International Journal of Early Childhood Special Education (INT-JECSE)
DOI:10.9756/INTJECSE/V14I5.796 ISSN: 1308-5581 Vol 14, Issue 05 2022

A STUDY ON RECENT DEVELOPMENT OF INDIAN FINANCIAL SYSTEM

P.V. Prasanth,
Assistant Professor of Economics, Sahya Arts & Science College, Vellambaram, Wandoor, Palamadam, (Ph.D Research Scholar, Department of Economics, KhadirMohideen College, Adirampattinam)

Dr.P.Ganapathy,
*Guide & Supervisor, Associate Professor & Head, Department of Economics, *Khadir Mohideen College, Adirampattinam-614701 (*Affiliated to Bharathidasan University, Tiruchirappalli-620024)*
Correspondence: prasanthvellimuttam@gmail.com

Abstract:
The banking, insurance, capital markets, opposition, and various service sectors of India's financial system are all governed by self-governing regulators. Government acts as a controller in a number of industries. The Indian government's ministry of finance is responsible for the country's financial sector. Securities, supplies, and fungible goods are traded on financial markets at prices that reflect supply and demand. India's central bank, the Reserve Bank of India (RBI), was founded in 1935. The RBI sets exchange control standards, creates monetary policy, and regulates the banking and financial sectors. Commercial banks, cooperative banks, and local rural banks are all present in India. Assisting the planned process of the Indian economy's development has also been a major goal of the reserve-object of India. The reserve bank of India has been advancing in performing a variety of development and positive functions, which are typically outside the purview of a traditional Central Bank, in addition to the traditional central banking functions, with the introduction of the five-year plans in the nation. Publicly traded banks, privately owned banks, and foreign banks all fall under the commercial banking category. Non-banking Financial organisations are under RBI control and offer loans and hire-purchase financing, typically for retail assets. State-owned Life Insurance Corporation and General Insurance Corporation, along with its four subsidiaries, have historically dominated the insurance industry in India.

Key words: Life Insurance Corporation, Commercial banks, Reserve Bank of India, Non-banking Financial Organizations.

1.1 Introduction

A financial system is one that permits the transfer of money among lenders, depositors, and debtors. At the local, international, and firm-specific levels, financial systems function. They are made up of intricate, intricately related markets, institutions, and services that are designed to provide a reliable and effective relationship between creditors and investors. In financial systems, money, credit, and finance are utilised as a broadcasting of exchange. They act as a neutral point of known value where products and services can be traded instead of bartered. Financial services provided by banks may be part of a contemporary financial system. Money can be distributed, invested, or transported between different economic sectors thanks to financial systems. They make it possible for people and businesses to split the risks involved.

1.2 STUDY'S OBJECTIVES

The following are the paper's goals:
• The explain of the components of a financial system.
• Describe the goals, duties, significance, and characteristics of the financial system.
• The explanation of the most recent changes to the Indian financial system.
• To learn who the financial intermediaries are in India.

1.3 METHEDOLOGY

The study is conceptual in nature. It is founded on secondary information, or data that has been collected from secondary sources.

1.4 A FINANCIAL SYSTEM'S ELEMENTS

1. Financial Organization

DOI:10.9756/INTJECSE/V14I5.796 ISSN: 1308-5581 Vol 14, Issue 05 2022

Financial institutes offer financial services to clients and associations. Banks are middlemen in the financial system that lend money to borrowers in order to make money. They are typically taken seriously because they guarantee consumer safety and market stability. Banks comprise:

- Open banks
- Business banks
- Banks, central
- Community banks

Government-run cooperative banks
- State-run banks for land development

2. Financial entities other than banks
Financial institutions that are not banks help to provide financial services like market brokerage, risk sharing, and investment. They typically lack complete banking licences or are not under the supervision of a bank instruction agency. Financial institutions that are not banks include:

- Financial institutions
- Insurance businesses

Mutual fund
- Traders in commodities

3. Monetary markets
Securities, supplies, and fungible goods are traded in financial markets at prices that reflect supply and demand. The institution of aggregating trades of potential buyers and sellers of such goods is what the term "market" logically refers to.

4. Primary markets
In general, fresh offerings of stocks, bonds, or other financial instruments are referred to as primary market issues. Two portions were allotted to the primary market.

1. Stock market
Financial instruments with high liquidity and brief maturities are exchanged on the money market. Participants utilise it as a short-term borrowing and lending medium, with maturities typically ranging from overnight to just under a year. Eurodollar deposits, negotiable certificates of deposits (CDs), bankers acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds, and repurchase agreements are some of the most popular money market vehicles (repos).

2. Capital Market.
Markets for buying and selling equities and debt securities are known as capital markets. Capital markets serve as a conduit for savings and investments between capital providers, such as retail and institutional investors, and capital consumers, such as companies, the government, and people.

5. The Secondary market:
Transactions involving primarily issued financial products are referred to as the secondary market.

• A money instrument
Financial instruments include cash instruments. There are several cash market instruments accessible in the money market, including bills of exchange, certificates of deposit, repurchase agreements, or Repos, interbank loans, commercial papers, etc. We'll go over a few of these in order to assess the cash instruments. Financial instruments are essentially cash instruments. The money market offers many different kind of monetary instruments. These include bills of exchange, certificates of deposit, repurchase agreements, or Repos, interbank loans, and commercial papers. The federal saving bonds, commercial papers, and certificates of deposits (CDs) are all negotiable securities in contrast to interbank deposits. In other words, they are tradable on the secondary market prior to the full term's end.

• Deposit certificates:
It offers advantages above regular savings. A CD records the issuance of a deposit at a specific interest rate for a specific duration. Therefore, on the date of maturity, the borrower must pay the owner a specific amount of capital, as agreed upon by the two parties, plus interest. The US money market was where CDs first appeared. Certificates of Deposit are connected to regular interbank deposits or loans on the Euro market.

• Business papers
These are typically issued within an auction system and have a maximum period of one year. Treasury bills are a key cash instrument in the money market because of their extremely high liquidity. Treasury bills are referred to be "discount instruments" since they do not have a fixed rate of interest.

• Financial instrument
A derivative is an instrument whose value is derived from the value of one or more underlying assets. These assets can be securities such as bonds, equities, precious metals, commodities, or currencies. Forwards, futures, options, and swaps are the four types of derivative instruments that are most frequently used.

While the majority of insurance contracts have grown into their own industry, most derivatives are traded over the counter (off-exchange) or on exchanges like the Bombay Stock Exchange. Stocks (also known as equities or shares) and debt are the other two primary categories of financial instruments (i.e. bonds and mortgages).

In contrast to exchange-traded derivatives (ETDs), privately traded over-the-counter (OTC) derivatives, such as swaps, do not go through an exchange or other intermediaries.

Money-related Services
The financial industry, which includes a wide range of businesses that manage money, such as credit unions, banks, credit-card companies, insurance companies, accountancy companies, consumer-finance companies, stock brokerages, investment funds, individual managers, and some government-sponsored enterprises, provides financial services. All economically developed regions include financial services companies, and these businesses tend to congregate in local, national, regional, and global financial hubs like London, New York City, and Tokyo.

- **Financial Framework**

It is a group of organisations that facilitates the efficient running of collateral registries and financial information bureaus. Financial infrastructure, in a broader sense, includes the existing legal and regulatory framework for the operations of the financial sectors.

- **Registries for collateral**

Even though lending is the most popular type of borrowing on formal credit markets, around $9.3 trillion worth of property in developing nations is not put to use for anything productive and is instead categorised as "dead capital" due of ineffective or nonexistent collateral regulations and registries.

- **Credit monitoring**

In order to facilitate lending and increase access to credit for a major portion of individuals, microfinance, and small and medium companies, credit reporting systems are crucial components of good financial infrastructures. Additionally, they support the demand of lenders for reliable, precise information that lowers the risk of lending and the price of loan losses. Regardless of whether the information-sharing mechanism is private or public, research shows that lending is higher and credit risk is lower in nations where lenders share information.

- **Financial markets**

In order to finance important areas with high developmental impact, such infrastructure, housing, and microfinance, emerging market countries are increasingly turning to the securities markets, notably the bond markets.

1.5 RESERVE BANK OF INDIA OBJECTIVES
The Reserve Bank of India Ac, 1934's explanation outlines the following goals for the Reserve Bank:
"To control the issuance of Bank notes and the protection of reserves with a view to preserving monetary stability in India and generally to administer the country's monetary and credit systems to its advantage."

DOI:10.9756/INTJECSE/V14I5.796 ISSN: 1308-5581 Vol 14, Issue 05 2022

Due to the inherent weakness of the dual control of money by the central government and credit by the Imperial Bank of India, the Indian financial system was completely insufficient before to the foundation of the Reserve Bank.

The Reserve Bank of India, a central bank that would oversee financial policy and advance banking services nationwide, was suggested by the Hilton-Young Commission as a way to end the opposition of roles and division of responsibility for control of currency and credit as well as the divergent policies in this context.

The Reserve Bank's continued independence from political influence and successful operation in ensuring credit and financial stability have been additional goals. The primary goal of the Reserve Bank of India is to liberate purely central banking activities in the Indian money market, i.e., to serve as the government's note-issuing authority, to conduct banking for the government, to support the expansion of the government's economic policy, and to support the expansion of the economy while remaining consistent with the requirement to maintain price stability. The planned process of the Indian economy's development has been one of the reserve bank of India's main goals. With the introduction of the five-year plans in the nation, the Reserve Bank of India has advanced in performing a variety of development and promotional tasks that are typically outside the purview of a traditional Central Bank. These tasks are in addition to the traditional central banking functions.

1.6 RBI'S FUNCTIONS

The Reserve Bank of India carries out all the standard duties of an effective Central Bank. Additionally, it performs a number of evolving tasks that are agreed upon in the process of the nation's economic forecasts.

1) Acting as a currency authority by issuing banknotes.
2) Control and management of exchanges.
3) Acting as the government's bankers.
4) Gathering data and publishing it.
5) Control and regulation of the currency.
6) Serving as a bank supervisor for bankers
7) Various functions and activities related to development and advertising.
8) Finance for Manufacturing
9) Farm financing

1.7 FINANCIAL SYSTEM FEATURES

a) It is essential to a nation's economic development.
c) It aids in risk division.
d) It enables the expansion of financial markets.
d) It aid in major building.
e) It promotes investment and saving.
g) It connects investors and savers.
g) It promotes lengthening and financial dependence.

1.8 THE CRITICAL ROLE OF THE INDIAN FINANCIAL SYSTEM

I. Through rural expansion banks and cooperative humanities, it aids in promoting the development of the poorer segments of society.
II. It provides a variety of financial instruments and effectively mobilises savings to increase the pace and capacity of saving.
III. By offering active financial as well as optional services, it enables corporate clients to make better financial decisions.
IV. By giving corporate clients money to expand their own businesses, it helps to raise the nation's overall output.

Through regulatory bodies like the RBI, SEBI, etc., it assures smooth financial transactions and safeguards investors' interests.
VI. It promotes economic growth, improves people's standard of living, and broadens their financial horizons.
Financial dependence, or VII, is the rise in financial assets relative to GDP.
VIII. Financial broadening: This term describes the expansion of the financial system's participants.

1.9 THE LATEST DEVELOPMENT OF THE INDIAN FINANCIAL SYSTEM

DOI:10.9756/INTJECSE/V14I5.796 ISSN: 1308-5581 Vol 14, Issue 05 2022

In the banking and insurance industries, self-governing regulators oversee India's financial system. opposition, financial markets, and many service industries. Government agencies serve as regulators in a number of industries. India's financial sector is overseen by the Ministry of Finance. Every year, on February 28, the Finance Ministry gives the annual economic report to the legislature. In addition to budgetary and other allocations for all of the Ministries of the Government of India, the annual budget proposes changes to taxes, government policy in nearly every sector, and other items.

The Indian financial system was notable for:
• No organised capital market exists.
• Reliance on internal resources by many industries and other users.
• The seldom issuance of public money for development and modernization.
• The market has few financial institutions and competitors.
• Very tight requirements for providing loans to businesses.

The top 5 financial system changes in India in 2016 were as follows:
Here are our selections:
1) The legal tender status of the Rs. 500 and Rs. 1000 notes is being revoked.
2) The monetary policy committee's formation.
3) The goods and services tax bill's passage
4) Adoption of the bankruptcy and insolvency code.
5) The move to digitise government payments.

(1) The legal tender status of the Rs. 500 and Rs. 1000 notes has been revoked:
In order to loosen the grip of corruption and black money, we have determined that the 500 and 1,000 rupee bills currently in circulation would no longer be considered legal tender as of midnight on November 8th, 2016," the statement reads.

The withdrawal of what amounted to 86 percent of the Indian currency in circulation at the time was declared by the Indian Prime Minister with these words in a single motion. The notification initially included a list of exclusions for exchange and withdrawal, but they have subsequently undergone regular additions and adjustments. Additionally, there have been reports of significant interruptions to people's daily lives and the operations of businesses as a result of the prohibition.

(2) The monetary policy committee's formation:
The decision to set the economy's policy interest rates was made for the first time on October 4, 2016, when a committee took over from the RBI governor. The monetary policy committee, which was established with six members and three representatives from the central government and three from the Reserve Bank of India, was tasked with fixing the benchmark policy rate (repo rate) necessary to keep inflation within the designated target level. The RBI Governor was given the casting vote in the event of a tie.

(3) The measure enacting the goods and services tax is passed.
Both houses of parliament approved the goods and services, which aims to eliminate a number of federal and provincial taxes and establish a single tax system for the entire nation. Tax Bill was introduced in August 2016 and received the president's assent in September. The government has set a timetable of April 1, 2017, for the implementation of a consumption-based tax structure that would incorporate the majority of central and State taxes, including the value added tax (VAT), excise duty, central sales tax, additional charge of customs, and GST. A shared national market would be created as a result of the GST implementation, allowing companies to take advantage of a more straightforward tax structure.

(4) The adoption of the bankruptcy and insolvency law
The insolvency and bankruptcy code, which established a national bankruptcy law to address insolvencies, was approved by both Houses of parliament in May 2016. The new law is supposed to bring about an efficient bankruptcy resolution system that makes doing business in India easier by eliminating at least 12 distinct restrictions, some of which are hundreds of years old. The operationalization of the 10-member Liquidation and Bankruptcy Board was made possible by the Central Government's notification of the final rule regarding the insolvency resolution process under the Liquidation and Bankruptcy Code 2016 in December (IBBI).

(5) A push for digital government payments

DOI:10.9756/INTJECSE/V14I5.796 ISSN: 1308-5581 Vol 14, Issue 05 2022

A broad range of Ministries and controllers implemented numerous measures in 2016 to encourage the use of digital payments more widely. For instance, the Ministry of Electronics and Information Technology established a time-bound mechanism for the integration of digital payments and receipts connecting all government divisions in November 2016 under the heading of Procedure for Acceptance of Electronic Payment and Receipts. By the ambitious goal of December 31, 2016, 90% of the government division's outgoing and incoming transactions must be completed online.

1.10 MEDIATORS IN INDIA'S FINANCIAL SYSTEM

• Insurance businesses
• Successful banks (commercial banks)
• Bank for Improvement
• Co-Operative
• Community rural banks
Financial institutions that are not banks
• Mutual fund businesses

1.11 CONCLUSION

Therefore, it can be claimed that a financial institution gives lenders and borrowers a forum to communicate with one another for their mutual benefits. The country's economic growth and capital accumulation are the ultimate benefits of this interplay. Over the past ten years, the Indian financial system has undergone structural change. The combined effects of competition, regulatory measures, and the political climate have given the financial industry strength, efficiency, and stability. While it has been acknowledged that the three main forces influencing the banking sector in the coming years will be competition, consolidation, and convergence.

1.12 REFERENCES

2. http://www.bbamantra.com/Indian-financial-system-introduction.
3. http://www.pondiuni.edu.in/storage/dde/downloads/finiii-ifs.pdf
4. http://en.wikipedia.org/wiki/Financialsystem.
5. www.google.com
6. Indian Financial system by M.Y.Khan 1980
7. http:www.Indianmba.com/faculty_column/FC1063.HTML
8. http://www.Indianembassy.org.cn/financialsysteminindia.aspx
9. http://www.ifmr.co.in/blog/2016/12/29/top-5-game-changers-for-the-india-financial-in-216.