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10. Indian Financial Market Overview and Its Growth

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Abstract:

The study of Indian financial market tells that the Indian financial Institutions like banks, mutual funds, capital market, insurance companies and other type of financial institutions plays a significant role in the Indian economy. It shows mobilizing and allocating funds to the public and the country's economy is based on various investment schemes and how the intermediaries play a role between players it means seekers and suppliers of funds in the market. After the digitalization happens in the country financial sector is one of the booming sector because all type of financial institution made their work easy and investors also get an advantage from this services.

10.1 Indian Financial Markets:

10.1.1 Introductions:

Indian Financial institutions is set of Institutions such as banks, Insurance Companies, and stock exchanges. The main role of the system is transferring the funds from seekers to suppliers. In modern days, country's economy is based on good financial system.

In the financial system consist some of the components like specialized financial institutions, organized and unorganized financial markets, financial instruments and financial services. The main objective of the financial system is to assist the finance within the economy.

A. Financial Institutions: Financial institutions acts as an intermediaries helps to smooth functioning of the financial system by making investors and borrowers meet. Institutions gather savings of the surplus amount from the depositors and allocate them in to productive activities for better rate of return. These institutions supplying services to entities like individual, business, government, who are seeking advice on various issue ranging from reshuffling to diversification plans.

10.1.2 Financial Market:

Financial markets refer to the institutional preparations for dealings on financial assets and credit instruments of various types such as currency, cheques, bank deposits, bills, bonds etc.

Financial Market Categorized in To Two Types:

A. Organized Market:

a. Capital Market:

1. Industrial Securities Market:

- Primary Market
- Secondary Market

2. Government Securities Market:

3. Long Term Loan Market:

- Term Loan Market
- Market for Mortgages
- Market for Financial Guarantees

4. Money Market:

- Call Money Market
- Commercial Bill Market
- Treasury Bill Market
- Short-term Loan Market

B. Unorganized Market:

- Moneylenders
- Indigenous Bankers
- Pawn brokers etc.

Capital Market: Capital Market is a organized market. It provides a long term securities. It consists of primary market and secondary market and it consists of three groups like, Industrial / Corporate Securities Market, Government Securities Market and Long-Term Loans Market.

Money Market: Money Market is a organized market. It provides short term instruments and it is used by participants as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year. Money market plays a major role in the economy. Because It plays very significant functions.

As we know money market basically a market for short term monetary arrangements. Thus it has to offer facility to adjust liquidity to the banks, business corporations, non-banking financial institutions (NBFs) and other financial institutions along with their investors.

10.1.3 Emerging Financial Market:

After the nationalization of commercial banks, there has been a stable growth in both agriculture and Industrial finance. Some of the other innovative financial institutions have been introduced in the country such as NABARD, EXIM Bank, SIDBI, etc., these institutions are responsible for providing funds to the capital market also.

Now, the world of finance growing speedily and money matters are their in everywhere with traditional banks and lending institutions. Specially this transformation coupled with pandemic-induced digital penetration, India is evolving as a global fintech superpower. The key drivers of this changing digital behaviour include the launch of the India API stack, an increase in the volume of funds for technological innovation and more.

In modern days, the Account Aggregators is one of the frameworks for India’s latest digital revolution. In this system banks acts as a data provider and followed by lenders as data seekers.

So Account Aggregators act as an intermediary in its framework but it does not store any data its only transfer the data between different parties involved in the framework.

In Financial technology or Fin-tech is Buzzword. The financial world is entering in to revolutionary period and it is necessary for our daily lives because, now a days we are paying all our bills through online. Here are the three key areas emerging in the Finance sector.

Going Digital:

Digital is not an old concept as we know earlier some of the major banks were providing digital activities but now different types of apps like paytm, Mobikwik, Phonepay, Google pay, payzapp, YONO from SBI etc are proving digital payment activities to their customers. Now, customers are using banking application in their fingertips with cheap and less cost. This activity made banks work easy and convenient.

Data is Everything:

Data is everything is not E-commerce activity. This is one of the techniques of selecting the advantage of data analytics technology in the financial sector too. Research analyses now all financial institutions are using data analytics techniques to improve their customer experience and gain a competitive edge over their peers. Institutions are focusing on to improve their efficiency level and performance.

Cyber Security is Important:

Cybersecurity is very important when finance industry using digital activities and it is most important topic too to discuss. There is a keen level of expectancy about cybersecurity and developing trends shows innovations are in line with improving the security too.

Performance of Indian Financial Sector:

Financial service industry defined by sudden acceleration in digitalization and digital payments due to covid-19 impact.

The current pandemic has forced all sub-sectors within the banking and financial services industry to innovate.

The true potentials with digital transformation. Nowadays, every Indian having smartphone and they can digitally apply for a loan, complete e-KYC, open a bank account, order food, groceries and many more.

Currently Indian financial sector covers several important sections like, commercial banks, new-age fintech startups, non-banking financial companies (NBFCs), co-operatives, pension funds, mutual funds, small and medium financial entities and recently established payment banks.

These various financial services provide solutions to a wide range of customers based on their requirements and convenience. This type of the customers may be individuals, public organizations or private enterprises.

10.2 An overview of the financial service sections are:

A. Commercial Banks:

Financial industry in India is called as service sector it contains commercial banks and various other types of financial institutions and in commercial bank accounting for more than 64% of the total assets held by the financial system.

In modern era banking system in India has changed from a physical to digital banking world. Now banks and other institutions are extending their services towards the rural side of the country and the Indian government has taken the measure to help SMEs and MSMEs to solve the pandemic crisis. So, banks has to focus on previously underserved demographics and regions.

B. Fintech Startups:

Report painted that India’s fintech market is the fastest growing market in the world. A study conducted by Boston Consulting Group (BCG) in coordinating with the Federation of Indian Chambers of Commerce and Industry (FICCI) confirmed that India’s fintech industry is estimated to reach $150-160 billion by 2025. As per the study, 33 fintech investment deals worth $647.5 million were closed in the Indian market in the quarter ending June 2020.

C. Insurance Companies:

As per 2020 the report, India’s global share in the insurance market is roughly 1.7% and it is expected to reach nearly 2.3% by 2030. The beginning of the global pandemic disrupted the existing dynamics of the insurance industry in India. Digitalization played a fundamental role in strengthening the growth of the insurance system in India.

D. Non-Banking Financial Companies:

As per the study nearly 9,507 Non-Banking Financial Corporations are introduced by Reserve Bank of India (RBI) since January 31, 2021. NBFCs are playing a primary role in promoting financial strength and their key objective is to offer financial assistance to one and all in the country. These institutions have grabbed the consideration of the Indian population, specially weaker sections of the people in the country it finds conventional banking institutions comparatively out-of-the-way and uneconomical.

NBFCs are also finds crucial for small and medium enterprises (SMEs), which are the backbone of the Indian economy and credit growth is comparatively more significant than traditional banks and lending institutions.

E. Cooperative Society:

Cooperative credit system in India has wide network in the world. The first Cooperatives Society Act was established in 1904, the society has extended across the country with an expected 230 million members now.

These societies are contributing much-needed strategic inputs and support to the growth of the agricultural sector. In India agriculture sector creates employment opportunity to the unemployed persons. Nearly 72% of the total population who live in rural areas depend on agriculture for their source of revenue.

F. Pension Funds:

Pension funds are to ensure that a person saves a part of their income in a organized manner so that it would help for a person on a regular post-retirement period.

In India there are several pension plan schemes like National Pension Scheme, deferred annuity, immediate annuity, guaranteed period annuity, life annuity, and annuity certain.

This type of funds allows individuals to make long-term savings without going through a terrific amount of effort.

G. Mutual Funds:

The Securities and Exchange Board of India’s (SEBI) in a report, declared that the mutual fund industry in India is rising as one of the furthermost growing and most-competitive segments in the today’s world of financial sector in India.

Other Few Initiatives Taken by the Government of India/RBI

- Pradhan Mantri Jan Dhan Yojana.
- Cashless payment through mobile applications
- Introduction of electronic fund transfer mechanisms like RTGS and NEFT
- Digital India campaign.

10.3 Performance of Indian Capital Market

Indian Capital Market had an exceptional year of 2021 due to Pandemic. The COVID-19 pandemic initially had an unfavorable impact on Indian capital markets, as indices across size and sectors cut down during the period from February 2020 to May 2020.

On the other hand, from June 2020 onwards all size and sector indices had a bull run through the end of the year. The S&P BSE SENSEX TR improved from 60,211.40 on Dec. 31, 2019, to 70,543.23 on Dec. 31, 2020—a one-year total return of 16.31%.

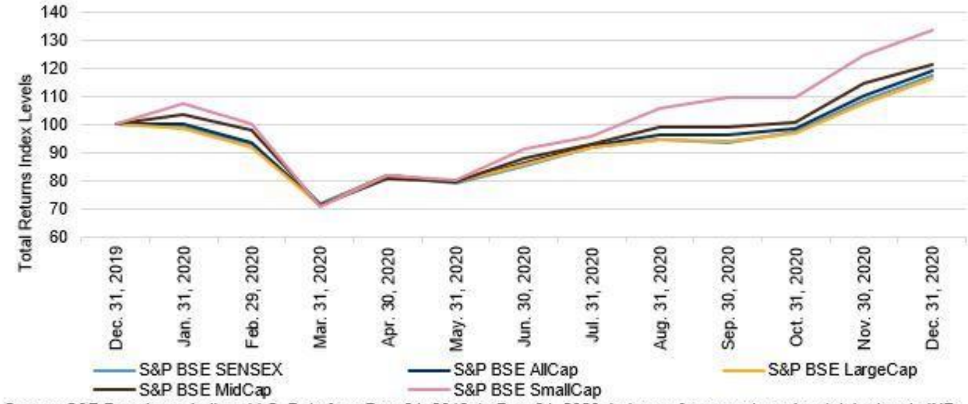
Exhibit 1 and 2 shows returns for India's leading size indices in 2020.

Exhibit 1: One-Year Absolute Returns of Size Indices

INDEX NAME	INDEX VALUE ON DEC. 31, 2019	INDEX VALUE ON DEC. 31, 2020	ABSOLUTE RETURNS (%)
S&P BSE Small Cap	16,256.89	21,707.20	33.53
S&P BSE Mid Cap	17,898.57	21,712.66	21.31
S&P BSE All Cap	5,363.45	6,372.55	18.81
S&P BSE SENSEX	60,211.40	70,543.23	17.16
S&P BSE Large Cap	5,672.61	6,597.79	16.31

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2019, to Dec. 31, 2020. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Exhibit 2: Index Total Returns



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2019, to Dec. 31, 2020. Index performance based on total return in INR. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

From Exhibits 1 and 2, we can observe that all five size indices performed well, and returns were promising for large-, mid-, and small-cap segments.

The returns of the small-cap and mid-cap segments were improved than those of the large-cap segment. The S&P BSE SmallCap and S&P BSE MidCap posted one-year absolute returns of 33.53% and 21.31%, correspondingly, while the S&P BSE LargeCap and S&P BSE SENSEX returned 16.31% and 17.16%, correspondingly.

10.4 Conclusion:

The study concluded about the financial institutions and its growth. The financial institutions play an important role in development of the country.

In the financial market, the funds are traded between the players and the institutions and it acts as an intermediary to transfer the funds between the investors and depositors. Now a days the institutions also digitalized and majority of the investors get an advantage of this, these types of services made transaction easy to individual investors.

The government should also take an initiative to develop the financial services. Industries to grow in to the global level by introducing different types of activities and in future it may contribute to the Indian economy.

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