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Types Of Financial Services In India

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Introduction

The Indian financial services industry has undergone a metamorphosis since 1990. Before its emergence, the commercial banks and other financial institutions dominated the field and they met the financial needs of the Indian industry. It was only after the economic liberalisation that the financial service sector gained some prominence. Now this sector has developed into an industry. In fact, one of the world's largest industries today is the financial services industry.

The term “financial services” is an umbrella concept for a range of financial services provided by the industry. Owing to its sheer massiveness in the number of services provided and the demand drivers, the financial services sector in India is witnessing an upward trajectory. With numerous job opportunities available, a simple financial analysis course can put you on the track to success in the field of finance as a financial analyst.

Meaning of financial Services

Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including credit unions, banks, credit-card companies, insurance companies, accountancy companies, consumer-finance companies, stock brokerages, investment funds, individual managers and some government-sponsored enterprises. Financial services companies are present in all economically developed geographic locations and tend to cluster in local, national, regional and international financial centers such as London, New York City, and Tokyo.

Financial services may be defined as the products and services offered by financial institutions for the facilitation of various financial transactions and other related activities.

Functions of financial services

1. Facilitating transactions (exchange of goods and services) in the economy.
2. Mobilizing savings (for which the outlets would otherwise be much more limited).
3. Allocating capital funds (notably to finance productive investment).
4. Monitoring managers (so that the funds allocated will be spent as envisaged).
5. Transforming risk (reducing it through aggregation and enabling it to be carried by those more willing to bear it).

Importance of Financial Services

The successful functioning of any financial system depends upon the range of financial services offered by financial service organisations. The importance of financial services may be understood from the following points:

1. Economic growth:

The financial service industry mobilises the savings of the people, and channels them into productive investments by providing various services to people in general and corporate enterprises in particular. In short, the economic growth of any country depends upon these savings and investments.

2. Promotion of savings:

The financial service industry mobilises the savings of the people by providing transformation services. It provides liability, asset and size transformation service by providing huge loan from small deposits collected from a large number of people. In this way financial service industry promotes savings.

3. Capital formation:

Financial service industry facilitates capital formation by rendering various capital market intermediary services. Capital formation is the very basis for economic growth.

4. Creation of employment opportunities:

The financial service industry creates and provides employment opportunities to millions of people all over the world.

5. Contribution to GNP:

Recently the contribution of financial services to GNP has been increasing year after year in almost countries.

6. Provision of liquidity:

The financial service industry promotes liquidity in the financial system by allocating and reallocating savings and investment into various avenues of economic activity. It facilitates easy conversion of financial assets into liquid cash.

Understanding the Indian Financial System

The Indian financial system is primarily divided into two segments: banks and non-banking financial institutions. These two segments also come with subcategories. Under banks are the commercial and cooperative ones. The commercial banks are divided into schedule and non-schedule banks. The schedule banks consist of public sector banks, private sector banks, foreign banks, regional rural banks, small financial banks, and payment banks. Whereas local area banks are classified as non-scheduled banks.

The non-banking financial institutions, or NBI, consist of All India Financial Institutions (AIFI), NBFCs, Primary Dealers, Credit Information Companies. All India Financial Institution consist of bodies such as NABARD, EXIM, NHB, SIDBI, and MUDRA.

Types of Financial Services in India

The Indian financial services industry consists of many segments and crucial sub-segments. Here are some of the major types of financial services in India:

Banking

The financial services sector in India is anchored by the banking sector. Numerous banks from the public, private, foreign, regional rural, and urban/rural cooperative sectors exist throughout the nation. Individual banking, business banking, and loans are some of the financial services provided under this segment. The Reserve Bank of India (RBI) oversees and maintains the liquidity, capitalization, and financial stability of the banking system.

Professional Advisory

In India, there is a strong presence of professional financial advising service providers who offer a variety of services to both people and businesses, including investment due diligence, M&A counselling, valuation, real estate consulting, risk consulting, and tax consulting. Numerous service providers, from small domestic consulting firms to huge multinational corporations, provide these services. This is one of the more common types of areas in financial services.

Wealth Management

According to the clients' financial objectives, risk tolerance, and time horizons, financial services offered within this segment include managing and investing customers' wealth across a variety of financial instruments, encompassing real estate, commodities, loans, stock, mutual funds, insurance, derivatives, and structured goods. Any finance enthusiast must also familiarise themselves with the advantages of financial risk management.

Mutual Funds

Providers of mutual funds offer expert investment services for funds made up of several asset classes, usually debt and equity-linked assets. Due to their typically lower risks, tax advantages, predictable returns, and qualities of diversification, these products are particularly popular in India. Due to its popularity as a low-risk wealth multiplier, the mutual fund market has seen double-digit growth in assets under management over the last five years.

Insurance

This type of financial service falls under personal finance. General insurance and Life insurance are the two main categories of financial services offered in this market area. Solutions for insurance give people and businesses protection from accidents and unanticipated events. Pay-outs for these products depend on a number of important qualitative and quantitative factors, including the product's type, time horizons, customer risk assessment, premiums, and others. The Insurance Regulatory and Development Authority of India (IRDAI) oversees the insurance industry.

Stock Market

The stock market segment offers a variety of equity-linked investment solutions for users of the National Stock Exchange and Bombay Stock Exchange in India. Customers' returns are based on capital appreciation, which is growth in the equity solution's value and/or dividends, as well as payments made by businesses to their investors.

Treasury/Debt Instruments

Investments in bonds issued by governments and commercial organisations are among the services provided in this category (debt). At the conclusion of the investment period, the bond issuer (borrower) gives the investor fixed payments (interest) and principal repayment. Listed bonds, non-convertible debentures, capital-gain bonds, GoI savings bonds, tax-free bonds, etc. are some examples of the different types of instruments in this area.

Tax/Audit Consulting

This market encompasses a broad range of financial services in the areas of tax and auditing. Based on the clientele they serve, businesses and individuals, this service domain can be divided into: individual tax (calculating tax obligations, submitting tax returns, receiving tax-savings advice, etc.); Business tax (Determining tax liabilities, structuring and analysing transfer prices, registering for GST, providing tax compliance advice, etc.). Services in the auditing sector include statutory audits, internal audits, service tax audits, tax audits, process and transaction audits, risk audits, stock audits, etc.

Capital Restructuring

These services, which are largely provided to businesses, include changing capital structures (debt and equity) in order to increase profitability or address emergencies like bankruptcies, volatile markets, liquidity shortages, or hostile takeovers. In this market, complex deals, lender negotiations, rapid M&A, and capital raising are typical examples of financial solutions. The types of financial solutions in this segment typically include structured transactions, lender negotiations, accelerated M&A and capital raising.

Portfolio Management

Through portfolio managers who assess and optimise investments for customers across a wide range of assets, this segment offers a highly specialised and tailored variety of solutions that help clients achieve their financial goals. These services are non-discretionary and broadly targeted at HNIs.

Top Financial Services companies

Below is the list of top 10 finance companies in India in 2024. These companies help in the growth of the banking sector especially between the time of 2006 and 2013. According to the report of the Reserve Bank of India, NBFC contributed 29.1% in February 2024.

1. Bajaj Finance Limited

Bajaj Finance Ltd. is a subsidiary body of Bajaj Finserv Ltd. It is the largest Non-Banking Financial Company which is registered with RBI. Mainly it provides money for lending and accepts deposits. Similarly, it accepts deposits from corporations also and provides different financial products. The company has been in the market for more than 35 years and has become a market leader in lending in the NBFC sector of India. And, the highest domestic credit rating is given, AAA/ Stable for long-term borrowings, A1+ for short-term borrowings and CRISIL AAA/ Stable & [ICRA]AAA(Stable) for the FD program.

2. Aditya Birla Finance Ltd

Aditya Birla Finance Ltd. is a part of Aditya Birla Capital Ltd. a well-diversified Non-Banking Finance Company in India. It is one of the five top largest private diversified NBFCs in India based on AUM. ABFL provides lending services, financing and wealth solutions to customers across the nation. Also, it caters to the different needs of various customers from retail, HNI, ultra HNI, micro-enterprises, SMEs, and mid and large corporates.

A unique online financing platform, ABFLDirect.com is created by the company to provide real and MSME customers quick, convenient and hassle-free services. For customers, the ABFL is a one-stop solution as it caters for the diversified needs of customers across different stages.

1. Has more than 30,500 employees
2. Have nationwide access to 1048 branches
3. Has more than 2000 agents, channel partners and several bank partners
4. Assets under management worth Rs. 3705 Billion
5. The customer base of more than 35 million

3. Muthoot Finance Ltd

The Muthoot Finance company was established on March 14, 1997, as a private limited company with the name “The Muthoot Finance Private Limited” under the companies act. But on May 16, 2007, it incorporated a fresh certificate for the name changes to “Muthoot Finance Private Limited” and got a fresh certificate for a change in status from the Registrar of Companies (RoC). In India, the Muthoot Finance company is the largest gold financing company that provides business and personal loans secured by gold jewellery or gold loans. Also, it is given to individuals who don't have time to take a personal loan. The company is a “Systemically Important Non-deposit taking NBFC”.

1. The company's gold loan portfolio as of March 31, 2010, was 2.8 million in India.
2. Has provided services to 1921 branches across 20 states and 2 union territories.
3. It was the earliest NBFC institution that was established in India.

4. Tata Capital Financial Services Ltd

Tata Capital Financial Services Ltd. is a part of Tata Capital Limited. This company is registered as a Systemically Important Non-Deposit Accepting Non-Banking Financial Company which offers funds and services. It caters for the different needs of retail, corporate and institutional customers of different businesses. Non-banking financial services include commercial finance, infrastructure finance, wealth management and distribution and marketing of Tata cards.

5. Mahindra & Mahindra Financial Services Limited

Mahindra & Mahindra Financial Services Limited is a rural non-banking financial institution. So, its headquarters are in Mumbai, and was founded in 1991, when its name was incorporated as Maxi Motors Financial Services Limited. In India, it is one of the top tractor financiers who provide various services including corporate and working capital and gold advances. Although, it is specialized in offering gold loans, vehicle loans, corporate loans, personal loans, home credit and working capital advances.

6. Power Finance Corporation Limited

In 1986, the Power Finance Corporation Limited was established and it is a Navratna Status company. It is also known to provide funding to various national power projects which help them in power production, transmission and distribution. Also, it provides non-banking financial services and supports organizations involved in power generation, transmission, and distribution. The company is listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).

7. L & T Finance Limited

Established in 1994, the L&T Finance Limited headquarter is based in Mumbai. As compared to other NBFCs, the company is a strong player in the field of NBFC. It provides financial services to trade, agriculture, commercial vehicle loan, individual, corporate and rural loans. In 2024, L&T is honoured for sustainable practices and ranked No. 1 in the Capital Goods Sector.

8. Shriram Transport Finance Company Limited

Shriram Transport Finance Company Limited was founded in 1979 to offer funding services for Light and Heavy Duty Trucks, Mini Trucks, Passenger Vehicles, and Construction Vehicles. Similarly, it focuses on providing funding to commercial and business vehicles. The company's non-banking financial services include stockbroking, general protection, mutual funds, and general insurance.

9. Chola mandalam Investment and Finance Company

As the financial services division of the Murugappa Group, Chola mandalam Investment and Finance Company began as an equipment lending business in 1978 before growing into a financial services provider. Its headquarters are in Chennai and has 1029 locations across India. The primary business is to provide distribution of financial products, business financing, and instant loans for homes and vehicles. Also, the firm funds rural and agricultural loans.

10. HDB Financial Services

HDB Financial Services is owned by HDFC Bank which is the largest Indian private sector bank. It provides secured and unsecured loans and is one of the fastest-growing financial organizations that work in the Lending Business and BPO Services areas. In addition, HDB financial services provide instant loans to professional and independent contractors. Its wide distribution network is distributed to more than 1000 branches and 22 Indian states and 3 Union Territories.

Merits & Demerits of Indian Financial Services

Merits	Demerits
Economic Development: Indian financial service promotes economic development by funding development projects from government and private bodies.	Time-consuming processes: Financial institutions have a strict application process that requires a tonne of paperwork. The process becomes costly and time-consuming as a result.
Development of Infrastructure: The creation of the Indian financial system strengthens an economy's banking infrastructure. In addition, it provides all the financial services required for the growth and promotion of other infrastructures.	Borrower's Restrictions: The borrowing company's authority is limited by the financial institutions' right to appoint a representative to the Board of Directors.
Employment Opportunities: A country's infrastructure and industry can be built and developed with the help of financial institutions. The available labour gets new job opportunities as a result.	System of Collateral Securities: Financial institutions must only provide loans in exchange for certain types of security under the government's tight regulations. As a result, deserving organisations can miss out on financial support because of a lack of security.

Conclusion

Like any other sector, the Indian financial system and types of financial services have their own set of merits and demerits. It depends on one's own analysis and study of the subject matter and the benefits availed by them. FinTech trends are revolutionising financial sector, and is not expected to slow down any time soon.