



CRITICAL ANALYSIS OF FINANCIAL INSTITUTIONS ROLES IN INDIA WITH SPECIAL REFERENCE TO INDIAN FINANCIAL SYSTEM

Author: Dr Manjunath Koliwad, MBA PhD (MCom)

Associate Professor – PG Dept of Management

AIMS IBS Business School Bangalore (affiliated to Bangalore University), India

Abstract: Financial institutions' principal function is to supply liquidity to the economy, allowing for greater economic activity than would otherwise be possible. Banks accomplish this in three ways, according to the Brookings Institute: by providing credit, controlling markets, and pooling risk among consumers.

International financial institutions (IFIs) play an important role in the social and economic development of countries with emerging or transitional economies in many regions of the world. This function includes providing advice on development projects, as well as funding and aiding with their implementation

An Entrepreneurship Service Call has been launched by Indian Commercial Banks to provide consulting services to aspiring entrepreneurs. More financial organizations, aside from the government, should come out with cheap interest rates, flexible loan plans, and stronger support for the development of entrepreneurship in India.

Index Terms - Financial Institution, Financial System, India, Role

I. INTRODUCTION

Financial institutions' principal function is to supply liquidity to the economy, allowing for greater economic activity than would otherwise be possible. Banks accomplish this in three ways, according to the Brookings Institute: by providing credit, controlling markets, and pooling risk among consumers.

International financial institutions (IFIs) play an important role in the social and economic development of countries with emerging or transitional economies in many regions of the world. This function includes providing advice on development projects, as well as funding and aiding with their implementation

An Entrepreneurship Service Call has been launched by Indian Commercial Banks to provide consulting services to aspiring entrepreneurs. More financial organizations, aside from the government, should come out with cheap interest rates, flexible loan plans, and stronger support for the development of entrepreneurship in India.

Financial intermediation is a productive activity in which an institutional unit incurs liabilities on its own account in order to acquire financial assets through market transactions; financial intermediaries' function is to channel funds from lenders to borrowers through intermediation.

Role of Financial Institution:

Every economy relies heavily on financial institutions. For banking and non-banking financial institutions, they are governed by a central government entity. These institutions aid in the transition from net savers to net borrowers by bridging the gap between idle savings and investment and their borrowers.

1. **Monetary Supply Regulation:** The central bank, for example, assists in regulating the money supply in the economy. They do it to keep the economy stable and inflation under control. To regulate liquidity in the economy, the central bank uses a variety of tools such as changing the repo rate; the cash reserve ratio, and open market operations, which entails buying and selling government securities.
2. **Services in Banking:** Commercial banks, for example, assist their consumers by providing savings and deposit services. Customers can take advantage of credit facilities such as overdrafts to meet their short-term cash needs. Customers of commercial banks can obtain a variety of loans, including personal loans, student loans, mortgages, and home loans.
3. **Services for Insurance:** Financial institutions, such as insurance companies, assist in mobilizing savings and directing them toward productive endeavors. In exchange, they offer investors protection against their lives or specific assets in the event of a disaster. In other words, they take on the risk of their customer's loss.
4. **Formation of Capital:** Financial institutions aid capital formation, or the growth of capital stock such as plant, machinery, tools and equipment, buildings, transportation and communication systems, and so on. They accomplish this by channeling idle savings from individuals in the economy to investors via a variety of monetary services.
5. **Advice on Investing:** Individuals and corporations have a variety of investment alternatives at their disposal. However, in today's rapidly changing climate, selecting the best alternative is quite challenging. Almost every financial organization (banking or non-banking) has an investment advising desk that assists consumers, investors, and businesses in selecting the best investment option in the market based on their risk appetite and other considerations.
6. **Services of a Broker:** These organizations provide their investors a variety of investment possibilities, ranging from stocks and bonds (a traditional investment alternative) to hedge funds and private equity investments (lesser-known alternative).
7. **Services for Pension Funds:** Financial institutions assist individuals in planning their retirement through a variety of investment options. A pension fund is one of these investing choices, in which an individual contributes to a pool of investments set up by employers, banks, or other institutions in exchange for a lump payment or monthly income when they retire.
8. **Services for Trust Funds:** Clients can use trust funds provided by some financial institutions. They manage the client's assets, invest them in the best available options on the market, and ensure that they are safe.
9. **Small and Medium-Sized Enterprises (SME) Financing:** Financial institutions assist small and medium-sized businesses in their early stages of operation. They supply both long-term and short-term capital to these businesses. Long-term funds aid in capital formation, whereas short-term funds meet their day-to-day working capital requirements.
10. **Assists Government in Promoting Economic Growth:** The government regulates financial firms on a national basis. They serve as government agents and contribute to the overall growth of the country's economy. For example, to assist an ailing sector, financial institutions extend chosen loan lines with lower interest rates in accordance with government standards, allowing the sector to overcome its problems.

Conclusion:

The economy's backbone is made up of financial institutions. The economy will collapse without the assistance of these institutions, and it will be unable to recover. The government oversees these institutions through the central bank, insurance regulators, pension fund regulators, and so on, due to their critical role in the creation and growth of the economy. Their role has evolved throughout time, from accepting and lending monies to providing a broader range of services.

References:

1. Gupta, N., & V, D. (2020, June 14). Role Of Financial Institutions - Top 10 Roles In Economic Development. Wall Street Mojo.
2. Mcdonald, D. (2017, July 25). What Is The Role Of The Financial Institution In An Economy? | By David Mcdonald | The Global Millennial | Medium. Medium.
3. Overview Of International Financial Institutions (IFIs). (2020, February 24). GAC.
4. Bioinfo Publications - Peer Reviewed Academic Journals. (n.d.). Bioinfo Publications - Peer Reviewed Academic Journals.
5. Directorate, O. S. (n.d.). OECD Glossary Of Statistical Terms - Financial Intermediation Definition. OECD Glossary of Statistical Terms - Financial intermediation Definition.

