Department of Commerce (CA)

CLASS: I M.Com. (CA)

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Marketing of Financial Services (18 MKC 25 E

UNIT I:

Financial Markets in India - Financial Sector reforms - Money market - Capital market - Types of bonds

Reference Book

Financial Services

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UNIT 1

Meaning of Financial Market

It is a market in which people trade financial securities and derivatives at low transaction costs.

It includes Stock market, bond market, forex market and derivative market. It provides finance for companies and money for Government to help it to pay for new roads, schools and hospitals.

Functions of Indian Financial markets.

1. To facilitate mobilisation of savings
2. To determine the price of securities
3. To provide liquidity to the tradable assets
4. To save time, money and efforts of the parties
5. To share risks
6. To help in capital formation

Indian Financial System.

It consists of the following components of Indian Financial System

1. Financial Institutions
2. Financial Markets
3. Financial Instruments
4. Financial Services

1. Indian Financial Institutions consist of

1. Central Banks
2. Commercial Banks
3. Co-operative Banks
4. Development Banks
5. Merchant Banks
6. Finance Companies
7. Hire Purchase finance companies
8. Leasing Companies
9. Factoring Companies
10. Underwriters
11. Mutual Funds
12. Asset Liability Management Companies

2. Indian Financial Market consists of

Financial Markets

- Capital Market
- Money Market
- Foreign exchange Market
- Government securities Market

3. Financial Instruments consists of

Financial Instruments

- Negotiable Instruments
  - Cheque
  - Bill of exchange
  - Promissory Notes
- Government paper
- Bill of Lading
- Letter of Credit
- Travellers Cheque

4 Financial Services offered in India

1. Banking
2. Professional advisory
3. wealth management
4. Mutual funds
5. Insurance
6. Stock market
7. Treasury Instruments
8. Tax/ Audit Consulting

Financial Sector reforms.

It refer to the reforms in the banking system and capital market.

The weakness in the banking System was extensively analysed by the Committee (1991) on financial setor reforms, headed by Narasimham.

Various reforms in Indian Financial Sector

1. Reduction in Statutory liquidity ratio
2. Reduction in Cash reserve ratio
3. End of administered Interest rate regime
4. High Capital adequacy ratio
5. Competitive financial System
6. Non performing assets and Income recognition norms.
7. Elimination of direct Credit Control.
8. Promoting micro finance
9. Setting up Rural Infrastructure Development Fund

Money Market

Meaning

It is a collective name given to all financial institutions that are dealing in short-term funds. It doesnot refer to a particular place. Dealers are spread throughout the country.

Instrument dealt in money market

Cheques, bills, promissory notes, commercial papers, treasury bills short dated Government bonds.

1. Trade bills issued by Treasury bills by Govt
2. Trade bills issued by traders
3. Finance bills issued by businessmen for raising short-term funds
4. Treasury bills issued at discount by Government
5. Foreign bills arising out of foreign transactions

Constituents of money market < Borrower / Lender

Borrower: 1. Government
2. Agriculturists
3. Traders
4. Businessmen
5. Commercial Banks
6. NBFCs (Non-banking financial companies

Lender

1. Central Bank
2. Commercial Banks
3. Co-operative Banks
4. Foreign banks
5. Commercial house
6. Non-banking financial co.
7. Money lenders
8. Indigenous bankers

Importance of money market

1. To provide short-term funds
2. To assist commercial banks to provide short-term funds
3. To promote savings in the country
4. To have effective control over commercial bank
5. To stimulate activity in the capital market

Characteristics of money market:

1. Presence of a strong central banks
2. Well organised banking industry
3. Availability of credit instrument and resources
4. Presence of sub markets
5. Free movement of funds
6. More transactions
7. Better industrial relations
8. Integrated monetary and fiscal policies
9. Promotion of foreign trade

Causes for underdevelopment of Indian money market

1. Dichotomy in Structure (organised / unorganised)
2. Inadequate banking system
3. Disparity in interest rates
4. Lack of co-ordination
5. Limited nature of bill market
6. Lack of facility for inter-movement of fund
7. Inadequate credit instruments
8. Lack of adequate foreign funds
9. Lack of sub markets

CAPITAL MARKET

Long-term funds or fixed Capitals are raised by companies by the issue of Shares, debentures and bonds in the capital market.

Importance of Capital market.

1. To provide long-term funds to business
2. To provide opportunity to public to invest
3. To attract funds from foreign country
4. To inform public the trend of Securities
5. To achieve economic growth
6. To help industries to go for diversification

7. To study economic conditions
8. To inform public about change in price
9. To help financial institutions to earn return

Capital Market
- Gilt edged markets
- Industrial security market.
  - Primary Market
  - Secondary Market.

Gilt edged Market:

It refers to Government Securities. These documents will have yellow borders on the Sides. These are guaranteed by Government.

Industrial Security Market

It consists of shares and debentures of old and new companies. It is divided into

a) Primary market and

b) Secondary market

a) Primary market. Pg 1.5

It refers to the sale of shares, directly by the company at the time of promotion. The Share price will be mostly at par. It is known as new issue market

Secondary Market

Sale and purchase of securities will take place through the recognised stock exchanges. Only authorised persons are allowed to deal with listed securities

Primary market deals with following securities.

① Equity Shares ② Preference Shares ③ Debentures

Advantages of primary market.

① Provides opportunity for new investors to start business

② Existing companies will be in a position to expand their activities

③ Promotion of partnership firms into Public limited companies

Functions of Primary market

Origination | Underwriting | Distribution

I Origination - It consists of

ⓐ Investigation

It involves a study of technical, economic, financial and legal aspects of the issuing company

(b) Analysis: Quality of capital is analysed

(c) Processing of new proposals

Study of timing and magnitude of issue, method of floatation and technique of selling

II Underwriting

Underwriters enter into an agreement with the company for the sale of certain minimum quantity of shares and debentures to the public. For that they are eligible for underwriting commission

Types of Underwriters

- Institutional underwriters
  - IDBI
  - ICICI
  - UTI
  - SBI capital market
- Non - Institutional underwriters
  - (NBFC) Non-Banking Financial companies

III Distribution

Distribution

- Prospectus
- Offer for sale
- Private placement
- Rights Issue
- Bonus Shares
- Book Building

SECONDARY MARKET

Shares are purchased and sold according to the returns or expectations in the future market.

Growth of stock exchanges in India

- Pre Independence period
- Post independence period

Pre independence period.

During this there was no proper stock exchanges in India. The available 3 were not popular due to the following reasons

1. Britishers showed more interest to grow companies in London
2. The managing agency was not reliable
3. The no. of companies were limited
4. There was no guidance to promote new companies
5. Public were interested in investing in gold than in securities

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Post independence period.

Since 1951, there was been a steady growth of Indian capital market.

Indian Companies Act 1956 and Securities and Regulation Act 1956 were passed to strengthen stock exchanges.

19 stock exchanges were recognised by 1956 Acts. Creation of more PSUs and nationalisation of LIC were responsible for the supply of huge amount of funds in capital market.

Steps taken by Government for promoting capital market in India Pg 13, 13

1. Legal measures
2. Promotional measures
3. Regulatory measures and
4. Liberalisation measures

Money Market Vs Capital Market

S. No	Money Market	Capital Market
1.	It deals in short-term funds	It deals in long-term funds.
2.	Leader is Central Bank	Controlled by Government
3.	No fixed place	Has a fixed place called Stock exchange
4.	Remuneration is interest rate	Remuneration is return on Capital
5.	Cheques, bills, promissory notes are the instruments dealt here	Shares, debentures, Government bond Gilt edged Securities are dealt here
6.	It provides working capital	It provides fixed Capital

Types of Bonds.

Bonds :

It is a debt instrument in which the issuer company borrows money from the lender and in return pays interest on the principal Amount. The interest is called as coupons

Types of bonds in Indian capital market.

1. Government Securities
2. Corporate bonds
3. Inflation linked bonds
4. Convertible bonds
5. Municipal bonds
6. Fixed rate bonds
7. Floating rate bonds
8. Zero interest rate bonds
9. Perpetual bonds
10. Subordinated bonds
11. Bearer bonds
12. War bonds
13. Serial bonds
14. Climate bonds.
15. Tax saving bonds

Merits of bonds:

(1) Liquidity (2) Greater gains
(3) safety

Demerits of bonds

① Risk ② Rate fluctuation

③ Long term investment - less liquidity