, good corporate image and timely delivery of services.

Simultaneous Performance: Yet another feature is that both production and supply of financial services have to be performed simultaneously. Therefore,

both suppliers of services and consumers should have a good rapport, clear-cut perception and effective communication.

Dominance of Human Element: Financial services are dominated by human element and thus, they are people-intensive. It calls for competent and skilled personnel to market the quality financial products. But, quality cannot be homogenized since it varies with time, place and customer to customer.

Perishability: Financial services are immediately consumed and hence inventories cannot be created. There is a greater need for balancing demand and supply properly. In other words, marketing and operations should be closely inter-linked.

Importance of Financial Services:

Economic Growth: The financial service industry mobilizes the savings of the people and channels them into productive investment by providing various services to the people. In fact, the economic development of a nation depends upon these savings and investment

Promotion of Savings: The financial service industry promotes savings in the country by providing transformation services. It provides liability, asset and size transformation service by providing large loans on the basis of numerous small deposits. It also provides maturity transformation services by offering short-term claim to savers on their liquid deposit and providing long-term loans to borrowers.

Capital Formation: The financial service industry facilitates capital formation by rendering various capital market intermediary services – capital formation

in the very basis for economic growth. It is the principal mobilize, of surplus funds to finance productive activities and thus it promotes capital accumulation.

Provision of Liquidity: The financial service industry promotes liquidity in the system by allocating and reallocating savings and investment into various avenues of economic activity. It facilitates easy conversion of financial asset into liquid cash at the discretion of the holder of such assets.

Financial Intermediation: The financial service industry facilitates the function of intermediation between savers and investors by providing means and a medium of exchange and by undertaking innumerable services.

Contribution to GNP: The contribution of financial services to GNP has been going on increasing year after year in almost all countries in recent times.

Creation of Employment Opportunities: The financial service industry creates and provides employment opportunities to millions of people all over the world.

1. 8 Sources of Revenue: Accordingly, there are two categories of sources of income for a financial service company namely: fund based & fee-based. Fund-based income comes mainly from interest spread, lease rentals, income from investments in capital market and real-estate. On the other hand, fee based income has its sources in merchant banking, advisory services, custodial services, loan syndication etc. Income has its sources in merchant banking, advisory services, custodial services, loan syndication etc. A major part of income is earned through fund-based activities. At the same time, it involves a large share of expenditure in the form of interest & brokerage. It means that such companies should have to compromise the

quality of its investment. On the other hand fee-based income does not involve much risk. Figure 1. 2

Classification of Financial Services

Objectives of Financial Services:

Fund Raising: Financial services help to raise the required funds from a host of investors, individuals, institution and corporate. For this purpose, various instruments of finance are used.

Funds Deployment: An array of financial services is available in the financial markets which help the players to ensure an effective deployment of funds raised. Services such as bill discounting, parking of short-term funds in the money market, credit rating & securitization of debts are provided by financial services firms in order to ensure efficient management of funds.

Specialized Services: The financial service sector provides specialized services such as credit rating, venture capital financing, lease financing, mutual funds, credit cards, housing finance, etc besides banking and insurance. Institutions and agencies such as stock exchanges, non-banking finance companies, and subsidiaries of financial institutions, banks & insurance companies also provide these services.

Regulation: There are agencies that are involved in the regulation of the financial services activities. In India, agencies such as the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and the Department of Banking and Insurance of the Government of India, regulate the functioning of the financial service institutions.

Economic Growth: Financial services contribute, in good measure, to speeding up the process of economic growth & development. 1. 10 Causes of

Financial Innovation: Financial intermediaries have to perform the task of financial innovation to meet the dynamically changing needs of the economy. There is a dire necessity for the financial intermediaries to go for innovation due to following reasons: Low Profitability: The profitability of the major financial intermediary, namely banks has been very much affected in recent times. There is a decline in the profitability of traditional banking products. So, they have compelled to seek out new products which may fetch high returns.

Keen Competition: The entry of many financial intermediaries in the financial sector market has led to severe competition among themselves. This keen competition has paved the way for the entry of varied nature of innovative financial products so as to meet the varied requirements of the investors.

Economic Liberalization: Reform of the financial sector constitutes the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market. Deregulation in the form of elimination of exchange controls and interest rate ceilings have made the market more competitive. Innovation has become a must for survival. Improved Communication Technology: The communication technology has become so advanced that even the world's issuers can be linked with the Investors in the global financial market without any difficulty

by means of offering so many options and opportunities. Hence, innovative products are brought into the domestic market in no time.

Customer Service: Nowadays, the customer's expectations are very great. They want newer products at lower cost or at lower credit risk to replace the existing ones. To meet this increased customer sophistication, the financial intermediaries are constantly undertaking research in order to invent a new product which may suit to the requirement of the investing public. Innovations thus help them in soliciting new business.

Global Impact: Many of the providers and users of capital have changed their roles all over the world. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sector which has its own impact on the domestic sector also.

Investor Awareness: With a growing awareness amongst the investing public, there has been a distinct shift from investing the savings in physical assets like gold, silver, land etc. To financial assets like shares, debentures, mutual funds etc. To meet the growing awareness of the public, innovation has become the need of the hour.

Present Scenario of Financial Services:

Conservatism to Dynamism: At present, the financial system in India is in a process of rapid transformation, particularly after the introduction of reforms in the financial sector. The main objective of the financial sector reforms is to promote an efficient, competitive and diversified financial system in the

country. This inessential to raise the allocative efficiency of available savings and to promote the accelerated growth of the economy as a whole. The emergence of various financial institution and regulatory bodies has transformed the financial services sector from being a conservative industry to a very dynamic one.

Emergence of Primary Equity Market: The capital markets have become popular source of raising finance. The aggregate funds raised by the industries have gone from Rs. 5976 crore in 1991-92 to Rs. 32382 crore in 2006-07. Thus the primary market has emerged as an important vehicle to channelize the savings of the individuals and corporate for productive purposes and thus to promote the industrial & economic growth of our nation.

Concept of Credit Rating: The investment decisions of the investors have been based on factors like name recognition of the company, reputation of promoters etc. Now, grading from an independent agency would help the investor in his portfolio management and thus, equity grading is going to play a significant role in investment decision making. Now it is mandatory for non-banking financial companies to get credit rating for their debt instruments. The major credit rating agencies functioning in India are:

1. Credit Rating Information Services of India Ltd. 2. Credit Analysis and Research Ltd. 3. Investment Information and Credit Rating Agency. 4. Duff Phelps Credit Rating Pvt. Ltd.

Process of Globalization: The process of globalization ha paved the way for the entry of innovative financial products into our country. The government

is very keen in removing all obstacles that stand in the way of inflow of foreign capital. India is likely to enter the full convertibility era soon. Hence, there is every possibility of introduction of more and more innovative financial services in our country.

Process of Liberalization: The government of India has initiated many steps to reform the financial services industry. The Government has already switched over to free pricing of issues from pricing issues by the Controller of capital issues. The interest rates have been deregulated. The private sector has been permitted to participate in banking and mutual funds and the public sector undertakings are being privatized. The financial service industry in India has to play a positive and dynamic role in the years5 India has to play a positive and dynamic role in the years to come by offering many innovative products to suit to the varied requirements of the millions of prospective investors spread throughout the country