



# Introduction and Overview of Indian Financial System

Semester IV



# Financial System

- A financial system is the system that covers financial transactions and the exchange of money between investors, lender and borrowers.
- It encompasses a group of intermediaries which facilitates the flow of funds from the areas of surplus to the areas of deficit.



# Financial System

- A financial system can be defined at a global, regional or firm specific level.
- It is a composition of various institutions, markets and laws, practices, money managers, analysts, transactions and claims and liabilities.



# Composition of Financial System

- Financial Markets
- Financial Institutions
- Financial Instruments
- Financial Services
- Regulators



# Financial Markets

- Financial markets are structures through which funds flow.
- They are markets in which users of funds raise funds through creating or transferring financial instruments
- As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset.
- Financial markets can be differentiated by the characteristics



Nature of  
Claim

- Debt Market
- Equity Market

Maturity of  
Claim

- Money Market
- Capital Market

Seasoning of  
Claim

- Primary Market
- Secondary Market

Organizational  
Structure

- Exchange-traded Market
- Over-the-counter Market



# Primary Markets

- Primary markets are also known as Direct Market
- Primary markets are markets in which companies raise funds through new issue of financial securities
- Most primary market transactions are arranged through financial institutions called investment banks

# Primary Markets







# Secondary Markets

- Secondary Markets are markets where financial securities once issued, are traded
- They offer benefits to both investors and issuing companies

# Secondary Markets





# Capital Markets

- Capital markets are markets that trade equity and debt instruments with maturities of more than one year
- The major suppliers of capital market securities are companies and government
- The major suppliers of funds for capital market securities are households



# Money Markets

- Money markets are markets that trade in instruments with maturities of one year or less than one year
- The major suppliers of money market securities are companies and government



# Financial Institutions

- Financial institutions also known as 'Financial Intermediaries' are business organizations that act as mobilisers and depositories of savings
- They also act as purveyors of credit or finance
- All financial institutions can be classified into- Banking, Non-Banking, Mutual Funds or Insurance and Housing Finance Companies



# Financial Intermediaries

- Commercial Banks
- Financial Institutions
- Insurance Companies
- Mutual Funds
- Non-banking Financial Companies
- Non-banking Financial Services Companies



# Financial Instruments

- Capital Markets
  - Equity
  - Debt
- Money Markets
  - Commercial Paper
  - Certificate of Deposit
  - Treasury Bills



# Financial Services

- Credit Rating
- Factoring
- Leasing
- Merchant Banking
- Guaranteeing
- Underwriting





# Regulatory Infrastructure

- Ministry of Finance
- Reserve Bank of India
  - Financial Institutions
    - Banks
    - NBFCs



# Regulatory Infrastructure

- Securities and Exchange Board of India (SEBI)
  - Capital Markets (Primary and Secondary Markets)
- Insurance Regulatory and Development Authority (IRDA)
  - Insurance Companies (Life Insurance and General Insurance)