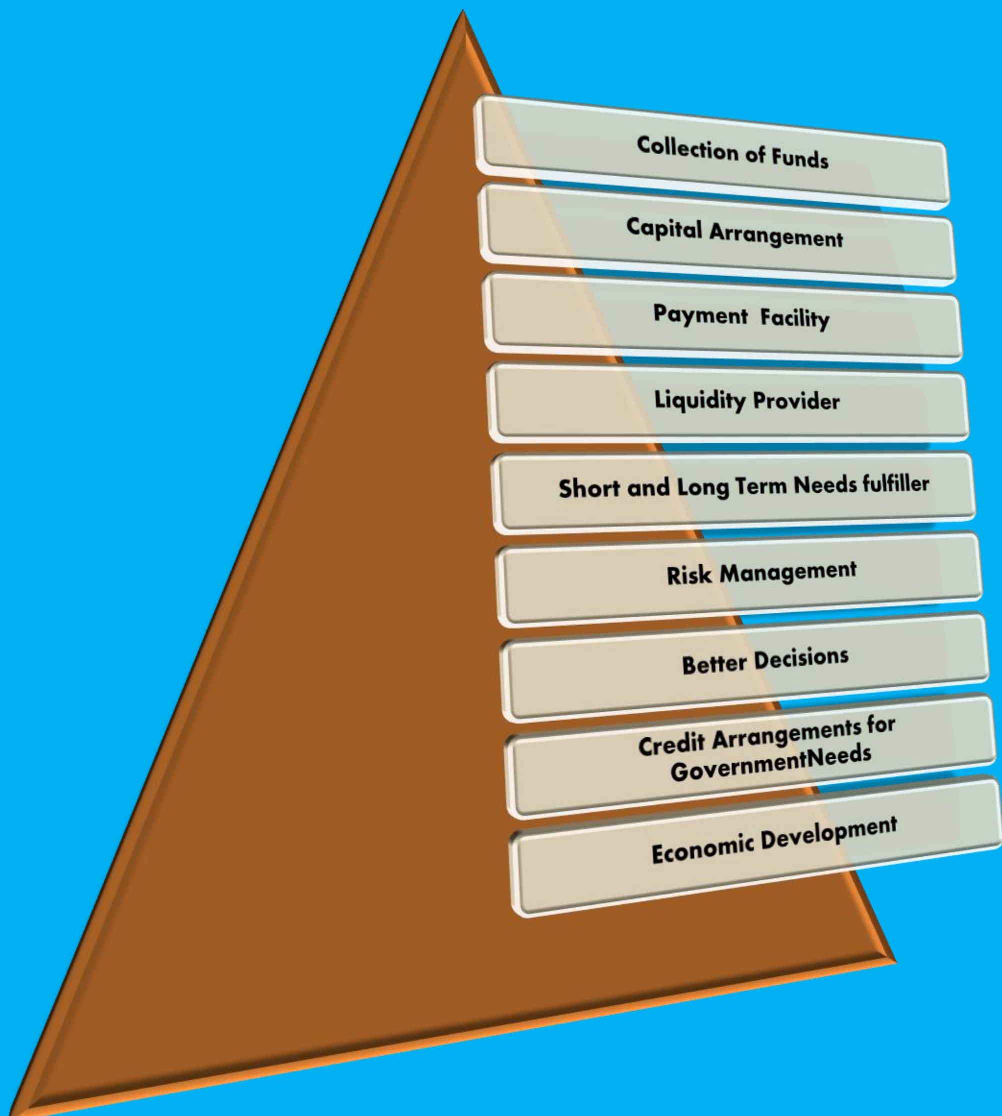
Functions of a Financial System

Financial system of a country has an important role to play in the economy. A well-functioning financial system is necessary for the growth of the economy. The financial system takes care of huge volume of money and securities and thus needs proper checks and balances to make sure stability and public confidence. The basic functions of financial system are arrangement for mobilizing savings, storing wealth, liquidity, credit arrangement, payment system, risk management, policy implementation and finally the information supplier. All these are said to be the functions.

Functions and Role of financial system, market are given below.



1. **Collection of Funds**

The first and leading function which financial system does is the channelization the savings of individuals and making it available for various loan seekers which borrow in order to increase the production of goods and services, thus increases the overall growth of the economy. It facilitates in establishing a link between the savers and the investors.

When the Savings of people are shifted from households to business organizations, the production increases and better goods are produced, which increases the standard of living of people. Economic resources are moved from one party to another through financial system.

2. **Capital Arrangement**

Business require essential capital/loan/finance. It is made available through banks, households and different financial institutions. They mobilize savings which leads to Capital Formation.

3. **Payment Facility**

The financial system provides convenient modes of payment for goods and services. Modern methods of payments like credit cards, debit cards, cheques, etc. help quick and easy transactions. It is due to financial system that any one can make payment whenever and wherever he decides with the help of online apps, checks, credit card and debit card. In the absence of financial system one has to take cash wherever he or she goes which would become troublesome.

4. **Liquidity Provider**

In financial system, liquidity means availability of cash . The financial system facilitates the investors the opportunity to liquidate their investments (likeshares, debentures, bonds, etc). Price is fixed on the daily basis according to the operations of the market force of demand and supply. Thus investors can have both the things, which involve return on investments as well as convenience that they can liquidate their investments whenever they want.

5. **Short and Long Term Needs fulfiller**

The financial market caters the various needs of different investors and organizations. Thus, provision of optimum use of finances for productive purposes could be possible.

6. **Risk Management**

The financial system facilitates protection against life, health and income risks. Risk Management is an integral and necessary component of a growing economy. Indian financial system comprises of many government and private owned insurance companies which are providing risk management services. Government Agency like IRDA takes care about the Indian insurance world.

7. **Better Decisions**

Financial System provides information about the market and various financial assets. Financial System helps the investors to evaluate different investment options and choose the best one. It facilitates in decision making in choosing portfolio allocations of their wealth.

8. **Credit Arrangements for Government Needs**

Any government required money for public expenditure. Government needs big amount of money also for the development of defense infrastructure. It also requires fund for social welfare activities, public health, education, etc. Apart from taxation, Government collect essential money through selling of securities with the help of financial system.

9. **Economic Development**

India follows mixed economy pattern. The Government policies affect the financial system to control macro-economic variables like interest rate or inflation. Due to this credits can be made available to organisations at a cheaper rate. This leads to economic development of the nation.

===============Unit 1 part 3 Ends================