

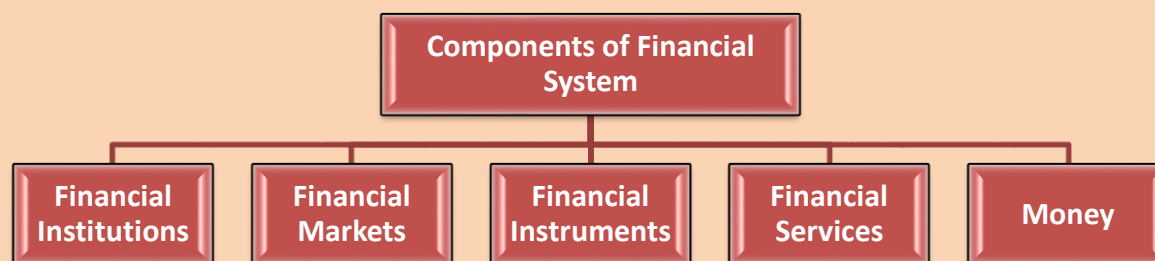
## Indian & International Financial System

### Financial System

A financial system is a system that permits the exchange of funds between lenders, investors, and borrowers. Financial systems exist at national, global, and firm-specific levels. They include complex, closely related services, markets, and institutions meant to provide an efficient and regular chain between investors and depositors.

Money, credit, and finance are used as means of exchange in financial systems. They serve as a medium of known value for which goods and services can be replaced as an alternative to bartering. Financial system includes public sector banks, private sector banks, financial markets, financial instruments, and financial services. Financial systems permit funds to be allocated, invested, or moved between economic sectors. They facilitate individuals and companies to share the associated risks.

### Components of Financial System



A financial system refers to a system which facilitates the transfer of money between investors and borrowers. A financial system may be defined at an international, regional or organization level. The term “system” in “Financial System” refers a group of complex and closely linked institutions, agents, procedures, markets, transactions, claims and liabilities in a economy.

### **Five Basic Components of Financial System**

- Financial Institutions
- Financial Markets
- Financial Instruments (Assets or Securities)
- Financial Services
- Money

### **Financial Institutions**

Financial institutions allow smooth working of the financial system by helping in meeting of needs of investors and borrowers. They mobilise the savings of public either directly or indirectly via financial markets, by making use of numerous financial instruments as well as in the process using the services of different financial services providers.

Financial Institutions could be classified into Regulatory, Intermediaries, Non-intermediaries and Others. They offer services to organizations looking for advises on different problems including restructuring to diversification strategies. They offer complete range of services to the organizations who want to collect funds from the markets and take care of financial assets for example deposits, securities, loans, etc.

### **Financial Markets**

A financial market is the market where financial assets are formed or transferred. It can be broadly classified into money markets and capital markets. Money market is for short-term financial assets (less than a year) whereas capital markets are for those financial assets that have maturity period of more than a year. The main functions of Financial markets are:

1. Assist in formation and allocation of credit and liquidity.
2. Serve as mediators for mobilization of savings.
3. Help in achieving balanced economic growth.
4. Offer financial easiness.

Financial markets may be classified as primary markets and secondary markets. Primary markets care new issue of securities while secondary markets handle securities that are presently available in the stock market.

Financial markets grab the attention of investors and make it possible for organisations to finance their operations and attain growth. Money markets help for businesses to gain access to funds on a short-term basis, while capital markets help businesses to gain long-term funding to aid expansion. Borrowers can find loan lenders with the help financial markets without any hard efforts. One more important component of financial markets is a bank, mediator like banks assist in this procedure. Banks accept deposits from investors and provide money from this collection of deposited money to people who need loan. Banks generally provide money in the form of loans.

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### **Financial Instruments**

This is another an important part of financial system. The products which are bought and sold in a financial market are financial assets, securities or other type of financial instruments. There are different ranges of securities in the markets as the needs of investors and credit seekers are different. Equity shares, debentures, bonds, etc are some examples.

### **Financial Services**

Financial services also include services provided by Asset Management and Liability Management Companies. They help to get the essential funds and also make insure that they are efficiently invested. They help to determine the financing combination and provide their professional services upto the stage of servicing of lenders. They help in borrowing, selling and purchasing securities, lending and investing, making and permitting payments and settlements and taking care of associated risk in financial markets. Financial Service providers mainly include leasing companies, mutual fund houses, merchant bankers, portfolio managers, bill discounting and acceptance houses etc.

The financial services sector provides a number of professional services like credit rating, depository services, financing, mutual funds, merchant banking, venture capital, book building, etc. Financial institutions and financial markets cooperate in the working of the financial system by way of financial instruments, for this they need different services of financial nature. Therefore, Financial services are deemed as the 4th major component of the financial system.

### **Money**

Money can be understood to be something that is accepted for payment of products and services or for the repayment of loan. It is a means of exchange and acts as a store of value.

====Part One Ends=====