CMP105A **INDIAN FINANCIAL SYSTEM** Semester – I 4H – 4C

ruction Hours / week: L: 4 T: 0 P: 0 Marks: Internal: 40 External: 60 Total: 100

End Semester Exam: 3 Hours

COURSE OBJECTIVES:

To make the students

1. To understand the Indian financial markets its contribution to economy.
2. To know the role of regulatory bodies in regulating the financial system and its intermediaries.
3. To realize the concept and applications of money market, financial markets, financial institutions and its holistic contribution to financial system functioning.

COURSE OUTCOMES :

Learners should be able to

1. Understand the Indian financial markets its contribution to economy.
2. Know the role of regulatory bodies in regulating the financial system and its intermediaries.
3. Realize the concept and applications of money market, financial markets, financial institutions and its holistic contribution to financial system functioning.
4. Demonstrate capabilities of critical thinking, and communication skills related to the Indian financial system.

UNIT 1 : Introduction - Financial System and Regulatory Bodies

Meaning, Characteristics, Significance and Evolution of Financial System in India, Structure of Indian Financial System.

Regulatory and promotional institutions: Reserve Bank of India, Securities and Exchange Board of India, IRDA, - Objectives and functions of RBI, SEBI and IRDA

Unit II Primary Market

Public Issue, Right Issue and Private Placement. Steps in Public Issue, Steps and Role of various agencies in public issue-Merchant Bankers, Underwriters, Brokers, Bankers to the Issue, Registrar to the Issue. Promotional agencies. Opening and Closing of Issue, Allotment / Refund, Listing of securities, Concept of Book Building.

UNIT III Secondary market - Stock Exchange:

Definition, Overview of Stock Exchanges in India, Trading on NSE - Capital Market Segment and Wholesale Debt Market Segment, Trading system under Capital Market Segment, Order types, cash/margin trading, Rolling settlement, Role of Broker, Clearing House, Depository in trading, Introduction to E-Trading.

UNIT IV Money Market , Banking, NBFC and Insurance Role

Money Market - Meaning, Instruments, features of the instruments

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)
(Established under section 3 of UGC Act 1956)
Coimbatore-641021
DEPARTMENT OF COMMERCE

Name: **Dr. V. RAMADEVI (Assistant Professor)**
Department: **Management**
Subject Code: **19CMP501A** Semester: **I** Year: **2019-21Batch**
Subject: **INDIAN FINANCIAL SYSTEM - Lesson Plan**

UNIT – 1			
S. No	**Lecture Hours**	**Contents**	**References**
1	1	Meaning, Characteristics, Significance of Indian Financial System	T2 – Pg No: 1.3
2	2	Evolution of Financial system in India	T2 – Pg No: 2.1
3	2	Structure of Indian Financial System	T2 – Pg No: 1.5
4	1	Regulatory and promotional institutions – Reserve Bank of India	T4 – Pg No: 64
5	1	Securities and Exchange Board of India	T4 – Pg No: 199
6	1	IRDA	T2 – Pg No: 16.15
7	1	Objectives and Functions of RBI, SEBI and IRDA	T4 – Pg No: 65 T4 – Pg No: 200 T2 – Pg No: 16.16
8	1	Recapitulation & Discussion on important questions	-
Total no. of Hours planned for Unit 1			**10**
UNIT – 2			
1	1	Public Issue, Right Issue and Private Placement	T2 – Pg No: 3.5
2	1	Steps in public issue	T2 – Pg No: 4.1
3	1	Steps and roles of various agencies in public issue – Merchant Bankers	T2 – Pg No: 6.2
4	1	Underwriters, brokers, Bankers to the issue	T2 – Pg No: 6.29
5	1	Registrar to the issue	T2 – Pg No: 6.34
6	1	Promotional agencies	T2 – Pg No: 6.36
7	1	Opening and closing of issue, Allotment/Refund	T2 – Pg No: 3.8
8	1	Listing of securities, Concept of book building	T2 – Pg No: 3.9
9	1	Recapitulation & Discussion on important questions	-
Total no. of Hours planned for Unit 2			**9**
UNIT – 3			
1	1	Definition – overview of stock exchanges in India	T2 – Pg No: 3.5
2	1	Trading on NSE – Capital Market segment and wholesale debt market segment	W4

3	1	Trading system under capital market segment	W4
4	1	Order types, cash/margin trading	W4
5	1	Rolling settlement	W4
6	1	Role of broker, clearing house	W4
7	1	Depository in trading	W4
8	1	Introduction to E-trading	W5
9	1	Recapitulation & Discussion on important questions	-
Total number of hours planned for Unit 3			**9**
UNIT – 4			
1	1	Money market – Meaning, instruments, features of the instruments	T2 – Pg No: 9.1
2	1	Banking – Functions of commercial banks	W3
3	1	Concept of E- banking	T2 – Pg No: 7.32
4	1	NPA, securitization and	T2 – Pg No: 11.1
5	1	universal banking	T2 – Pg No: 11.12
6	1	NBFC – meaning, major functions of NBFC	T2 – Pg No: 14.1
7	1	Insurance: Introduction to LIC	T2 – Pg No: 16.1
8	1	GIC and Private insurance companies	
9	1	Recapitulation & Discussion on important questions	-
Total no. of Hours planned for Unit 4			**9**
UNIT – 5			
1	1	Credit rating – concept, credit rating agencies in India	W1
2	1	Rating methodology and process	W2
3	1	Rating symbols for debentures and bonds	T4 – Pg No: 280
4	1	Mutual fund – concept, advantages of mutual fund,	T4 – Pg No: 179
5	1	History of MFs in India, Management of MF	T4 – Pg No: 177
6	1	Venture capital – concept, objectives	T4 – Pg No: 304
7	1	Development of venture capital in India	T4 – Pg No: 304
8	1	Recapitulation & Discussion on important questions	-
9	1	Revision of previous year question paper	-
10	1	Revision of previous year question paper	-
11	1	Revision of previous year question paper	-
Total no. of Hours planned for Unit 5			**11**

Textbooks:

1. Pathak Bharti (2018), Indian Financial System, 5th Edition, Pearson Education, New Delhi.
2. M.Y. Khan (2017), Indian Financial System, 10th edition, MC Graw Hill, New Delhi.
3. JaydebSarkhel (2017) Indian Financial System and Financial Market Operations, MC Graw Hill, New Delhi.

4. H. R. Machiraju (2018), Indian Financial System, 5th edition, Vikas Publishing, New Delhi.
5. Sujatra Bhattacharya (2017), Indian Financial System, Oxford University Press.

Websites:

1. https://businessjargons.com/credit-rating.html
2. http://www.psnacet.edu.in/courses/MBA/Financial%20services/17.pdf
3. http://www.economicsdiscussion.net/banks/commercial-banks-its-functions-and-types-explained/4149
4. https://www.nseindia.com/education/resources/download/ismr2009ch5.pdf
5. https://www.nseindia.com/content/assist/asst_internetinv.pdf

UNIT-I

Meaning, Characteristics, Significance and evolution of Financial system in India, Structure of Indian Financial system.
Regulatory and promotional institutions: Reserve Bank of India, Securities and Exchange Board of India, IRDA, Objectives and functions of RBI, SEBI and IRDA.

SIGNIFICANCE AND DEFINITION

The term financial system is a set of inter-related activities/services working together to achieve some predetermined purpose or goal. It includes different markets, the institutions, instruments, services and mechanisms which influence the generation of savings, investment capital formation and growth.
Van Horne defined the financial system as the purpose of financial markets to allocate savings efficiently in an economy to ultimate users either for investment in real assets or for consumption. Christy has opined that the objective of the financial system is to *"supply funds to various sectors and activities of the economy in ways that promote the fullest possible utilization of resources without the destabilizing consequence of price level changes or unnecessary interference with individual desires."*
According to Robinson, the primary function of the system is "to provide a link between savings and investment for the creation of new wealth and to permit portfolio adjustment in the composition of the existing wealth."

FUNCTION OF A FINANCIAL SYSTEM

The financial system of a country performs various valuable functions for the economic growth and development of the country. The main functions of a financial system are discussed as follows:
i) Function of collection and distribution of savings: A financial system performs a vital role in capital formation. It serves a link between saver and investor to mobilise savings and channelize them into productive activities for the transformation of savings into investments.
ii) Function of Liquidity: The important function of a financial system is to provide the money or near money assets for the production of goods and services. Near money assets are those assets which can be easily converted into cash.
iii) Payment and Settlement function: Payment and settlement system ensure the safely and timely movements of funds. Generally banks perform this type of functions in a financial system.
iv) Risk Management function: An efficient financial system reduces the risk involved in mobilising savings and allocating credit for the efficient transformation of savings into investment. It encourages the investors for optimum utilisation of funds.
v) Information Availability functions: An efficient financial system provides necessary information to the operators or players of the market such as individuals, investors, business houses etc.
vi) Cost Reduction function: The financial system helps in creation of a financial structure that lowers the cost of borrowings and cost of transactions.
viii) Other Functions: The financial system also performs some other functions. Such as: promote the process of capital formation, introducing innovative financial instruments, provide necessary services related to finance, offers portfolio adjustment facilities etc.

The Indian Financial system can be broadly classified into two systems: one is Formal (Organized) financial system and other is Informal (Unorganized) financial system.

A) Formal Financial System: This is also known as organized financial system because it comes under the preview of Ministry of Finance (MOF), Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI) and other regulatory bodies. Formal financial system consists of four sub-systems. These are: (i) Financial Institutions (ii) Financial Markets (iii) Financial Instruments and (iv) Financial Services.

I) FINANCIAL INSTITUTIONS

Finance is the prerequisite for the economic development of any country and financial institutions play a vital role in India for meeting such requirements. Financial institutions act as a facilitator of credits and deposits of the investors and various stakeholders. These are also known as intermediaries because the duties performed by the financial institutions are just like a mediator which helps in collection of deposits and distributes credit to the parties. There are two categories of Financial Institutions i.e., banking institution and non-banking financial institutions (Tiwari, 2012).

i) Banking Institutions: Banking institutions take deposits from the depositors and then distribute the interest on these deposits. They also provide credit facilities to the individuals and institutions (Tiwari, 2012). The banking industry in India is under the control of the Central Bank i.e. Reserve Bank of India. RBI organises, supervises, regulates and develops the monetary system & financial system of the country. The rapid economic growth and development leads the rapid expansion of commercial banks in India.

The commercial banks in India cover 36,452 villages out of the 6 lakh villages of the county. The Indian banking institutions can be classified into two categories: Organised and Unorganised sector. The organised banking sector consists of commercial banks, cooperative bank, regional rural banks (RRBs) and foreign banks etc. The unorganised sector includes the indigenous bankers, grocery shops, chit fund, landlords, money lenders etc. in India (Gupta, 2012).

ii) Non-Banking Financial Institutions: Non-banking financial institutions consist of development financial institutions which provide loan to the industries for development and growth. They are responsible for the collection of deposits and invest in some other forms to get returns and then distribute to the unit holders. NBFIs include LIC, IIBI, SIDBI, IFCI (All India Financial Institutions), SFCs, SIDCs etc.

II) FINANCIAL MARKETS

A Financial Market can be defined as the situation in which financial assets or financial instruments are created or transferred from one to another. Financial market performs some important functions for the efficient working of financial system. Financial markets can be broadly classified into two markets. One is negotiated loan market e.g. a market in which the lender and the borrower personally negotiate the terms of the loan agreement. The other one is open market where standardised securities are traded in large volume (Gupta, 2012). The followings are the classification of financial markets on the basis of different categories:

i) Classification on the basis of Nature of Claim:

a) Debt Market: A debt market is a market where debt instruments are traded. There are two methods to generate funds in a financial market. One is to issue equities and the other is to issue debt instrument. Nowadays, the debt instruments are more popular for fund raising. The debt instrument is a contractual agreement by the borrower to pay a fixed amount at regular basis till the maturity date. These are classified in three categories: i) short term, ii) medium term, iii) long term. If the maturity of the debt instrument is less than one year, it is a short term debt instrument. If its maturity is more than one year but less than ten years, then it is a medium term debt instrument. The debt instrument with a maturity more than ten years is said to be a long term debt instrument.

b) Equity Market: An equity market is a market where equities are bought and sold. The equity shares are also known as ordinary or common shares. The equity shareholders are the real owner of the company. They gets dividend for their investment. The rate of dividend varies with the profits of the company and the policies of the board of directors.

ii) Classification on the basis of Maturity of Claim:

a) Money Market: The money market can be defined as 'the place where the demand for and supply of short-term funds meet'. According to Crowther "the money market is the collective name given to the different firms and institutions that deal in the different grades of near money" (Gomez, 2013). Thus, money market is a reservoir of short term funds. It is a place where short term funds are bought and sold via telephone or mail. Funds are borrowed in the market for a short period ranging from one day to six month or more but less than one year. The assets which are used as credit instruments are well known as "Near Money Assets" (Gupta et.al, 2012). Money market includes other sub-markets such as Call Money Market, Collateral Loan Market, Acceptance Market and Bill Market.

b) Capital Market: The capital market is the place where the long-term debt or equities or capital market securities are traded. Capital market securities, such as stocks and long-term bonds are often traded in the market. In last few years, Indian capital market has been one of the best performing market in the world. Fuelled with strong economic growth and large inflow of foreign institutional investors (FIIs) and also the development of the domestic mutual funds industry, the Indian Stock Market Indices have delivered truly explosive during the last decade. Also, the two major Indian exchanges, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) ranked 16th and 17th respectively among the stock exchanges around the world in terms of Market Capitalisation. The stock market is touching new heights year on year since 2003. The biggest development in the Indian Capital Markets is the introduction of Derivatives. The derivatives segment becomes a crucial part of Indian Capital Market nowadays (Allen et. al, 2007).

iii) Classification on the basis of Seasoning of Claim:

a) Primary Market: The new issue market represents the primary market where new financial instruments (such as shares, bonds) are first time offered. The companies whether new or existing raise their capital through new issue. Primary market directs the flow of long term funds from the willing investors to corporate enterprises. The new issue market involves intermediaries for the efficient issue of securities. The primary market cannot be completed without these specialised intermediaries. These specialised intermediaries are known as merchant bankers, underwriters, brokers, agents, debenture trustees, portfolio managers etc.

b) Secondary Market: Secondary market is a market where the previously issued securities are traded. A well functioning secondary market includes specialised security brokers and dealers. The investors desire liquidity for their investments as per their requirement. Here, they want to sell the securities which they hold. The brokers perform the role of agents of investors for the buying and selling of the securities. Thus, secondary market provides a place for the buying and selling of securities as well as fulfils the liquidity requirements of the investors.

c) Derivatives Market: The derivatives segment in India is not so old. The introduction of derivatives makes an incomplete market more complete and increase the investment opportunities for the traders to invest in the market. Derivatives also provide convenience when investors desire to hedge the risk or arbitrageur wants additional liquidity for the markets (Narasimhan and Kalra, 2014). In June 2000, NSE started its operations in derivatives contracts and introduced future contracts on the Nifty index. The recognition of single- stock futures distinguishes the Indian Derivatives Markets with other markets and due to this popularity, the NSE of India ranked first (1st) in the single stock future category with 68,911,754 contracts in the year 2005. Nowadays Derivatives contracts are permitted on both the BSE and NSE (Allen et. al, 2007).

III) FINANCIAL INSTRUMENTS:

The third important component of financial system is financial instruments or assets. They represent claims on income (asset) and are held for the sake of returns that are expected. Thus, financial instrument or assets represents a claim to the payment of a sum of money in future in the form of interest or dividend. Financial instruments are different from each other in respect of their investment features. They are classified in two categories: i) on the basis of term, ii) on the basis of type.

Reserve Bank of India (RBI)

The overall economic efficiency and the stability of a nation are dependent on the payment and settlement system prevailing in that country. As a result, the various regulators in India, including the central bank, have been regularly and consistently revising their operating models and policies to ensure and carry on the development of payment systems at the national level. These regulators are required to carefully safeguard the sanctity of payment systems, generally from systematic risks, the risk of fraud, etc. The responsibility of a central bank of any given country is to ensure and carry on the development of payment systems at the national level. In India, this responsibility is vested with the Reserve Bank of India (RBI).

Establishment of the RBI

The Reserve Bank of India (RBI) was first established in 1935 according to the Reserve Bank of India Act of 1934. Situated in Mumbai, the RBI is wholly owned and operated by the Indian Government. The operations of the RBI are governed by the Central Board of Directors which comprises of 21 members appointed by the Government of India by the Act. The Central Board of Directors consists of the Official Directors and the Non-Official Directors. The Official Directors would include the Governors appointed for four years with an addition of 4 Deputy Governors. The Non-Official Directors comprise of 10 Directors elected from multiple fields along with 2 Government Officials.

Chain of Command

The following is the chain of command among the Central Board of Directors of the RBI according to their ranks.

1. Governor
2. Deputy Governor
3. Executive Directors
4. Principal Chief General Manager
5. Chief General Managers
6. General Managers
7. Deputy General Managers
8. Assistant General Managers
9. Managers
10. Assistant Managers
11. Support Staff

Objectives of the RBI

The primary goals of the RBI according to the Preamble of the same are as follows.

- To regulate the issue of Banknotes.
- To secure monetary stability in the country.

- To meet the economic challenges by modernising the monetary policy framework.

The primary focus of the RBI is to supervise and undertake initiatives on behalf of the financial sector which consists of financial institutions, commercial banks, non-banking financial companies. A few critical efforts of the RBI are to restructure bank inspections and fortifying the role of statutory auditors in the banking system.

Functions of the RBI

The following are the functions of the Reserve Bank of India under various authorities.

Supervisory and Regulatory Authority

- To set specific parameters for the banks in the country. This would include financial operations within which the banking and financial systems are to function.
- To protect the interests of every investor and offer economic and cost-efficient banking services to the public.

Monetary Authority

- To formulate and implement the monetary policies of the country.
- To maintain stability in the prices across all the sectors along with the objective of growth.

Currency Authority

- To issue, exchange or destroy currency that is not fit for circulation.
- To provide adequate currency notes and coins of the standard quality to the public.

Foreign Exchange Management

- To oversee the Foreign Exchange Management Act, 1999.
- To facilitate the external trade and development of the foreign exchange market in the country.

Other Functions

- To promote and perform promotional functions to support national banking and other financial objectives.
- To offer banking solutions to the Central and State Governments.
- To act as a banker for the Central and State Governments.
- To be the Chief Banker to every bank across the country and maintain all the banking accounts of every scheduled bank

SECURITIES AND EXCHANGE BOARD OF INDIA

The Securities and Exchange Board of India was officially appointed as the authority for regulating the financial markets in India on 12th April 1988. It was initially established as a non-statutory body, i.e. it had no control over anything but later in 1992, it was declared an autonomous body with statutory powers. **SEBI plays an important role in regulating the securities market of India**. Thereby it is important to know the purpose and objective of SEBI.

Reasons for Establishment of SEBI

At the end of the 1970s and during 1980s, capital markets were emerging as the new sensation among the individuals of India. Many malpractices started taking place such as unofficial self- styled merchant bankers, unofficial private placements, rigging of prices, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges, delay in delivery of shares, price rigging, etc.

Due to these malpractices, people started losing confidence in the stock market. The government felt a sudden need to set up an authority to regulate the working and reduce these malpractices. As a result, the Government came up with the establishment of SEBI.

Purpose and Role of SEBI

SEBI acts as a watchdog for all the capital market participants and **its main purpose** is to provide such an environment for the financial market enthusiasts that facilitate efficient and smooth working of the securities market.

To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investor, and financial intermediaries.

Issuers of securities

These are entities in the corporate field that raise funds from various sources in the market. SEBI makes sure that they get a healthy and transparent environment for their needs.

Investor

Investors are the ones who keep the markets active. SEBI is responsible for maintaining an environment that is free from malpractices to restore the confidence of general public who invest their hard earned money in the markets.

Financial Intermediaries

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

Functions of SEBI

SEBI primarily has three functions-

1. Protective Function

2. Regulatory Function
3. Development Function

Protective Functions

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

Regulatory Functions

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

Development Functions

SEBI performs certain development functions also that include but they are not limited to-

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

Objectives of SEBI

SEBI has following objectives-

1. **Protection to the investors**

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

2. **Prevention of malpractices**

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

3. **Fair and proper functioning**

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

Organizational Structure of SEBI

The SEBI Board consist of nine members-

1. One Chairman appointed by the Government of India
2. Two members who are officers from Union Finance Ministry
3. One member from Reserve Bank of India
4. Five members appointed by the Union Government of India

UNIT II

INTERMEDIARIES IN NEW ISSUE MARKET/ PRIMARY MARKET

New Issue Market…

- The ***primary market*** is the part of the capital market that deals with ***issuing of new securities.***
- In a primary market, companies, governments or public sector institutions can raise funds through bond issues and corporations can raise capital through the sale of new stock through an ***Initial Public Offering (IPO).***

A ***new issue*** is a reference to a security that has been registered and issued and is being sold on a market to the public for the first time.

The term does not necessarily refer to newly issued stocks, although ***InitialPublic Offerings*** (IPOs) are the most commonly known ***new issues***.

Several intermediaries carry out activities of different nature in the new issue market.

The intermediaries includes ,

- Merchant Bankers/Lead Managers.
- Underwriters.
- Bankers to the issue.
- Registrars to the issue (Share transfer agents).
- Debenture trustees.
- Brokers.

1. Merchant Bankers/Lead Managers…

- Merchant banker means any person/ institution who is engaged in the business of issue management.
- Either by making arrangements regarding selling, buying or subscribing to securities as manager,
- consultant, advisor or rendering corporate advisory services in relation to such issue management.
- This is the most important intermediary in primary market.
- Management of public issues is the most important function of merchant banker.

Categories Of Merchant Bankers

Category	Role	Fees charged
Category I	✓Issue management ✓Advisor ✓Consultant ✓Manager ✓Underwriter ✓Portfolio manager	•2.5 lakhs for first two years •1.50 lakhs for 3rd year
Category II	✓Advisor ✓Consultant ✓Underwriter ✓Portfolio manager ✓Co-manager	•1.5 lakhs for first two years •50,000 for 3rd year
Category III	✓Underwriter ✓Advisor ✓consultant	•Minimum 50,000
Category IV	✓Advisor ✓Consultant	•Minimum 50,000

2. Under Writers…

- Under writers are financial institutions who makes a firm commitment that they will take up the shares up to a certain amount of the public does not subscribe to it.
- This is an agreement with one or more institutions and guarantee of the marketability of shares.
- Under writing is mandatory for the public issue.
- Under writers are appointed by company in consultation with the managers to the issue.
- Financial institutions, bankers, members of stock exchanges, Investment companies, trusts etc. can act as an under writer.
- Under writers charged a commission for their service which is known as under writing commission.

3. Bankers to the Issue..

- Bankers who are engaged in the function of acceptance of applications for share and debentures along with application money to the respect of issue of securities and also refund of application money to the applicant to whom securities could not be allotted.

4. Registrar to the Issue (Registrar & Share transfer agent)

 Registrar and transfer agents are of two categories such as category 1 :- which carry on activities of both registrars to an issue and also of share transfer agent.

category 2 :- which carry on activities either of a registrar to an issue or as a share transfer agent.

Functions…

 Designing and drafting the format of application form for the merchant bankers or lead managers.

 Identifying collection centers of application forms.

 Opening collection accounts with banks

 Collection application forms from bankers.

 Scrutinizing the application form.

 Informing the merchant bankers and the company of the total subscriptions.

 Preparing allotment register.

 Finalizing the allotment as per the basis approved by the stock exchanges.

 Ensuring that the corporate action for creating of shares to the D- mat accounts of the applicants is done.

 Printing refund orders and letters of allotment.

 Submitting all statements to the company for their final approval.

 Printing registrar of members.

 Helping the company in getting the shares listed.

5. Debenture Trustees…

Trustees who are appointed to safeguard the interests of the debenture holders are called 'Debenture trustee'.

 They are to be appointed before issue of debentures by a company.

 No persons can act as debenture trustee unless a certificate of registrar has been obtained from SEBI for the purpose.

Eligibility:

 A scheduled bank carrying on commercial activities; or

 A public financial institutions within the meaning of Sec 4-A of the companies Act,1956; or

 An insurance company; or

 A body corporate.

6. Brokers to an Issue…

 Intermediaries that are responsible for procuring the subscription to the issue from the prospective investor are called 'Broker to the issue'.

 They proving a vital connection link between the prospective investors and the issuer.

 They assist in the speedy subscription of issue by the public.

 Appointment of broker is however not compulsory, unless permitted by stock exchanges.

 They helps the investors make a right choice of the company for making investment.

Functions…

 Seeks Best Deal

 Handling the Trade

 Paid on Commission

 Test and Registration

 Requirements

 Pay and Potential

Greenshoe option

A green shoe option is an over-allotment option. In the context of an initial public offering (IPO), it is a provision in an underwriting agreement that grants the underwriter the right to sell investors more shares than initially planned by the issuer if the demand for a security issue proves higher than expected.

UNIT-III

Meaning, Characteristics, Significance and evolution of Financial system in India, Structure of Indian Financial system.
Regulatory and promotional institutions: Reserve Bank of India, Securities and Exchange Board of India, IRDA, Objectives and functions of RBI, SEBI and IRDA.

New Financial Instruments in the Capital Market

With the evolution of the capital market, new financial instruments are being introduced to suit the requirements of the market. Some of the new financial instruments introduced in recent years may be briefly explained as below:

1. Floating rate bonds: The interest rate on these bonds is not fixed. It is a concept which has been introduced primarily to take care of the falling market or to provide a cushion in times of falling interest rates in the economy. It helps the issuer to hedge the loss arising due to interest rate fluctuations. Thus there is a provision to reduce interest risk and assure minimum interest on the investment. In India, SBI was the first to introduce FRB for retail investors.

2. Zero interest bonds: These carry no periodic interest payment. These are sold at a huge discount. These can be converted into equity shares or non-convertible debentures

3. Deep discount bonds: These bonds are sold at a large discount while issuing them. These are zero coupon bonds whose maturity is very high (say, 15 years). There is no interest payment. IDBI was the first financial institution to offer DDBs in 1992.

4. Auction related debentures: These are a hybrid of CPs and debentures. These are secured, redeemable, non-convertible instrument. The interest on them is determined by the market. These are placed privately with bids. ANZ Grindlays designed this new instrument for Ashok Leyland Finance.

5. Secured Premium Notes: These are issued along with a detachable warrant. This warrant gives the holder the right to apply for, or seek allotment of one equity share, provided the SPN is fully paid. The conversion of detachable warrant into equity shares is done within the time limit notified by the company. There is a lock in period during which no interest is paid for the invested amount. TISCO was the first company to issue SPN (in 1992) to the public along with the right issue.

6. Option bonds: Option bonds can be converted into equity or preference shares at the option of the investor as per the condition stated in the prospectus. These may be cumulative or non-cumulative. In case of cumulative bonds the interest is accumulated and is payable at maturity. In case of non-cumulative bonds, interest is payable at periodic intervals.

7. Warrants: A share warrant is an option to the investor to buy a specified number of equity shares at a specified price over a specified period of time. The warrant holder has to surrender the warrant and pay some cash known as 'exercise price' of the warrant to purchase the shares. On exercising the option the warrant holder becomes a shareholder. Warrant is yet to gain popularity in India, due to the complex nature of the instrument.

8. Preference shares with warrants: These carry a certain number of warrants. These warrants give the holder the right to apply for equity shares at premium at any time in one or more stages between the third and fifth year from the date of allotment.
9. Non-convertible debentures with detachable equity warrants: In this instrument, the holder is given an option to buy a specified number of shares from the company at a predetermined price within a definite time frame.
10. Zero interest fully convertible debentures: On these instruments, no interest will be paid to the holders till the lock in period. After a notified period, these debentures will be automatically and compulsorily converted into shares.
11. Fully convertible debentures with interest: This instrument carries no interest for a specified period. After this period, option is given to apply for equities at premium for which no additional amount is payable. However, interest is payable at a predetermined rate from the date of first conversion to second / final conversion and equity will be issued in lieu of interest.
12. Non-voting shares: The Companies Bill, 1997 proposed to allow companies to issue non-voting shares. These are quasi -equity instruments with differential rights. These shares do not carry voting right. Their divided rate is also not predetermined like preference shares.
13. Inverse float bonds: These bonds are the latest entrants in the Indian capital market. These are bonds carrying a floating rate of interest that is inversely related to short term interest rates.
14. Perpetual bonds: These are debt instruments having no maturity date. The investors receive a stream of interest payment for perpetuity.

Meaning of Secondary Market

Secondary market is a market for old issues. It deals with the buying and selling existing securities i.e. securities already issued. In other words, securities already issued in the primary market are traded in the secondary market. Secondary market is also known as stock market. The secondary market operates through 'stock exchanges'.

In the secondary market, the existing owner sells securities to another party. The secondary markets support the primary markets. The secondary market provides liquidity to the individuals who acquired these securities. The primary market gets benefits greatly from the liquidity provided by the secondary market. This is because investors would hesitate to buy the securities in the primary market if they thought they could not sell them in the secondary market later.

In India, stock market consists of recognised stock exchanges. In the stock exchanges, securities issued by the central and state governments, public bodies, and joint stock companies are traded.

Stock Exchange

In India the first organized stock exchange was Bombay Stock Exchange. It was started in 1877. Later on, the Ahmadabad Stock Exchange and Calcutta Stock Exchange were started in 1894 and 1908 respectively. At present there are 24 stock exchanges in India. In Europe, stock exchanges are often called bourses.

Meaning and Definition of Stock Exchange/ Security Exchange

It is an organized market for the purchase and sale of securities of joint stock companies, government and semi- govt. bodies. It is the centre where shares, debentures and govt. securities are bought and sold.

According to Pyle, "Security exchanges are market places where securities that have been listed thereon may be bought and sold for either investment or speculation".

The Securities Contract (Regulation) Act 1956, defines a stock exchange as "an association, organisation or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and *controlling of business in buying, selling and dealing in securities".*

According to Hartley Withers, "a stock exchange is something like a vast warehouse where securities are taken away from the shelves and sold across the countries at a price fixed in a catalogue which is called the official list".

In short, stock exchange is a place or market where the listed securities are bought and sold.

Characteristics of a Stock Exchange

1. It is an organized capital market.

2. It may be incorporated or non-incorporated body (association or body of individuals).

3. It is an open market for the purchase and sale of securities.

4. Only listed securities can be dealt on a stock exchange.

5. It works under established rules and regulations.

6. The securities are bought and sold either for investment or for speculative purpose.

Economic Functions of Stock Exchange

The stock exchange performs the following essential economic functions:

1. Ensures liquidity to capital: The stock exchange provides a place where shares and stocks are converted into cash. People with surplus cash can invest in securities (by buying securities) and people with deficit cash can sell their securities to convert them into cash.

2. Continuous market for securities: It provides a continuous and ready market for buying and selling securities. It provides a ready market for those who wish to buy and sell securities

3. Mobilisation of savings: It helps in mobilizing savings and surplus funds of individuals, firms and other institutions. It directs the flow of capital in the most profitable channel.

4. Capital formation: The stock exchange publishes the correct prices of various securities. Thus the people will invest in those securities which yield higher returns. It promotes the habit of saving and investment among the public. In this way the stock exchange facilitates the capital formation in the country.

5. Evaluation of securities: The prices at which transactions take place are recorded and made public in the forms of market quotations. From the price quotations, the investors can evaluate the worth of their holdings.

6. Economic developments: It promotes industrial growth and economic development of the country by encouraging industrial investments. New and existing concerns raise their capital through stock exchanges.

7. Safeguards for investors: Investors' interests are very much protected by the stock exchange. The brokers have to transact their business strictly according to the rules prescribed by the stock exchange. Hence they cannot overcharge the investors.

8. Barometer of economic conditions: Stock exchange reflects the changes taking place in the country's economy. Just as the weather clock tells us which way the wind is blowing, in the same way stock exchange serves as an indicator of the phases in business cycle-boom, depression, recessions and recovery.

9. Platform for public debt: The govt. has to raise huge funds for the development activities. Stock exchange acts as markets of govt. securities. Thus, stock exchange provides a platform for raising public debt.

10. Helps to banks: Stock exchange helps the banks to maintain liquidity by increasing the volume of easily marketable securities.

11. Pricing of securities: New issues of outstanding securities in the primary market are based on the prices in the stock exchange. Thus, it helps in pricing of securities.

Thus stock exchange is of great importance to a country. It provides necessary mobility to capital. It directs the flow of capital into profitable and successful enterprises. It is indispensable for the proper functioning of corporate enterprises. Without stock exchange, even govt. would find it difficult to borrow for its various *schemes. It helps the traders, investors, industrialists and the banker. Hence, it is described as the business of business.*

Benefits of Stock Exchange

A. Benefits to Investors

1. The stock exchange plays the role of a friend, philosopher and guide to investors by providing information about the prices of various securities.

2. It offers a ready market for buying and selling securities.

3. It increases the liquidity of the investors.

4. It safeguards the interests of investors through strict rules and regulations.

5. It enables the investors to know the present worth of their securities.

6. It helps investors in making wise investment decisions by providing useful information about the financial position of the companies.

7. The holder of a listed security can easily raise loan by pledging it as a collateral security.

B. Benefits to Companies

1. A company enjoys greater reputation and credit in the market. Image of the company goes up.

2. A company can raise large amount of capital from different types of securities.

3. It enjoys market for its shares.

4. The market price for shares and debentures will be higher. Due to this the bargaining power of the company increases in the events of merger or amalgamation.

C. Benefits to Community and Nation

1. Stock exchange encourages people to sell and invest their savings in shares and debentures.

2. Through capital formation, stock exchange enables companies to undertake expansion and modernization. Stock exchange is an 'Alibaba Cave' from which business community draw unlimited money.

3. It helps the government in raising funds through sale of government securities.

This enables the government to undertake projects of national importance and social value.

4. It diverts the savings towards productive channels.

5. It helps in better utilisation of the country's financial resources.

6. It is an effective indicator of general economic conditions of a country.

Listing of Securities

A stock exchange does not deal in the securities of all companies. Only those securities that are listed are dealt with the stock exchange. For the purpose of listing of securities, a company has to apply to the stock exchange. The stock exchange will decide whether to list the securities of the company or not. If permission is granted by the stock exchange to deal with the securities therein, then such a company is included in the official trade list of the stock exchange. This is technically known as listing of securities. Thus listing of securities means permission to quote shares and debentures officially on the trading floor of the stock exchange. Listing of securities refers to the sanction of the right to trade the securities on the stock exchange. In short, listing means admission of securities to be traded on the stock exchange. If the securities are not listed, they are not allowed to be traded on the stock exchange.

Objectives of Listing

The main objectives of listing are:

1. To ensure proper supervision and control of dealings in securities.

2. To protect the interests of shareholders and the investors.

3. To avoid concentration of economic power.
4. To assure marketing facilities for the securities.
5. To ensure liquidity of securities.
6. To regulate dealings in securities.

Requirements of Listing (Procedure of Listing)

Any company intending to get its securities listed at an exchange has to fulfil certain requirements. The application for listing is to be made in the prescribed form. It should be supported by the following documents:

a) Memorandum and Articles.
b) Copies of all prospectuses or statements in lieu of prospectuses.
c) Copies of balance sheets, audited accounts, agreements with promoters, underwriters, brokers etc.
d) Letters of consent from SEBI.
e) Details of shares and debentures issued and shares forfeited.
f) Details of bonus issues and dividends declared.
g) History of the company in brief.
h) Agreement with managing director etc.
i) An undertaking regarding compliance with the provisions of the Companies Act and Securities Contracts (Regulation) Act as well as rules made therein. After the application is made to the stock exchange the listing committee of the stock exchange will go into the details of the application. It has to ensure that the company fulfils the conditions or criteria necessary for listing

Procedure for Dealing at Stock Exchange (Trading Mechanism or Method of Trading on a Stock Exchange)

Outsiders are not allowed to buy or sell securities at a stock exchange. They have to approach brokers. Dealings can be done only through brokers. They are the members of the stock exchange. The following procedure is followed for dealing at exchanges:

1. Selection of a broker: An individual cannot buy or sell securities directly at stock exchange. He can do so only through a broker. So he has to select a broker through whom the purchase or sale is to be made. The intending investor or seller may appoint his bank for this purpose. The bank may help to choose the broker.

2. Placing an order: After selecting the broker, the next step is to place an order for purchase or sale of securities. The broker also guides the client about the type of securities to be purchased and the proper time for it. If a client is to sell the securities, then the broker shall tell him about the favourable time for sale.

3. Making the contract: The trading floor of the stock exchange is divided into different parts known as trading posts. Different posts deal in different types of securities. The authorised clerk of the broker goes to the concerned post and expresses his intention to buy and sell the securities. A deal is struck when the other party also agrees. The bargain is noted by both the parties in their note books. As soon as order is executed a confirmation memo is prepared and is given to the client.

4. Contract Note: After issue of confirmation memo, a contract note is signed between the broker and the client. This contract note will state the transaction fees (commission of broker), number of shares bought or sold, price at which they are bought or sold, etc.

5. Settlement: Settlement involves making payment to sellers of shares and delivery of share certificate to the buyer of shares after receiving the price. The settlement procedure depends upon the nature of the transactions. All the transactions on the stock exchange may be classified into two- ready delivery contracts and forward delivery contracts.

a. Ready delivery contract: A ready delivery contract involves the actual payment of the amount by the buyer in cash and the delivery of securities by the seller. A ready delivery contract is to be settled on the same day or within the time period fixed by the stock exchange authorities.

b. Forward delivery contracts: These contracts are entered into without any intention of taking and giving delivery of the securities. The traders in forward delivery securities are interested in profits out of price variations in the future. Such transactions are settled on the settlement days fixed by the stock exchange authorities. Such contracts can be postponed to the next settlement day, if both the parties agree between themselves. Such postponement is called 'Carry over' or 'badla'. Thus 'carry over' or 'badla' means the postponement of transaction from one settlement period to the next settlement period.

Rolling Settlement

Rolling settlement has been introduced in the place of account period settlement. Rolling settlement system was introduced by SEBI in January 1998. Under this system of settlement, the trades executed on a certain day are settled based on the net obligations for that day. At present, the trades relating to the rolling settlement are settled on T + 2day basis where T stands for the trade day.

It implies that the trades executed on the first day (say on Monday) have to be settled on the 3rd day (on Wednesday), i.e., after a gap of 2 days. This cycle would be rolling and hence there would be number of set of transactions for delivery every day. As each day's transaction are settled in full, rolling settlement helps in increasing the liquidity in the market. With effect from January 2, 2002, all scrips have been brought under compulsory rolling mode.

Members in a Stock Exchange

Only members of the exchange are allowed to do business of buying and selling of securities at the floor of the stock exchange. A non-member (client) can buy and sell securities only through a broker who is a member of the stock exchange. To deal in securities on recognised stock exchanges, the broker should register his name as a broker with the SEBI. Brokers are the main players in the secondary market. They may act in different capacities as a principal, as an agent, as a speculator and so on.

Types of Members in a Stock Exchange

The various types of members of a stock exchange are as follows:-

1. Jobbers :- They are dealers in securities in a stock exchange. They cannot deal on behalf of public. They purchase and sell securities on their own names. Their main job is to earn profit due to price variations.

2. Commission brokers :- They are nothing but brokers. They buy and sell securities no behalf of their clients for a commission. They are permitted to deal with non-members directly. They do not purchase or sell in their own name.

3. Tarawaniwalas :- They are like jobbers. They handle transactions on a commission basis for their brokers. They buy and sell securities on their own account and may act as brokers on behalf of the public.

4. Sub-brokers :- Sub brokers are agents of stock brokers. They are employed by brokers to obtain business. They cannot carry on business in their own name. They are also known as remisiers.

5. Arbitrageurs :- They are brokers. They buy security in one market and sell the same in another market to get opportunistic profit.

6. Authorised clerks :- Authorised clerks are those who are appointed by stock brokers to assist them in the business of securities trading.

Speculation

Speculation is an attempt to make capital gain from the price movement of the scrips in the security market over a short span of time. Those who engaged in such type of transactions are called speculators. They buy and sell securities frequently and are not interested in keeping them for long term. Speculation involves high *risks. If the expectation of speculators comes true he can make profit but if it goes wrong the loss could be detrimental.*

Type of Speculators

The following on the different kinds of speculators:

1. Bull: A bull or Tejiwala is a speculator who buys shares in expectation of selling them at higher prices in future. He believes that current prices are lower and will rise in the future.

2. Bear: A bear or Mandiwala is a speculator who sells securities with the intention to buy at a later date at a lower price. He expects a fall in price in future.

3. Lame duck: A lame duck is a bear speculator. He finds it difficult to meet his commitments and struggles like a lame duck. This happens because of the non availability of securities in the market which he has agreed to sell and at the same time the other party is not willing to postpone the transaction.

4. Stag: Stag is a member who neither buys nor sells securities. He applies for shares in the new issue market. He expects that the price of shares will soon increase and the shares can be sold for a premium.

5. Wolf: Wolf is a broker who is fast speculator. He is very quick to perceive changes in the market trends and trade fast and make fast profit.

Speculative Transactions

Some of the speculative dealings are as follows:

1. Option deals: This is an arrangement or right to buy or sell securities at a predetermined price on or before a specified date in future.

2. Wash sales: It is a device through which a speculator is able to reap huge profits by creating a misleading picture in the market. It is a kind of fictitious transaction in which a speculator sells a security and then buys the same at a higher price through another broker. Thus he creates a false or misleading opinion in the market about the price of a security.

3. Rigging: If refers to the process of creating an artificial condition in the market whereby the market value of a particular security is pushed upon. Bulls buy securities, create demand for the same and sell them at increased prices.

4. Arbitrage: It is the process of buying a security, from a market where price is lower and selling at in another market where price is higher.

5. Cornering: Sometimes speculators make entire or a major share of supply of a particular security with a view to create a scarcity against the existing contracts. This is called cornering.

6. Blank transfer: When the transferor (seller) simply signs the transfer form without specifying the name of the transferee (buyer), it is called blank transfer. In this case share can further be transferred by mere delivery of transfer deed together with the share certificate. A new transfer deed is not required at the time of each transfer. Hence, expenses such as registration fees, stamp duty, etc can be saved.

7. Margin trading: Under this method, the client opens an account with his broker. The client makes a deposit of cash or securities in this account. He also agrees to maintain a minimum margin of amount always in his account. When a broker purchases securities on behalf of his client, his account (client's account) will be debited and vice versa. The debit balance, if any, is automatically secured by the client's securities lying with the broker. In case it falls short of the minimum agreed amount, the client has to deposit further amount into his account or he has to deposit further securities. If the prices are favourable, the client may instruct his broker to sell the securities. When such securities are sold, his account will be credited. The client may have a bigger margin now for further purchases.

Factors Influencing Prices on Stock Exchange

The prices on stock exchange depend upon the following factors:

1. Financial position of the company

2. Demand and supply position

3. Lending rates

4. Attitudes of the FIIs and the developments in the global financial markets.

5. Govt. Policies (credit policies, monetary policies, taxation policies etc.)

6. Trade cycle

7. Speculation activities

Defects of Stock Exchanges (or Capital Market) in India

The Indian stock market is suffering from a number of weaknesses. Important weaknesses are as follows:

*1. **Speculative activities**: Most of the transactions in stock exchange are carry forward transactions with a speculative motive of deriving benefit from short term price fluctuation. Genuine transactions are only less. Hence market is not subject to free interplay of demand and supply for securities.*

*2. **Insider trading:** Insider trading has been a routine practice in India. Insiders are those who have access to unpublished price-sensitive information. By virtue of their position in the company they use such information for their own benefits.*

*3. **Poor liquidity**: The Indian stock exchanges suffer from poor liquidity. Though there are approximately 8000 listed companies in India, the securities of only a few companies are actively traded. Only those securities are liquid. This means other stocks have very low liquidity.*

*4**. Less floating securities**: There is scarcity of floating securities in the Indian stock exchanges. Out of the total stocks, only a small portion is being offered for sale. The financial institutions and joint stock companies control over 75% of the scrips. However, they do not offer their holdings for sale. The UTI, GIC, LIC etc. indulge more in purchasing than in selling. This creates scarcity of stocks for trading. Hence, the market becomes highly volatile. It is subject to easy price manipulations.*

*5. **Lack of transparency**: Many brokers are violating the regulations with a view to cheating the innocent investing community. No information is available to investors regarding the volume of transactions carried out at the highest and lowest prices. In short, there is no transparency in dealings in stock exchanges.*

*6. **High volatility**: The Indian stock market is subject to high volatility in recent years. The stock prices fluctuate from hour to hour. High volatility is not conducive for the smooth functioning of the stock market.*

*7. **Dominance of financial institutions**: The Indian stock market is being dominated by few financial institutions like UTI, LIC, GIC etc. This means these few institutions can influence stock market greatly. This actually reduces the level of competition in the stock market. This is not a healthy trend for the growth of any stock market.*

*8. **Competition of merchant bankers**: The increasing number of merchant bankers in the stock market has led to unhealthy competition in the stock market. The merchant bankers help the unscrupulous promoters to raise funds for non-existent projects. Investors are the ultimate sufferers.*

*9. **Lack of professionalism**: Some of the brokers are highly competent and professional. At the same time, majority of the brokers are not so professional. They lack proper education, business skills, infrastructure facilities etc. Hence they are not able to provide proper service to their clients.*

Depository Services

A depository is an organization which holds securities in electronic book entries at the request of the shareholder through the medium of a depository participant. A depository keeps the scrips on behalf of the investors. It undertakes the custodian role. A depository participant is an agent of the depository through which it interfaces with the investor. A depository can be compared to a bank. Investors can avail the services offered by a depository. To utilize the services offered by a depository, the investor is required to open an account called 'demat account with the depository. The demat account is opened through a depository participant. Thus it is very similar to the opening of an account with any of the branches of a bank in order to utilize the services of that bank. The objective is to allow for the faster, convenient and easy mode of affecting the transfer of securities. Thus, financial services relating to holding, maintaining and dealing securities in electronic form by a financial intermediary known as depository are called depository services.

Constituents of Depository System

There are four players in the depository system. They are : (1) Depository Participant, (2) Investor (Beneficial owner), (3) Issuer, and (4) Depository.

Depository Participan*t: DP is an agent of the depository. If an investor wants to avail the services offered by the depository, the investor has to open an account with a DP. It function as a bridge between the depository and the owners. A DP may be a financial institution, bank, custodian, a clearing corporation, a stock broker or a "NBFC.*

*I***nvestor (Beneficial Owner)***: He is the real owner of the securities who has lodged his securities with the depository in the form of a book entry. School of Distance Education*

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Issuer*: This is the company which issues the security.*

Depository*: It is a firm which holds the securities of an investor in electronic form in the same way a bank holds money. It carries out the transaction of securities by means of book entry, without any physical movement of securities.*

National Securities Depository Ltd. (NSDL)

NSDL was registered by SEBI on June 7, 1996 as India's first depository to facilitate trading and settlement of securities in the dematerialized form. It was promoted by IDBI, UTI and NSE (National Stock Exchange). The objective is to provide electronic depository facilities for securities traded in the equity and debt markets in the country. NSDL has been set up to cater to the demanding needs of the Indian capital markets.

Functions / Services of NSDL

The following are the functions or services of NSDL :

1. Maintenance of individual investors' beneficial holdings in an electronic form.

2. Trade settlement

3. Automatic delivery of securities to the clearing corporation

4. Dematerialisation and rematerialisation of securities.

5. Allotment in the electronic form in case of IPOs.

6. Distribution of dividend

7. Facility for freezing / locking of investor accounts

8. Facility for pledge and hypothecation of securities.
9. Internet based services such as SPEED-c and IDeAS

Central Depository Services (India) Ltd. (CDSL)

The CDSL is the second depository set up by the Bombay Stock Exchange and co-sponsored by the SBI, Bank of India, Union bank of India, and Centurian Bank. The CDSL commenced operations on March 22, 1996. The CDSL was set up with the objectives of providing convenient, dependable and secure depository services at affordable cost to all market participants. All leading stock exchanges such as Bombay Stock Exchange, National Stock Exchange, and Kolkata Stock Exchange etc. have established connectivity with CDSL.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE
INDIAN FINANCIAL SYSTEM
UNIT - IV

Money market – Meaning, instruments, features of the instruments, Banking – Functions of commercial banks, Concept of E- banking, NPA, securitization and universal banking, NBFC – meaning, major functions of NBFC, Insurance: Introduction to LIC, GIC and Private insurance companies.

Money Market

Definition: Money Market can be understood as the market for short term funds, wherein lending and borrowing of funds varies from overnight to a year. It is an important part of the financial system that helps in fulfilling the short term and very short term requirements of the companies, banks, financial institution, government agencies and so forth.

Salient Features of Money Market

1. It is a wholesale market, as the transaction volume is large.
2. Trading takes place over the telephone, after which written confirmation is done by way of e-mails.
3. Participants include banks, mutual funds, investment institutions and Central Banks.
4. There is an impersonal relationship between the participants in the money market, and so, pure competition exists.
5. Money market operations focus on a particular area, which serves a region or an area. On the basis of the market size and needs, the area may differ.

There are five major segments of money market which are Certificate of Deposits (CD), Commercial Paper, Swaps, Repo and Government treasury securities.

Money Market Instruments

In this market, only those financial instruments are traded which are immediate substitutes for money, which includes:

a) Call/Notice Money: When the money raised or borrowed on demand for a very short term which ranges from one day to 14 days, then it may be called as notice money, and when it exceeds 14 days it is termed as call money.
b) Treasury Bills: These are short term, negotiable financial assets issued by the central bank, on behalf of the government, for overcoming liquidity shortfalls.
c) Commercial Bills: A commercial bill is a negotiable, self-liquidating instrument that is less risky in nature. When goods are bought on credit, these bills improve the liability to make payment at the specified date.
d) Commercial Paper: It alludes to an unsecured promissory note, issued by large and creditworthy companies, at a discount on its face value and redeemable at its face value.
e) Certificate of Deposit: It is an unsecured, negotiable financial instrument which a bank and financial institution issues to individuals, corporation, trust, funds etc. at a discount on its face value and its maturity vary from 15 days to one year.

The financial assets dealt in the money market possess high liquidity, low transaction cost, less risky and no loss in value. And so, it acts as a whole sale debt market for such instruments.

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Functions of Money Market

A money market performs a number of functions in an economy.

1. Provides Funds:

It provides short-term funds to the public and private institutions needing such financing for their working capital requirements. It is done by discounting trade bills through commercial banks, discount houses, brokers and acceptance houses. Thus the money market helps the development of commerce, industry and trade within and outside the country.

2. Use of Surplus Funds:

It provides an opportunity to banks and other institutions to use their surplus funds profitably for a short period. These institutions include not only commercial banks and other financial institutions but also large non-financial business corporations, states and local governments.

3. No Need to Borrow from Banks:

The existence of a developed money market removes the necessity of borrowing by the commercial banks from the central bank. If the former find their reserves short of cash requirements they can call in some of their loans from the money market. The commercial banks prefer to recall their loans rather than borrow from the central banks at a higher rate of interests.

4. Helps Government:

The money market helps the government in borrowing short-term funds at low interest rates on the basis of treasury bills. On the other hand, if the government were to issue paper money or borrow from the central bank. It would lead to inflationary pressures in the economy.

5. Helps in Monetary Policy:

A well developed money market helps in the successful implementation of the monetary policies of the central bank. It is through the money market that the central banks are in a position to control the banking system and thereby influence commerce and industry.

6. Helps in Financial Mobility:

By facilitating the transfer for funds from one sector to another, the money market helps in financial mobility. Mobility in the flow of funds is essential for the development of commerce and industry in an economy.

7. Promotes Liquidity and Safety:

One of the important functions of the money market is that it promotes liquidity and safety of financial assets. It thus encourages savings and investments.

8. Equilibrium between Demand and Supply of Funds:

The money market brings equilibrium between the demand and supply of loanable funds. This it does by allocating saving into investment channels. In this way, it also helps in rational allocation of resources.

9. Economy in Use of Cash:

As the money market deals in near-money assets and not money proper, it helps in economising the use of cash. It thus provides a convenient and safe way of transferring funds from one place to another, thereby immensely helping commerce and industry.

Functions of Commercial Banks:

Commercial banks are institutions that conduct business for profit motive by accepting public deposits for various investment purposes.

The functions of commercial banks are broadly classified into primary functions and secondary functions, which are shown in Figure-1:

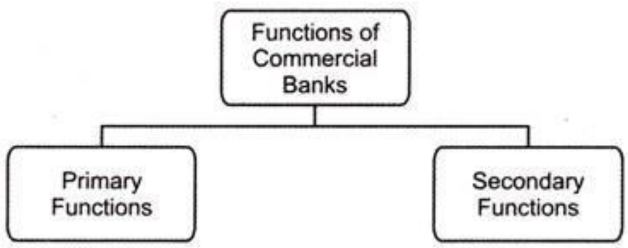

Figure-1: Functions of Commercial Banks

(a) Primary Functions:

Refer to the basic functions of commercial banks that include the following:

(i) Accepting Deposits:

Implies that commercial banks are mainly dependent on public deposits.

There are two types of deposits, which are discussed as follows:

(1) Demand Deposits:

Refer to kind of deposits that can be easily withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by simply writing a check. These deposits are the part of money supply as they are used as a means for the payment of goods and services as well as debts. Receiving these deposits is the main function of commercial banks.

(2) Time Deposits:

Refer to deposits that are for certain period of time. Banks pay higher interest on rime deposits. These deposits can be withdrawn only after a specific time period is completed by providing a written notice to the bank.

(3) Advancing Loans:

Refers to one of the important functions of commercial banks. The public deposits are used by commercial banks for the purpose of granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(b) Secondary Functions:

Refer to crucial functions of commercial banks. The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

These functions are explained as follows:

(1) Agency Functions:

Implies that commercial banks act as agents of customers by performing various functions, which are as follows:

(i) Collecting Checks:

Refer to one of the important functions of commercial banks. The banks collect checks and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

(ii) Collecting Income:

Constitute another major function of commercial banks. Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

(iii) Paying Expenses:

Implies that commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents. Similar to credit voucher, a debit voucher is sent to customers for information when expenses are paid by the bank.

(2) General Utility Functions:

Include the following functions:

(i) Providing Locker Facilities:

Implies that commercial banks provide locker facilities to its customers for safe keeping of jewellery, shares, debentures, and other valuable items. This minimizes the risk of loss due to theft at homes.

(ii) Issuing Traveler’s Checks:

Implies that banks issue traveler’s checks to individuals for traveling outside the country. Traveler’s checks are the safe and easy way to protect money while traveling.

(iii) Dealing in Foreign Exchange:

Implies that commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the central bank for dealing in foreign exchange.

(iv) Transferring Funds:

Refers to transferring of funds from one bank to another. Funds are transferred by means of draft, telephonic transfer, and electronic transfer.

(3) Other Functions:

Include the following:

(i) Creating Money:

Refers to one of the important functions of commercial banks that help in increasing money supply. For instance, a bank lends Rs. 5 lakh to an individual and opens a demand deposit in the name of that individual.

Bank makes a credit entry of Rs. 5 lakh in that account. This leads to creation of demand deposits in that account. The point to be noted here is that there is no payment in cash. Thus, without printing additional money, the supply of money is increased.

(ii) Electronic Banking:

Include services, such as debit cards, credit cards, and Internet banking.

Types of Credit Offered by Commercial Banks:

A commercial bank offers short-term loans to individuals and organizations in the form of bank credit, which is a secured loan carrying a certain rate of interest.

There are various types of bank credit provided by a commercial bank, as shown in Figure-2:

Showing Types of Bank Credit

Bank Loan:

Bank loan may be defined as the amount of money granted by the bank at a specified rate of interest for a fixed period of time. The commercial bank needs to follow certain guidelines to extend bank loans to a client. For example the bank requires the copy of identity and income proofs of the client and a guarantor to sanction bank loan. The banks grant loan to clients against the security of assets so that, in case of default, they can recover the loan amount. The securities used against the bank loan may be tangible or intangible, such as goodwill, assets, inventory, and documents of title of goods.

The advantages of the bank loan are as follows:

a. Grants loan at low rate of interest

b. Involves very simple process of loan granting

c. Requires minimum document and legal formalities to pass the loan

d. Involves good customer relationship management

e. Consumes less time because of modern techniques and computerization

f. Provides door-to-door facilities

In addition to advantages, the bank loan suffers from various imitations, which are as follows:

a. Imposes heavy penalty and legal action in case of default of loan

b. Charges high rate of interest, if the party fails to pay the loan amount in the allotted time

c. Adds extra burden on the borrower, who needs to incur cost in preparing legal documents for procuring loans

d. Affects the goodwill of the organization, in case of delay in payment

Cash Credit:

Cash credit can be defined as an arrangement made by the bank for the clients to withdraw cash exceeding their account limit. The cash credit facility is generally sanctioned for one year but it may extend up to three years in some cases. In case of special request by the client, the time limit can be further extended by the bank.

The extension of the allotted time depends on the consent of the bank and past performance of the client. The rate of interest charged by the bank on cash credit depends on the time duration for which the cash has been withdrawn and the amount of cash.

The advantages of the cash credit are as follows:

a. Involves very less time in the approval of credit

b. Involves flexibility as the cash credit can be extended for more time to fulfill the need of the customers.

c. Helps in fulfilling the current liabilities of the organization

d. Charges interest only on the amount withdrawn by the customer. The interest on cash credit is charged only on the amount of cash withdrawn from the bank, not on the total amount of credit sanctioned.

The cash credit is one of the most important instruments of short-term financing but it has some limitations.

These limitations are mentioned in the following points:

a. Requires more security for the approval of cash

b. Imposes very high rate of interest

c. Depends on the consent of the bank to extend the credit amount and the time limit

Bank Overdraft:

Bank overdraft is the quickest means of the short-term financing provided by the bank. It is a facility in which the bank allows the current account holders to overdraw their current accounts by a specified limit. The clients generally avail the bank overdraft facility to meet urgent and emergency requirements. Bank overdraft is the most popular form of borrowing and do not require any written formalities. The bank charges very low rate of interest on bank overdraft up to a certain time.

The advantages of the bank overdraft are as follows:

a. Involves no documentation for the extension of overdraft amount

b. Imposes nominal interest on the overdraft amount

c. Charges fee only on the amount exceeding the account limit

The disadvantages of the bank overdraft are as follows:

a. Incurs high cost for the clients, if they fail to pay the amount of overdraft for a longer period of time

b. Hampers the reputation of the organization, if it fails to pay the amount of overdraft on time

c. Allows the bank to deduct overdraft amount from the customers’ accounts without their permission

Discounting of Bill:

Discounting of bill is a process of settling the bill of exchange by the bank at a value less than the face value before maturity date. According to Sec. 126 of Negotiable Instruments, "a bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at fixed or determinable future time a sum certain in money to order or to bearer."

The facility of discounting of bill is used by the organizations to meet their immediate need of cash for settling down current liabilities.

Conditions laid down by the bank for discounting of bill are as follows:

a. Must be intended to specific purpose

b. Must be enclosed with the signature of the two persons (company, bank or reputed person)

c. Must be less than the face value

d. Must be produced before the maturity period.

Electronic banking

Electronic banking has many names like e banking, virtual banking, online banking, or internet banking. It is simply the use of electronic and telecommunications network for delivering various banking products and services. Through e-banking, a customer can access his account and conduct many transactions using his computer or mobile phone.

Types of e banking:

Banks offer various types of services through electronic banking platforms. These are of three types:

Level 1 – This is the basic level of service that banks offer through their websites. Through this service, the bank offers information about its products and services to customers. Further, some banks may receive and reply to queries through e-mail too.

Level 2 – In this level, banks allow their customers to submit instructions or applications for different services, check their account balance, etc. However, banks do not permit their customers to do any fund-based transactions on their accounts.

Level 3 – In the third level, banks allow their customers to operate their accounts for funds transfer, bill payments, and purchase and redeem securities, etc.

Most traditional banks offer e-banking services as an additional method of providing service. Further, many new banks deliver banking services primarily through the internet or other electronic delivery channels. Also, some banks are 'internet only' banks without any physical branch anywhere in the country.

Therefore, banking websites are of two types:

1. **Informational Websites –** These websites offer general information about the bank and its products and services to customers.

2. **Transactional Websites** – These websites allow customers to conduct transactions on the bank's website. Further, these transactions can range from a simple retail account balance inquiry to a large business-to-business funds transfer. The following table lists some common retail and wholesale e-banking services offered by banks and financial institutions:

Common E-Banking Services

Retail Services	Wholesale Services
Account management	Account management
Bill payment	Cash management
New account opening	Small business loan applications, approvals, or advances
Consumer wire transfers	Commercial wire transfers
Investment / Brokerage services	Business-to-business payments
Loan application and approval	Employee benefits / pension administration
Account aggregation	

Further, under Internet banking, the following services are available in India:

Bill payment – Every bank has a tie-up with different utility companies, service providers, insurance companies, etc. across the country. The banks use these tie-ups to offer online payment of bills (electricity, telephone, mobile phone, etc.). Also, most banks charge a nominal one-time registration fee for this service. Further, the customer can create a standing instruction to pay recurring bills automatically every month.

Funds transfer – A customer can transfer funds from his account to another with the same bank or even a different bank, anywhere in India. He needs to log in to his account, specify the payee's name, account number, his bank, and branch along with the transfer amount. The transfer is effected within a day or so.

Investing – Through electronic banking, a customer can open a fixed deposit with the bank online through funds transfer. Further, if a customer has a demat account and a linked bank account and trading account, he can buy or sell shares online too. Additionally, some banks allow customers to purchase and redeem mutual fund units from their online platforms as well.

Shopping – With an e-banking service, a customer can purchase goods or services online and also pay for them using his account.

Importance of e-banking

Banks

1. Lesser transaction costs – electronic transactions are the cheapest modes of transaction
2. A reduced margin for human error – since the information is relayed electronically, there is no room for human error

3. Lesser paperwork – digital records reduce paperwork and make the process easier to handle. Also, it is environment-friendly.
4. Reduced fixed costs – A lesser need for branches which translates into a lower fixed cost.

a) More loyal customers – since e-banking services are customer-friendly, banks experience higher loyalty from its customers.

Customers

a) Convenience – a customer can access his account and transact from anywhere 24x7x365.
b) Lower cost per transaction – since the customer does not have to visit the branch for every transaction, it saves him both time and money.
c) No geographical barriers – In traditional banking systems, geographical distances could hamper certain banking transactions. However, with e-banking, geographical barriers are reduced.

Non-Performing Asset (NPA)

A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations.

KEY TAKEAWAYS

- Nonperforming assets (NPAs) are recorded on a bank's balance sheet after a prolonged period of non-payment by the borrower.
- NPAs place financial burden on the lender; a significant number of NPAs over a period of time may indicate to regulators that the financial health of the bank is in jeopardy.
- NPAs can be classified as a substandard asset, doubtful asset, or loss asset, depending on the length of time overdue and probability of repayment.
- Lenders have options to recover their losses, including taking possession of any collateral or selling off the loan at a significant discount to a collection agency.

How Non-Performing Assets (NPA) Work

Nonperforming assets are listed on the balance sheet of a bank or other financial institution. After a prolonged period of non-payment, the lender will force the borrower to liquidate any assets that were pledged as part of the debt agreement. If no assets were pledged, the lender might write-off the asset as a bad debt and then sell it at a discount to a collection agency.

In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. While 90 days is the standard, the amount of elapsed time may be shorter or longer depending on the terms and conditions of each individual loan. A loan can be classified as a nonperforming asset at any point during the term of the loan or at its maturity.

For example, assume a company with a $10 million loan with interest-only payments of $50,000 per month fails to make a payment for three consecutive months. The lender may be required to categorize the loan as nonperforming to meet regulatory requirements. Alternatively, a loan can also be categorized as nonperforming if a company makes all interest payments but cannot repay the principal at maturity.

Carrying nonperforming assets also referred to as nonperforming loans, on the balance sheet places significant burden on the lender. The non payment of interest or principal reduces the lender's cash flow, which can disrupt budgets and decrease earnings. Loan loss provisions, which are set aside to cover potential losses, reduce the capital available to provide subsequent loans to other borrowers. Once the actual losses from defaulted loans are determined, they are written off against earnings. Carrying a significant amount of NPAs on the balance sheet over a period of time is an indicator to regulators that the financial health of the bank is at risk.

Types of Non-Performing Assets (NPA)

Although the most common nonperforming assets are term loans, there are other forms of nonperforming assets as well.

a) Overdraft and cash credit (OD/CC) accounts left out-of-order for more than 90 days
b) Agricultural advances whose interest or principal installment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops
c) Expected payment on any other type of account is overdue for more than 90 days

Securitisation is a financing technique that consists of transferring assets, including commercial outstandings (unsettled invoices, etc.) or loans receivable (consumer credit, car loans, leasing, revolving credit card loans or even home loans, etc.) to investors.

Non-banking Financial Company:

In terms of section 45 - I subsection (f) of Reserve Bank of India Act, 1934, Non Banking Financial Company is defined as

(i) a financial institution which is a company;

(ii) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner ;

(iii) such others non-banking institution or class of such institutions as the RBI may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

A non-banking financial company (NBFC) is a company registered under the Companies Act, 1956 and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business, but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. For purposes of RBI directions relating to acceptance of Public Deposits, non-banking financial company means only the non-banking institution which is a –

1) Loan company

2) Investment company

3) Hire purchase finance company

4) Equipment leasing company

5) Mutual benefit financial company.

Non-banking financial institutions (NBFIs), engaged in varied financial activities are part of the Indian financial system providing a range of financial services. NBFCs are incorporated under the Companies Act, 1956.

NBFCs can be classified into two broad categories, viz.,

(i) NBFCs accepting public deposit (NBFCs-D) and

(ii) NBFCs not accepting/holding public deposit (NBFCsND). Residuary Non-Banking companies (RNBCs) are another category of NBFCs whose principal business is acceptance of deposits and investing in approved securities. In the interest of depositors, RBI has evolved a regulatory framework the salient features of which are outlined below for the guidance of depositors.

NBFCs include a loan company, an investment company, asset finance company (i.e. a company conducting the business of equipment leasing or hire purchase finance) and Residuary Non-Banking Companies. An NBFC must be registered with the Reserve Bank of India (RBI) and have specific authorization to accept deposits from the public. NBFC must display the Certificate of Registration or a certified copy thereof at the Registered office and other offices/branches.

Registration of an NBFC with the RBI merely authorizes it to conduct the business of NBFC. RBI does not guarantee the repayment of deposits accepted by NBFCs. NBFCs cannot use the name of the RBI in any manner while conducting their business. The NBFC whose application for grant of Certificate of Registration (CoR) has been rejected or cancelled by the RBI is neither authorized to accept fresh deposits nor renew existing deposit. Such rejection or cancellation is also published in newspapers from time to time.

1. Greater Employment Opportunities and Standard of Living

NBFCs help attain the objective of macroeconomic policies of creating more jobs in the country by promoting SMEs and private industries through lending them loans. This increase in new businesses consequently raises the demand for manpower and creates employment. Furthermore, the Purchasing Power Parity (PPP) of people rises and so does their standard of living.

2. Strengthening of Financial Market

The financial market relies heavily on Non-banking financial institutions for raising capital. The start-ups and small-sized businesses are dependent on funds offered by NBFCs and also in order to maintain liquidity. For an effective functioning and balance in the financial market, NBFCs play a significant role.

3. Supplying long-term credits

Unlike the regular banks, NBFCs extend long-term credits to infrastructure, commerce and trade companies. The traditional banks expect timely, schedules and short-term repayment of loans that may not always suit the requirements of these industries. NBFCs, on the other hand, fund large projects and so promotes economic growth. They also allow industries to participate in equity.

4. Mobilisation of Funds

Non-banking financial companies help in rotation of resources, asset distribution and regulation of income to shape the economic development. They enable converting saving into investments and thus helps in the mobilisation of funds/resources in the economy.

5. Growth of National Income

As NBFCs aim to build capital for several industries – private and otherwise – they aid in accumulating a capital stock for the country. This directly adds on to the national income and results in the progression of Gross Domestic Product (GDP).

Life Insurance Corporation

Life Insurance the Corporation of India was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. Over 245 insurance companies and provident societies were merged to create the state owned Life Insurance Corporation. The Oriental Life Insurance Company, the first company in India offering life insurance coverage, was established in Calcutta in 1818 by Anita Bhavsar and others. Its primary target market was the Europeans based in India, and it charged Indians heftier premiums. Surendranath Tagore (son of Satyendranath Tagore) had founded Hindustan Insurance Society, which later became Life Insurance Corporation.

The Bombay Mutual Life Assurance Society, formed in 1870, was the first native insurance provider. Other insurance companies established in the pre-independence era included Postal Life Insurance (PLI) was introduced on 1 February 1884

- Bharat Insurance Company (1896)
- United India (1906)
- National Indian (1906)
- National Insurance (1906)
- Co-operative Assurance (1906)
- Hindustan Co-operatives (1907)

• Indian Mercantile

• General Assurance

• Swadeshi Life (later Bombay Life)

• Sahyadri Insurance (Merged into LIC, 1986)

• The first 150 years were marked mostly by turbulent economic conditions. It witnessed, India's First War of Independence, adverse effects of the World War I and World War II on the economy of India, and in between them the period of worldwide economic crises triggered by the Great depression. The first half of the 20th century also saw a heightened struggle for India's independence. The aggregate effect of these events led to a high rate of and liquidation of life insurance companies in India. This had adversely affected the faith of the general public in the utility of obtaining life cover.

OBJECTIVES OF LIC

a) Spread Life Insurance widely and in particular to the rural areas and to the economically backward classes with a view to reaching all insurable people in the country and providing them adequate financial cover against death at a reasonable cost.
b) Maximize mobilization of people's savings by making insurance linked savings adequately attractive.
c) Bear in mind, in the investment of funds, the primary obligation to its policy holders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors and the community as a whole, keeping in view national priorities and obligations of attractive return.
d) Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.
e) Act as trustees of the insured public in their individual and collective capacity.
f) Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
g) Involve all people working in LICI to the best of their capabilities in furthering the interests of the insured public by providing efficient services with courtesy.
h) Promote amongst all agents and employees of the LICI a sense of participation, pride and job satisfaction through the discharge of their duties with dedication towards achievement of the corporate objectives.

FUNCTIONS OF LIFE INSURANCE CORPORATION OF INDIA

The life insurance business was nationalized on 19th January, 1956 and the Life Insurance Corporation of India came into being on 1st September, 1956 to carry on life business in India with capital of Rs.5 crore contributed by the Central Government. The Corporation is a body corporate having perpetual succession with a common seal with powers to acquire, hold and dispose of property and may by its name sue and be sued.

The functions of the Corporation shall be to carry on and develop life insurance business to the best advantage of the community.

The Corporation shall have power –

(a) To carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business relating to life insurance business;

(b) to invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realization of any investment; including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;

(c) To acquire, hold and dispose of any property for the purpose of its business;

(d) To transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the Corporation it is expedient so to do;

(e) To advance or lend money upon the security of any movable or immovable property or otherwise;

(f) To borrow or raise any money in such manner and upon such security as the Corporation may think fit;

(g) To carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to and vested in the Corporation by this act;

(h) To carry on any other business which may seem to the Corporation to be capable of being conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation; and

(i) To do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.

(j) In the discharge of any of its functions the Corporation shall act so far as may be on business principles.

General Insurance Corporation:

The general insurance industry in India was nationalised and a government company known as General Insurance Corporation (GIC) was formed by Central Government in 1972.

With effect from January 1, 1973, the erstwhile 107 Indian and foreign insurers who were operating in the country prior to nationalisation, were grouped into four operating companies, namely, (a) National Insurance Company Limited; (b) New India Assurance Company Limited; (c) Oriental Insurance Company Limited and (d) United Insurance Company Limited. Except for aviation insurance of national airlines and crop insurance which is handled by GIC, all the four subsidiaries operate all over the country competing with one another in underwriting various classes of general insurance.

The four companies have a network of 2699 branch offices, 1360 divisional offices and 92 regional offices spread all over the country. In the international market, the industry is operating in 16 countries directly through its agencies and in 14 countries through subsidiary and associate banks.

Some of the schemes in operation for the benefit of poor are the Personal Account Insurance Social Security Scheme, Hut Insurance Scheme and Crop Insurance Scheme for poor families in rural areas. The total assets and net worth of GIC grew by Rs. 26,424.03 crore and Rs. 4,759.13 crore respectively as on March 31, 2006.

Private Insurance Companies:

Every year, Insurance Regulatory and Development Authority of India (IRDA) announces a list of health insurance companies. There are few important features that help it to rate the insurance companies, such as their performances, Incurred Claim Ratio, and overall benefits offered to their customers.

There are a plethora of options when it comes down to buying health insurance policy for you. Not only this, there are a number of insurance providers that offer best deal of health insurance to its customers. However, it is actually not possible to figure out which is the best insurer that can actually fulfil all your needs and requirements while deciding an appropriate health plan for you.

Apollo Munich Health Insurance Company

Apollo Munich Health Insurance Company had an outstanding record of Incurred Claim Ratio of 92% for the fiscal year 2018-19, and it has brought additional benefits like portability and lifelong renewability options in its existing health insurance plans.

Star Health Insurance Company

Star Health Insurance Company recorded the Incurred Claim Ratio of 90% for the fiscal year 2018-19. The company has an in-house claim settlement procedure to deal with cashless hospitalization facility. Along with this, Star Health & Allied insurance company comes up with a range of exciting products that offer protection to Diabetes and HIV+ patients.

Max Bupa Health Insurance Company

Max Bupa is one of the best-known insurance companies in India, which had an Incurred Claim Ratio of 96% for the fiscal year 2018-19. This company offers its health insurance policies to individuals from all age groups.

SBI Health Insurance Company

SBI Health Insurance Co. Ltd is a joint venture between the State Bank of India (SBI) and Insurance Australia Group. SBI holds a 74% stake while 26% stake is held by Insurance Australia Group. It operates out in around 14,000 official branches across the globe. With an Incurred Claim Ratio of 52.93% for the fiscal year 2018-19, SBI Health Insurance Company has issued 198876 policies.

Top Health Insurance Companies in India

Religare Health Insurance Company

Religare Health Insurance Company limited has shown tremendous growth in a short period of time, thereby setting a benchmark in the insurance market of India. It had an Incurred Claim Ratio of 93% for financial year 2018-19. It is being regularly appreciated and promoted by the Fortis Hospitals.

Manipal Cigna Health Insurance Company

Manipal Cigna Health Insurance Company is comparatively a new player in the Indian insurance market, as it was launched in 2014 only and immediately fell into the category of the best health insurance companies in India. Its Incurred Claim Ratio for the fiscal year 2018-19 is 91%.

Bajaj Allianz General Insurance Company

Bajaj Allianz General Insurance Company has some health products that are very beneficial for customers from a particular age group. The 3 major health insurance products are Health Guard, Silver Health, and Star Package. Bajaj Allianz Insurance Company was the first to provide captive TPA services with certain additional benefits. Its Incurred Claim Ratio is 98% for the fiscal year 2018-19.

New India Assurance Company

New India Assurance is a fully government-owned entity of India, which has been in operations since 1919. This company is well-known for its Mediclaim policy. The best feature offered under this health insurance policy is that it provides different ratings for major metros. It had an Incurred Claim Ratio of 97% for the fiscal year 2018-19.

Oriental Insurance Company

Oriental general insurance is also a government-owned general insurance company that offers a wide range of health insurance products in India. The impressive part of Oriental health insurance is that it doesn’t require a pre-policy medical test up to the age of 60 years, whereas it is mandatory under other health insurance providers to get a medical examination done if you are below 45 years of age. Its Incurred Claim Ratio stood at 89% for the fiscal year 2018-19.

National Insurance Company

National Insurance Company Ltd. is a full government entity, which has been serving its customers for more than a century and also provides health insurance coverage. It had an Incurred Claim Ratio of 103.19% for the fiscal year 2018-19. The best health product offered by National General Insurance Company is Varishtha Mediclaim that offers coverage to senior citizens.

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KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

INDIAN FINANCIAL SYSTEM

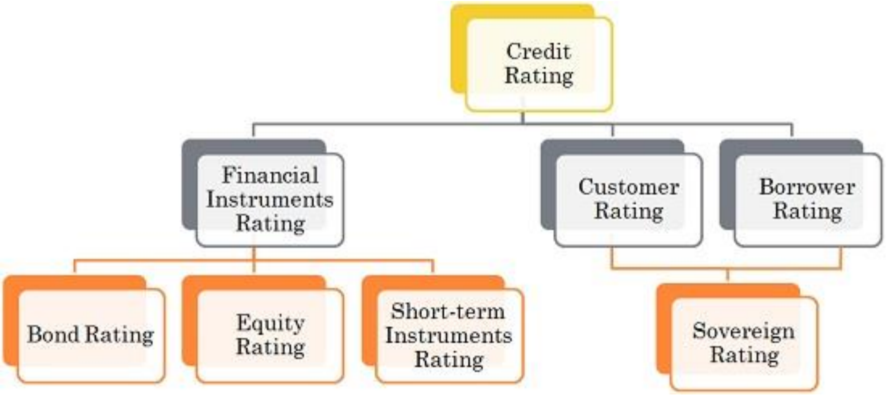
UNIT - V

Credit rating – concept, credit rating agencies in India, Rating methodology and process, Rating symbols for debentures and bonds, Mutual fund – concept, advantages of mutual fund, History of MFs in India, Management of MF, Venture capital – concept, objectives, Development of venture capital in India.

Credit Rating

Definition: Credit Rating can be defined as the assessment of the ability of the borrower, to discharge their financial obligations. It is an approximation of the creditworthiness of an individual, entity or commercial instrument, considering various factors, representing the capability and willingness, to pay financial commitments in time.

Credit rating is instrument specific and is meant to grade various commercial instruments, with respect to the credit risk and the obligator's ability to make good the debt obligations, as per the terms of the agreement. The different types of credit ratings are depicted in the figure below:



Credit rating refers to the expression of opinion concerning debt instrument, based on credit risk evaluation, given by rating agency as on a particular date, indicating the probability of principal plus interest to be met by the borrower in a timely manner. There are three factors which are to be considered during default risk assessment and quality rating, they are:

1. Issuers ability to pay.
2. Strength of the instrument owner's claim on the issue.
3. Economic importance of the marketplace of the issuer.

Expression of Credit Rating is in alphabetical or alphanumerical symbols, that enable the investor to distinguish the debt instruments, as per their underlying credit quality.

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INDIAN FINANCIAL SYSTEM

UNIT - V

Request from issuer and analysis: The first step to credit rating is that the enterprise applies to the rating agency for the rating of a particular instrument. Thereafter, an expert team interacts with the firm's those charged with governance and acquires relevant data. Factors which are considered includes:

- Historical performance
- Financial Policies
- Business Risk profile
- Competitive Position, etc.

Rating Committee: Based on the information gathered and evaluation performance, the presentation of the report is made by the expert's team to the Rating Committee, in which the issuer is not permitted to take part.

Communication to management and appeal: The decision of the rating is shared with the issuer and if he/she does not agree with the decision, then an opportunity of being heard is given. The issuer is required to provide material information, so as to appeal against the decision. The decision is reviewed by the committee, but that does not make any change in the ratings.

Pronouncement of the rating: When the issuer agrees to the rating decision, the agency make a public announcement, of the rating.

Monitoring of the assigned rating: The agency which rates the issue, overlooks the performance of the issuer and the business environment in which it operates.

Rating Watch: On the basis of continuous critical observation undertaken by the rating agency, it may place a rated security on Rating Watch.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

INDIAN FINANCIAL SYSTEM

UNIT - V

Rating Coverage: Credit Ratings are not confined to particular debt instruments, but also covers public utilities, transport, infrastructure, energy projects, Special Purpose Vehicles etc

Rating Scores: Rating scores are given by the credit rating agencies like CRISIL, ICRA, CARE, FITCH.

Credit Rating is of great help, not just in investors protection but to the entire industry, as it directly mobilizes savings of the individuals.

Approaches to Credit Rating

As a technique for independent examination of the investment worth of financial securities as an input to investment decision-making, the process of credit rating usually involves use of one or more of
(i) implicit judgmental approach
(ii) explicit judgmental approaches and
(iii) statistical approach.
While implicit judgmental follows beauty-contest approach wherein a broad range of factors concerning promoter, project, environment and instrument characteristics are considered ‘generally’. Explicit judgmental approach involves identification and measurement of he factors critical to an objective assessment of the credit/investment worthier of an instrument with a view to arriving at a numerical credit score or index. Finally, statistical approach involves, assignment of weights to each of the factors and obtaining the overall credit rating score with a view to doing away with personal bias inherent in both-explicit and implicit judgment.

Methodology of Credit Rating

The process of credit rating begins with the prospective issuer approaching the rating agency for evaluation. The experts in analyzing banks should be given a free hand and they will collect data and informant and will investigate the business strength and weaknesses in detail. The entire process of rating stands on the for of confidentiality and hence even the most confidential business strategies, marketing plans, future outlook etc., are revealed to the steam of analysis.

The rating is based on the investigation analysis, study and interpretation of various factors. The world of investment is exposed to the continuous onslaught of political, economic, social and other forces which does not permit any one to understand sufficiently certainty. Hence a logical approach to systematic evaluation is compulsory and within the framework of certain common features the agencies employ different methodologies. The key factors generally considered are listed below:

1. Business Analysis or Company Analysis

This includes an analysis of industry risk, market position of the company, operating efficiency of the company and legal position of the company.
Industry risk: Nature and basis of competition, key success factors; demand supply position; structure of industry; government policies, etc.
Market position of the company within the Industry: Market share; competitive advantages, selling and distribution arrangements; product and customer diversity etc.
Operating efficiency of the company: Locational advantages; labor relationships; cost structure and manufacturing as compared to those of competition.

Legal Position: Terms of prospectus; trustees and then responsibilities; system for timely payment and for protection against forgery/fraud, etc.

2. Economic Analysis

In order to evaluate an instrument an analyst must spend a considerable time in investigating the various economic activities and also analyze the characteristics peculiar to the industry, whose issue the analyst is concerned with. It will be an error to ignore these factors as the individual companies are always exposed to changing environment and the economic activates affect corporate profits, attitudes and expectation of investors and the price of the instrument. hence the relevance of the economic variables such as growth rate, national income and expenditure cannot be ignored. The analysis, while doing the economic forecasting use surveys, various economic indicators and indices.

3. Financial Analysis

This includes an analysis of accounting, quality, earnings, protection adequacy of cash flows and financial flexibility.
Accounting Quality: Overstatement/under statement of profits; auditors qualification; methods of income recognition's inventory valuation and depreciation policies, off balance sheet liabilities etc.
Earnings Protection: Sources of future earnings growth; profitability ratios; earnings in relation to fixed income changes.
Adequacy of cash flows: In relation to dept and fixed and working capital needs; variability of future cash flows; capital spending flexibility working capital management etc.
Financial Flexibility: Alternative financing plans in ties of stress; ability to raise funds asset redeployment.

4. Management Evaluation

Track record of the management planning and control system, depth of managerial talent, succession plans.
Evaluation of capacity to overcome adverse situations
Goals, philosophy and strategies.
5. Geographical Analysis
Location advantages and disadvantages
Backward area benefit to the company/division/unit

6. Fundamental Analysis

Fundamental analysis is essential for the assessment of finance companies. This includes an analysis of liquidity management, profitability and financial position and interest and tax sensitivity of the company.
Liquidity Management: Capital structure; term matching of assets and liabilities policy and liquid assets in relation to financing commitments and maturing deposits.
Asset Quality: Quality of the company's credit-risk management; system for monitoring credit; sector risk; exposure to individual borrower; management of problem credits etc.
Profitability and financial position: Historic profits, spread on fund deployment revenue on non-fund based services accretion to reserves etc.
Interest and Tax sensitivity: Exposure to interest rate changes, hedge against interest rate and tax low changes, etc.

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Credit Rating Agencies in India

Credit Rating and Information Services of India Ltd. (CRISIL) in India in 1987, there has been a rapid growth of credit rating agencies in India. The major players in the Indian market, apart from CRISIL include Investment Information and Credit Rating agency of India Ltd. (ICRA), promoted by IDBI in 1991 and Credit Analysis and Research Ltd. (CARE), promoted by IFCI in 1994. Duff and Phelps has tied up with two Indian NBFCs to set up Duff and Phelps Credit Rating India (P) Limited in 1996.

Mutual fund

A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested in capital market instruments such as shares, debentures, and other securities. The income earned through these investments is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Investments in securities are spread across a wide cross section of industries and sectors and thereby reduce the risk. Asset Management Companies (AMCs) normally come out with a number of schemes with different investment objectives from time to time. A mutual fund is required to be registered with the Securities and Exchange Board of India (SEBI), which regulates securities markets before it can collect funds from the public.

THE MUTUAL FUND INDUSTRY IN INDIA:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI) at the initiative of the Reserve Bank of India (RBI) and the Government of India. The objective then was to attract small investors and introduce them to market investments. Since then, the history of mutual funds in India can be broadly divided into six distinct phases.

Phase I (1964-87): Growth Of UTI:

In 1963, UTI was established by an Act of Parliament. As it was the only entity offering mutual funds in India, it had a monopoly. Operationally, UTI was set up by the Reserve Bank of India (RBI), but was later delinked from the RBI. The first scheme, and for long one of the largest launched by UTI, was Unit Scheme 1964.

Later in the 1970s and 80s, UTI started innovating and offering different schemes to suit the needs of different classes of investors. Unit Linked Insurance Plan (ULIP) was launched in 1971. The first Indian offshore fund, India Fund was launched in August 1986. In absolute terms, the investible funds corpus of UTI was about Rs 600 crores in 1984. By 1987-88, the assets under management (AUM) of UTI had grown 10 times to Rs 6,700 crores.

Phase II (1987-93): Entry of Public Sector Funds:

The year 1987 marked the entry of other public sector mutual funds. With the opening up of the economy, many public sector banks and institutions were allowed to establish mutual funds. The State Bank of India established the first non-UTI Mutual Fund, SBI Mutual Fund in November 1987. This was followed by Canbank Mutual Fund,LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual

Fund, GIC Mutual Fund and PNB Mutual Fund. From 1987-88 to 1992-93, the AUM increased from Rs 6,700 crores to Rs 47,004 crores, nearly seven times. During this period, investors showed a marked interest in mutual funds, allocating a larger part of their savings to investments in the funds.

Phase III (1993-96): Emergence of Private Funds:
A new era in the mutual fund industry began in 1993 with the permission granted for the entry of private sector funds. This gave the Indian investors a broader choice of 'fund families' and increasing competition to the existing public sector funds. Quite significantly foreign fund management companies were also allowed to operate mutual funds, most of them coming into India through their joint ventures with Indian promoters.
The private funds have brought in with them latest product innovations, investment management techniques and investor-servicing technologies. During the year 1993-94, five private sector fund houses launched their schemes followed by six others in 1994-95.

Phase IV (1996-99): Growth And SEBI Regulation:
Since 1996, the mutual fund industry scaled newer heights in terms of mobilization of funds and number of players. Deregulation and liberalization of the Indian economy had introduced competition and provided impetus to the growth of the industry.
A comprehensive set of regulations for all mutual funds operating in India was introduced with SEBI (Mutual Fund) Regulations, 1996. These regulations set uniform standards for all funds. Erstwhile UTI voluntarily adopted SEBI guidelines for its new schemes. Similarly, the budget of the Union government in 1999 took a big step in exempting all mutual fund dividends from income tax in the hands of the investors. During this phase, both SEBI and Association of Mutual Funds of India (AMFI) launched Investor Awareness Programme aimed at educating the investors about investing through MFs.

Phase V (1999-2004): Emergence of a Large and Uniform Industry:
The year 1999 marked the beginning of a new phase in the history of the mutual fund industry in India, a phase of significant growth in terms of both amount mobilized from investors and assets under management. In February 2003, the UTI Act was repealed. UTI no longer has a special legal status as a trust established by an act of Parliament. Instead it has adopted the same structure as any other fund in India - a trust and an AMC.
UTI Mutual Fund is the present name of the erstwhile Unit Trust of India (UTI). While UTI functioned under a separate law of the Indian Parliament earlier, UTI Mutual Fund is now under the SEBI's (Mutual Funds) Regulations, 1996 like all other mutual funds in India.

The emergence of a uniform industry with the same structure, operations and regulations make it easier for distributors and investors to deal with any fund house. Between 1999 and 2005 the size of the industry has doubled in terms of AUM which have gone from above Rs 68,000 crores to over Rs 1,50,000 crores.

Phase VI (From 2004 Onwards): Consolidation and Growth:
The industry has lately witnessed a spate of mergers and acquisitions, most recent ones being the acquisition of schemes of Allianz Mutual Fund by Birla Sun Life, PNB Mutual Fund by Principal, among others. At the same time, more international players continue to enter India including Fidelity, one of the largest funds in the world.

ADVANTAGES OF MUTUAL FUNDS:

Mutual fund investments in stocks, bonds and other instruments require considerable expertise and constant supervision, to allow an investor to take the right decisions. Small investors usually do not have the necessary expertise and time to undertake any study that can facilitate informed decisions. While this is the predominant reason for the popularity of mutual funds, there are many other benefits that make mutual funds appealing.

Diversification Benefits:

Diversified investment improves the risk return profile of the portfolio. Optimal diversification has limitations due to low liquidity among small investors. The large corpus of a mutual fund as compared to individual investments makes optimal diversification possible. Due to the pooling of capital, individual investors can derive benefits of diversification.

Low Transaction Costs:

Mutual fund transactions are generally very large. These large volumes attract lower brokerage commissions and other costs as compared to smaller volumes of the transactions that individual investors enter into. The brokers quote a lower rate of commission due to two reasons. The first is competition for the institutional investors business. The second reason is that the overhead cost of executing a trade does not differ much for large and small orders. Hence for a large order these costs spread over a large volume enabling the broker to quote a lower commission rate.

Availability of Various Schemes:

There are four basic types of mutual funds: equity, bond, hybrid and money market. Equity funds concentrate their investments in stocks. Similarly bond funds primarily invest in bonds and other securities. Equity, bond and hybrid funds are called long-term funds. Money market funds are referred to as short-term funds because they invest in securities that generally mature in about one year or less. Mutual funds generally offer a number of schemes to suit the requirement of the investors.

Professional Management:

Management of a portfolio involves continuous monitoring of various securities and innumerable economic variables that may affect a portfolio's performance. This requires a lot of time and effort on part of the investors along with in-depth knowledge of the functioning of the financial markets. Mutual funds are managed by fund managers generally with knowledge and experience whose time is solely devoted to tracking and updating the portfolio. Thus investment in a mutual fund not only saves time and effort for the investor but is also likely to produce better results.

Liquidity:

Liquidating a portfolio is not always easy. There may not be a liquid market for all securities held. In case only a part of the portfolio is required to be liquidated, it may not be possible to see all the securities forming a part of the portfolio in the same proportion as they are represented in the portfolio; investing in mutual funds can solve these problems. A fund house generally stands ready to buy and sell its units on a regular basis. Thus it is easier to liquidate holdings in a Mutual Fund as compared to direct investment in securities.

Returns:
In India dividend received by investors is tax-free. This enhances the yield on mutual funds marginally as compared to income from other investment options. Also in case of long-term capital gains, the investor benefits from indexation and lower capital gain tax.

Flexibility:
Features of a MF scheme such as regular investment plan, regular withdrawal plans and dividend reinvestment plan allows investors to systematically invest or withdraw funds according to the needs and convenience.

Well Regulated:
All mutual funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interest of investors. The SEBI regularly monitors the operations of an AMC.

STRUCTURE OF MUTUAL FUNDS IN INDIA:

In India, the mutual fund industry is highly regulated with a view to imparting operational transparency and protecting the investor's interest. The structure of a mutual fund is determined by SEBI regulations. These regulations require a fund to be established in the form of a trust under the Indian Trust Act, 1882. A mutual fund is typically externally managed. It is now an operating company with employees in the traditional sense.

Instead, a fund relies upon third parties that are either affiliated organizations or independent contractors to carry out its business activities such as investing in securities. A mutual fund operates through a four-tier structure. The four parties that are required to be involved are a sponsor, Board of Trustees, an asset management company and a custodian.

Sponsor: A sponsor is a body corporate who establishes a mutual fund. It may be one person acting alone or together with another corporate body. Additionally, the sponsor is expected to contribute at least 40% to the net worth of the AMC. However, if any person holds 40% or more of the net worth of an AMC, he shall be deemed to be a sponsor and will be required to fulfill the eligibility criteria specified in the mutual fund regulation.

Board Of Trustees: A mutual fund house must have an independent Board of Trustees, where two-thirds of the trustees are independent persons who are not associated with the sponsor in any manner. The Board of Trustees of the trustee company holds the property of the mutual fund in trust for the benefit of the unit-holders. They are responsible for protecting the unit-holder's interest.

Asset Management Company: The role of an AMC is highly significant in the mutual fund operation. They are the fund managers i.e. they invest investors' money in various securities (equity, debt and money market instruments) after proper research of market conditions and the financial performance of individual companies and specific securities in the effort to meet or beat average market return and analysis. They also look after the administrative functions of a mutual fund for which they charge management fee.

Custodian: The mutual fund is required by law to protect their portfolio securities by placing them with a custodian. Nearly all mutual funds use qualified bank custodians. Only a registered custodian under the SEBI regulation can act as a custodian to a mutual fund.

What is Venture Capital?

It is a private or institutional investment made into early-stage / start-up companies (new ventures). As defined, ventures involve risk (having uncertain outcome) in the expectation of a sizeable gain. Venture Capital is money invested in businesses that are small; or exist only as an initiative, but have huge potential to grow. The people who invest this money are called venture capitalists (VCs). The venture capital investment is made when a venture capitalist buys shares of such a company and becomes a financial partner in the business.

Venture Capital investment is also referred to risk capital or patient risk capital, as it includes the risk of losing the money if the venture doesn't succeed and takes medium to long term period for the investments to fructify.

Venture Capital typically comes from institutional investors and high net worth individuals and is pooled together by dedicated investment firms.

It is the money provided by an outside investor to finance a new, growing, or troubled business. The venture capitalist provides the funding knowing that there's a significant risk associated with the company's future profits and cash flow. Capital is invested in exchange for an equity stake in the business rather than given as a loan.

Venture Capital is the most suitable option for funding a costly capital source for companies and most for businesses having large up-front capital requirements which have no other cheap alternatives. Software and other intellectual property are generally the most common cases whose value is unproven. That is why; Venture capital funding is most widespread in the fast-growing technology and biotechnology fields.

Features of Venture Capital investments

- High Risk
- Lack of Liquidity
- Long term horizon
- Equity participation and capital gains
- Venture capital investments are made in innovative projects
- Suppliers of venture capital participate in the management of the company

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Methods of Venture capital financing

- Equity
- Participating debentures
- Conditional loan

The venture capital funding process typically involves four phases in the company's development:

1. Idea generation
2. Start-up
3. Ramp up
4. Exit

Step 1: Idea generation and submission of the Business Plan

The initial step in approaching a Venture Capital is to submit a business plan. The plan should include the below points:

- ✓ There should be an executive summary of the business proposal
- ✓ Description of the opportunity and the market potential and size
- ✓ Review on the existing and expected competitive scenario
- ✓ Detailed financial projections
- ✓ Details of the management of the company
- ✓ There is detailed analysis done of the submitted plan, by the Venture Capital to decide whether to take up the project or no.

Step 2: Introductory Meeting

Once the preliminary study is done by the VC and they find the project as per their preferences, there is a one-to-one meeting that is called for discussing the project in detail. After the meeting the VC finally decides whether or not to move forward to the due diligence stage of the process.

Step 3: Due Diligence

The due diligence phase varies depending upon the nature of the business proposal. This process involves solving of queries related to customer references, product and business strategy evaluations, management interviews, and other such exchanges of information during this time period.

Step 4: Term Sheets and Funding

If the due diligence phase is satisfactory, the VC offers a term sheet, which is a non-binding document explaining the basic terms and conditions of the investment agreement. The term sheet is generally negotiable and must be agreed upon by all parties, after which on completion of legal documents and legal due diligence, funds are made available.

Types of Venture Capital funding

The various types of venture capital are classified as per their applications at various stages of a business. The three principal types of venture capital are early stage financing, expansion financing and acquisition/buyout financing.

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The venture capital funding procedure gets complete in six stages of financing corresponding to the periods of a company's development

Seed money: Low level financing for proving and fructifying a new idea

Start-up: New firms needing funds for expenses related with marketingand product development

First-Round: Manufacturing and early sales funding

Second-Round: Operational capital given for early stage companies which are selling products, but not returning a profit

Third-Round: Also known as Mezzanine financing, this is the money for expanding a newly beneficial company

Fourth-Round: Also called bridge financing, 4th round is proposed for financing the "going public" process

A) Early Stage Financing:

Early stage financing has three sub divisions seed financing, start up financing and first stage financing.

Seed financing is defined as a small amount that an entrepreneur receives for the purpose of being eligible for a start up loan.

Start up financing is given to companies for the purpose of finishing the development of products and services.

First Stage financing: Companies that have spent all their starting capital and need finance for beginning business activities at the full-scale are the major beneficiaries of the First Stage Financing.

B) Expansion Financing:

Expansion financing may be categorized into second-stage financing, bridge financing and third stage financing or mezzanine financing.

Second-stage financing is provided to companies for the purpose of beginning their expansion. It is also known as mezzanine financing. It is provided for the purpose of assisting a particular company to expand in a major way. Bridge financing may be provided as a short term interest only finance option as well as a form of monetary assistance to companies that employ the Initial Public Offers as a major business strategy.

C) Acquisition or Buyout Financing:

Acquisition or buyout financing is categorized into acquisition finance and management or leveraged buyout financing. Acquisition financing assists a company to acquire certain parts or an entire company. Management or leveraged buyout financing helps a particular management group to obtain a particular product of another company.

Advantages of Venture Capital

They bring wealth and expertise to the company

Large sum of equity finance can be provided

The business does not stand the obligation to repay the money

In addition to capital, it provides valuable information, resources, technical assistance to make a business successful

Disadvantages of Venture Capital

As the investors become part owners, the autonomy and control of the founder is lost

It is a lengthy and complex process

It is an uncertain form of financing
Benefit from such financing can be realized in long run only
Exit route
There are various exit options for Venture Capital to cash out their investment:

- ✓ IPO
- ✓ Promoter buyback
- ✓ Mergers and Acquisitions
- ✓ Sale to other strategic investor

Growth of venture capital in India

The development of the organized venture capital industry in India, as is in existence today, was slow and belaboured, circumscribed by resource constraints resulting from the overall framework of the socialistic economic paradigms. Although funding for new businesses was available from banks and government-owned development financial institutions, it was provided as a collateral-based money on project-financing basis, which made it difficult for the most new entrepreneurs, especially those who were technology and services based, to raise money for their ideas and businesses. Most entrepreneurs had to rely on their own financial resources, and those of their families and well wishers or private financiers to realize their entrepreneurial dreams.

In 1972, a committee on Development of Small and Medium Enterprises highlighted the need to foster venture capital as a so urce of funding new entrepreneurs and technology. This resulted in a few incremental steps being taken over the next decade-and-a-half to facilitate venture capital funds into needy technologically oriented small and medium Enterprises (SMEs), namely:

National financial institutions like

1. Industrial Finance Corporation of India Ltd (IFCI-1948) provides medium and long term finance to industries. Risk Capital Foundation, sponsored by IFCI, was set-up in 1975 to pro-mote and support new technologies and businesses.
2. Industrial Credit and Investment Corporation of India Ltd (ICICI-1955) the primary objective is to meet the foreign exchange requirements of industrial concerns and for promoting medium and large industries in the private sector. Programme for Advancement of Commercial Technology (PACT) Scheme was introduced by ICICI in 1985 In 1988, ICICI emerged as a venture capital provider with Unit Trust of India. As now, there are a number of venture capital institutions in India. Financial banks like ICICI have stepped in to this and have their own venture capital subsidiaries.
3. Industrial Development Bank of India (IDBI-1964) coordinates the activities of other financial institutions, supplements their resources to plan and promote the medium and the large industries, the Seed Capital Scheme and the National Equity Scheme was set up by IDBI in 1976. The idea of venture capital gained momentum in the budget of 1986-87. A 5% cess was levied on all know-how imports to create the corpus of the venture fund floated by IDBI in 1987. Later, a study was undertaken by the World Bank to examine the possibility of developing venture capital in the private sector, based on which the Government of India took a policy initiative and announced guidelines for venture capital funds (VCFs) in India in 1988.
4. Industrial Reconstruction Bank of India (IRBI-1985) functions both as a lending and a reconstruction agency and provides finance in term loans, in the form of term loans underwriting guarantees etc.

5. Small Industries Development Bank of India (SIDBI-1990) for developing and financing small scale industries.

Specialized institutions like:

1. Risk Capital and Technology Finance Corporation Ltd (RCTC-1988) Provides risk capital and technology finance for the project envisaging promotion, transfer and adaption of new technologies.
2. Technology Development and Information Company of India Ltd (TDICI-1988) the TDICI was set up jointly with the ICICI and UTI to provide assistance in the form of project loan etc, to small and medium industries conceived by technocrat entrepreneurs.
3. Tourism Finance Corporation of India Ltd (TFCI-1989) Provides assistance in the form of rupee loans, underwriting securities, equipment leasing for developing tourism industry including holiday report, hotels, amusement parks and entertainment complex.

State level financial institutions like

1. State Finance Corporation (SFCs-1951) provides assistance to medium and small scale industries in their respective states.
2. State Industrial Development Corporations (SIDCs) provide assistance in the form of term loans, underwriting securities and direct subscription.

Some of them engage in preparation of feasibility reports, conducting surveys, and in developing industrial estates. The financial investment process has evolved a lot with time in India. Earlier there were only commercial banks and some financial institution but now with venture capital investment institution in India has grown a lot. Business forms now focus on expansion because they can get financial support with venture capital. The scale and quality of the business enterprises have increased in India now with international competition, there have been a number of growth oriented business firms that have invested in venture capital. The venture capital finance in India can be categorized in to following three groups.

Central government

The power and authority is vested in the hands of government of India, some of the examples of venture capital finance promoted by the Central Government controlled development finance institutions are as follows SIDBI Venture Capital Limited (SVCL) IFCI Venture Capital Funds Limited (IVCF).

State Government:

The power and authority is vested in the hands of state government, some of the examples of venture capital finance promoted by the State Government controlled development finance institutions are as follows Gujarat Venture Finance Limited (GVFL), Kerala Venture Capital Fund Pvt Ltd, Punjab Infotech Venture Fund, Hyderabad Information Technology Venture Enterprises Limited (HITVEL).

Private sector companies

The power and authority is vested in the hands of private sector companies, some of the examples of venture capital finance promoted by the private sector controlled are as follows IL&FS Trust Company Limited and Infinity Venture India Fund

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Present scenario of venture capital in India:

The present scenario of venture capital finance is quite different. Venture capital financing in India is open to all, provided they find the unique business idea with growing market, an efficient management team, an innovative business model and home-run potential. Once they find a start up with all the necessary items that make it ideal for an investment, the Venture capitalists waste no time to back it with an aim to gain huge profits. The success of Flipkart is no more new story and is largely because of venture capital that the firm has managed to raise the finance. In less than seven years, the firm has earned revenue of over $1 billion. The investors offering venture capital financing in India are mainly targeting sectors like technology, software enterprise, consumer internet, online retail, healthcare, energy, advertising, real estate, infrastructure, and private equity

INDIA

S.No	Question
1	………………..allocates saving efficiently in an economy to ultimate users either for investment in real assets or for consumption
2	Which of the following is not a regulatory institutions in Indian financial system
3	………………is regarded as a queen of Indian financial system.
4	………………represent claims for the payment of a sum of money sometimes in the future and/or a periodic payment in the form of interest or dividend.
5	SEBI was established in ………………..
6	RBI started functioning on …………………..
7	National Housing bank is a fully owned subsidiary of ……………..
8	…………..has the statutory powers to regulate and promote the Indian capital market.
9	Any company making a public issue of value of more than Rs. ……………. is required to file a draft offer document with SEBI.
10	………………Committee was constituted by SEBI for deciding about derivatives trading.
11	RBI is the lender of last resort for ……………….
12	The market regulator of Indian Capital Market is …………..
13	………………… facilitate the transfer of funds from savers to the borrowers
14	…………………… market is a market for old issues.
15	Which of the following is a financial asset
16	Which of the following is a cash asset?
17	Govt. bond is a
18	Money market deals with .... instruments.
19	The market for extremely short period loan is called....................
20	.... acts as an intermediary between Govt. and money market
21	.... are drawn by contractors on the Govt. departments for the goods supplied to them
22	The bill which doesn’t require acceptance is called....................

23	.... are an important instrument of short term borrowing by the Govt.
24	.... is a market for bankers' acceptances
25	Accommodation bills are also known as .... bills
26	Adhoc treasury bills are issued in favour of the .... only
27	.... are short term deposits of specific maturity similar to fixed deposits.
28	……………….is an unsecured short term promissory note issued by creditworthy companies?
29	Discount and Finance House of India was set up in ....
30	Discount and Finance House of India was set up in pursuance of the recommendations of ……………….committee
31	.... has been set up mainly to provide a secondary market in Govt. Securities
32	Right shares are offered to....................
33	.... is the suitable method where small companies issue shares
34	.... is a process of admitting securities for trading on a recognised stock exchange.
35	.... is a preferential independent broker who deals in securities on his own behalf.
36	The facility to carry forward a transaction from one settlement period to another is known as .... transaction
37	The device adopted to make profit out of the differences in prices of a security in to different markets is called....................
38	The central depositary .... the security on behalf of the investors
39	.... of shares in the first step in the depository process
40	.... is the link between the depository and the owner
41	.... issues does not bring in any fresh capital
42	Prospectus is not issued in
43	An issuer need not file an offer document in case of
44	An issuer can launch an IPO within....................
45	An issue of a minimum size of Rs. .... crore is a mega issue

46	Financial institutions are also known as ....
47	.... is the first development financial institution in India
48	Management Development Institute (MDI)was set up by ....
49	IDBI was established in ....
50	.... is an apex institution to coordinate, supplement and integrate the activities of all existing specialised financial institutions.
51	Technical consultancy Organisations were set up by.......................
52	ICICI was set up in ....
53	.... assists mainly to industrial undertakings in the private sector
54	LIC was established in.......................
55	UTI was set up in the year ....
56	...............known as Brettonwood twins
57	World bank is also known as.......................
58	World bank was set up in ....
59	IMF commenced financial operation on.......................
60	Which of the following gives long term finance?

AN FINANCIAL SYSTEM - UNIT 1

I MCOM - 19CMP105A

Option A	Option B	Option C	Option D		
Economic system	Financial system	Banking system	Market system		
RBI	SEBI	CIBIL	IRDA		
SEBI	RBI	Finance Ministry	BSE		
physical asset	fixed asset	financial asset	material asset		
1988	1985	1991	1990		
4/1/1935	4/1/1948	1-4-1882	4/1/1945		
HDFC	HSBC	RBI	HUDCO		
Registrar of issue	Merchant banks	SEBI	RBI		
100 lakh	25 lakh	50 lakh	10 lakh		
L.C.Gupta	R. L. Gupta	Vaghul	Malhotra		
Central Government	State Governments	Stock markets	Commercial Banks		
DFHI	RBI	SEBI	STCI		
goods market	money market	financial market	consumer market		
Money market	Primary market	Secondary market	Daily market		
gold	silver	share	Land.		
deposit created out of loans	share	bond	Post office certificate.		
short term security	long term security	medium term security	Very long term security		
long term	short term	medium term	Very long term security		
call money market	money at short notice	T-bill market	G-sec market		
RBI	SEBI	Commercial banks	Development banks		
treasury bills	supply bill	bill of lading	documentary bill		
treasury bills	supply bill	bill of lading	documentary bill		

National saving certificate	Bonds	Treasury bill	Post office certificate.		
discount market	CDs market	Interbank participation market	Acceptance market		
kite bills	storm bills	supply bill	demand bill		
Treasury	RBI	Commercial banks	State government		
commercial paper	Interbank participation certificate	Repo	Certificate of deposit		
commercial paper	interbank participation certificate	Repo	Certificate of deposit		
1982	1988	1992	1969		
Malegam	Malhotra	Vaghul	Narasimham		
DHFI	OTCEI	STCI	NSDL		
Debenture holders	Existing shareholders	List 2 contributories	Liquidators		
public issue	placement	offer for sale	rights issue		
registration	filing	listing	admission		
Jobber	sub broker	Remisiers	Arbitragers		
Badla	arbitrage	cornering	trading inside		
cornering	prise rigging	arbitrage	margin trading		
hold	give	share	only share		
Registration	Listing	Rematting	Immobilisation		
Agent	Depository participant	Beneficiary	Broker		
equity	preference	debenture	bonus		
public issue	private placement	right issue	bonus		
public issue	preferential allotment	right issue	bought out deal		
3 months	6 months	9 months	one year		
50	100	150	300		

Financial organisation	Financial intermediaries	Financial system	Market system		
IDBI	ICICI	IFCI	RBI		
IDBI	ICICI	IFCI	RBI		
1948	1954	1992	1964		
IFCI	IDBI	RBI	SEBI		
IFCI	IDBI	RBI	SEBI		
1955	1964	1989	1935		
IFCI	IDBI	ICICI	SEBI		
1956	1964	1989	1935		
1956	1964	1969	1948		
IDBI and IFCI	IDBI and UTI	IBRD and IMF	RBI and SEBI		
IMF	ADB	IBRD	UNICEF		
1945	1946	1947	1948		
1945	1946	1947	1948		
IDBI	IER	IAC	IFR		IDBI

Answer
Banking system
SEBI
RBI
financial asset
1988
4/1/1935
RBI
SEBI
50 lakh
L.C.Gupta
Commercial Banks
SEBI
financial market
Secondary market
share
deposit created out of loans
long term security
short term
call money market
RBI
supply bill
treasury bills

Treasury bill
Acceptanc e market
kite bills
RBI
Certificate of deposit
commerci al paper
1988
Vaghul
STCI
Existing sharehold ers
placement
listing
Jobber
Badla
arbitrage
hold
Immobilis ation
Depositor y participan t
bonus
private placement
preferenti al allotment
6 months
100

Financial intermediaries
IFCI
IFCI
1964
IDBI
IDBI
1955
ICICI
1956
1964
IBRD and IMF
IBRD
1945
1947

S.No	Question	Option A
1	Which of the following is a fee based service	hire purchase
2	Find the odd one out	commercial paper
3	The process of managing the sales ledger of a client by a financial service company is called	forfaiting
4	Mutual funds are very popular in	USA
5	In India, the company which actually deals with the corpus of the mutual fund is called	sponsor company
6	The first bank in India to start factoring business is	Canara bank
7	An asset with a physical value is called	Financial asset
8	An asset which derives its value because of a contractual claim is	Financial asset
9	Gold is ………………….asset	Financial asset
10	Cash is …………..asset	Financial asset
11	………………is a whole sale market for short term debt instrument.	capital market
12	Money lent in the inter-bank market for 15 days or more is called ……………	Call money
13	Call money is a loan given for a period of	15 days
14	When money lent for more than a day but up to a fortnight is called	Call money
15	CBLO stands for	Collateralised Borrowing and Lending Obligation
16	The NSDL established in	Aug-96
17	In a private placement the maximum number of investors shall not exceed	51
18	Merchant banks in India started in	1955
19	Merchant banks concept in India introduced by	SBI
20	SENSEX is the index of	BSE
21	NIFTY is the index of	BSE
22	The first Indian equity index is	Nifty
23	.... is a product whose value is derived from the value of underlying asset	Repo
24	The Price at which a company's shares are offered initially in the primary market?	Issue Price
25	The Market value of a quoted company, which is calculated by multiplying its current market price by the number of outstanding shares, is referred as …………….	Price rigging
26	Shares normally held by promoters and directors of the company………………	Preference Shares

27	A………………..which contains all information of the company contents but does not have information on price of securities offered and number of securities (quantum) offered through such document to the Public.	Offer for sale
28	A company allots shares in full or in lots to a sponsor at a price negotiated between the company and the sponsor(s).	Offer for sale
29	An option allowing the Issuing Company to issue additional shares when the demand is high for the shares when the flotation is on.	Follow on Offer
30	A Custodian is basically an organization, which helps register and safeguard the securities of its clients.	Depository
31	A …………..can be seen as a method for company to invest in itself by buying shares from other investors in the market.	Initial Public Offer
32	A……………….is like a bank wherein the deposits are securities (viz. shares, debentures, bonds, government securities, Units etc.) in electronic form.	Depository
33	………………..is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited to the investor's account with his Depository Participant (DP).	Demutualisation
34	An issue where an allotment is made to less than 50 persons	Rights Issues
35	Lead Manager stipulates the floor price or a price band and leave it to market forces to determine the final price.	Remutualisation
36	SBTS stands for	Stock Buy Trading System
37	The Mutual Funds that are listed in the stock Exchanges are	Growth schemes
38	Registrar to the issue	helps in the appointment of lead managers
39	BOLT stands for	Borrowing or Lending Trade
40	………………….is also known as "G.Secs"	Gold Traded Fund (GTF)
41	.... are negotiable instrument issued by an overseas depository	ADR
42	Perpetual bond is also known as	Deep discount bond
43	Zero Coupon Bond is also known as	Deep discount bond
44	Secured Premium Notes (SPN) always issued with...........	Premium
45	.... bonds permit the bond holder to invest the interest income again in host bonds	Deep discount bond
46	..............bonds are high risk and high yield bonds developed in USA	Deep discount bond
47	ESOP stands for	Equity share option Plan

48	QIPs Stands for	Quality investment Project
49	What you mean by “STRIPS”	Separate Trade Register of Initial Public Securities offer
50	Gilt Edged Securities are	Govt. Securities
51	In India, forfaiting services are offered by	RBI
52	The small investors’ gateway to enter into big companies is ……………..	Equity shares
53	Money Market mutual fund is also known as…………..	Growth fund
54	……………..fund invests in highly liquid securities like commercial paper.	Open ended fund
55	The idea of providing factoring services in India was first thought by ………….	Vaghul committee
56	The market for extremely short period loan is called	Call loan market
57	……………. bills are drawn by contractors on the government departments for the goods supplied by them	Usance bills
58	…………..is also known as ‘Industrial Paper”	Treasury bills
59	Demand bills are also known as	Time bills
60	Usance bills are also known as	Time bills

INDIAN FINANCIAL SYSTEM - UNIT 2
I MCOM - 19CMP105A

Option B	**Option C**	**Option D**
Leasing	capital issue management	Underwriting.
share certificate	certificate of deposit	Treasury bill.
factoring	leasing	Sampling
UK	Japan	India
trustee company	asset management company	Mutual fund Company.
SBI	Punjab National Bank	Allahabad Bank.
Non financial asset	Fictitious asset	Fixed asset
Non financial asset	Fictitious asset	Fixed asset
Non financial asset	Fictitious asset	Intangible asset
Non financial asset	Fictitious asset	Intangible asset
forex market	money market	Daily market
Term money	Money at short notice	Fixed asset
30 days	1 day	1 year
Term money	Money at short notice	Sampling
Central Banks Lending Obligation	Commercial Bank and Lending Option	contract basled liability option
Aug-98	Jan-96	Jan-98
49	100	25
1969	1972	1992
PNB	ANZ Grindlays	City bank
NSE	OTCEI	CSE
NSE	OTCEI	CSE
Sensex	Dollex	Defty
T-bills	G.sec	Derivatives
Listing Price	Market Price	Discount price
Market Capitalization	Stock Invest	Share value
Deferred Shares	Convertible Bonds	Bonus Shares

Bought out Deal	Red-Herring Prospectus	Option bonds
Bought out Deal	Red-Herring Prospectus	Option bonds
Green Shoe Option	Call Option	Public discount
Trustee	Stock exchange	Money exchange
Rights Issue	Buy back	Bonus issue
Safety Net	EIPO	IFSC
Dematerialization	Rematerialisation	Deformation
Bought out Deal	Private Placement	Public placement
Book Building	Fixed Price	Variable price
Screen Based Trading System	Screen Bolt Trading System	Search Based Trading System
Closed-End Scheme	Open-End Scheme	Guilt fund
drafts the prospectus	recommends the basis of allotment	directs the various agencies involved in the issue
Bombay Online Trading	Bond or Loan Transaction	Brought On Liability Transfer
General Securities	Govt. Securities	Growth oriented fund
GDR	IDR	ACS
Irredeemable bond	Bearer bond	Registered bond
Irredeemable bond	Bearer bond	Registered bond
Discount	Detachable Warrant	Coupon
Junk bonds	Bearer bond	Bunny bonds
Junk bonds	Bearer bond	Bunny bonds
Equity shares Option premium	Employee stock Option Plan	Equity Stock Option Plan

Qualified investment Plan	Qualified Institutional Placement	Qualitative Investment Premium
Stock Trading Register of Interest and Principal Securities	Separate Trading of Registered Interest and Principal of Securities	Share Transfer and Registrar of Indian Public Securities issues
Company’s securities	Bearer bond	Bunny bonds
SBI	EXIM bank	ICICI
Preference shares	Bonds	Mutual fund
Balanced fund	Income fund	Cash fund
Close ended fund	Balanced fund	MMMF
Malhotra Committee	Tanden Committee	Bahbulal Committee
short notice market	treasury bill market	commercial bill market
T-bills	Clean bills	Supply bills
Commercial bills	Financial accommodation bills	Commercial
Sight bills	Kite bills	Wind bills
Sight bills	Kite bills	Wind bills

Answer

capital issue management

share certificate

factoring
USA

asset management company

SBI
Non financial asset
Financial asset
Non financial asset
Financial asset
money market

Term money
1 day

Money at short notice

Collateralised Borrowing and
Lending Obligation
Aug-96

49
1969
ANZ Grindlays
BSE
NSE
Sensex

Derivatives

Issue Price

Market Capitalization

Preference Shares

Red-Herring Prospectus

Bought out Deal

Green Shoe Option

Depository

Buy back

Depository

Dematerialization

Private Placement

Book Building

Screen Based Trading System

Open-End Scheme

recommends the basis of
allotment

Bombay Online Trading

Govt. Securities
ACS

Irredeemable bond

Deep discount bond

Detachable Warrant

Bunny bonds

Junk bonds

Employee stock Option Plan

Qualified Institutional Placement

Separate Trading of Registered
Interest and Principal of Securities

Govt. Securities
EXIM bank
Mutual fund
Income fund

MMMF

Vaghul committee

Call loan market

Supply bills

paper
Sight bills
Time bills

S.No	Question	Option A
1	In India, indigenous bills popularly known as	Time bills
2	Which of the following are examples of Hundis in india	Shah jog
3	Bills drawn and accepted payable after three months are called	Usance bills
4	The market which helps commercial banks to maintain their SLR requirement is	Call loan market
5	Bill Market Scheme in India was introduced in the year	1972
6	Adhoc T-bills are always issued in favour of………….	State government
7	The certificate which evidences an unsecured corporate debt of short term maturity	Certificate of Deposit
8	Major players of Indian money market is	Central bank
9	……………. is the suitable method where small companies issue shares	Offer for sale
10	Zero interest bonds are always issued	At premium
11	………….. is a guarantee for marketability of shares	Listing
12	Which one of the following is /are not function of NIM	Origination
13	BOLT was introduced by BSE in the year	1990
14	……………is a permission to quote securities officially on the trading floor of stock exchange	Origination
15	The number of shares which are less than market lots are called	Grey lot
16	Rolling Settlement system was introduced by SEBI in the year	1994
17	The facility to carry forward a transaction from one settlement period to another is called …………… transaction	Hand delivery
18	The device adopted to make profit out of price differences in two different markets	Cornering
19	A person appointed by a stock broker to assist to him in the business of securities trading at trading floor of stock exchanges is	Sub-broker
20	………………is also known as Remisiers and Half-commission man	Sub-broker
21	An order for the purchase of securities at a fixed price is known as	Limit order
22	Speculator who neither buy nor sell securities in the market, but still trade on them are called	Wolves
23	The process of holding the entire supply of a particular security with a view to dictating terms is called	Cornering
24	……………. market deals in unlisted securities	Blue chip market
25	When purchases of securities are more than sales of securities, the market is called	Bullish

26	When sales of securities are more than purchases of securities, the market is called	Bullish
27	………….. is the charges paid by a bull speculator to the other party for obtaining carry over facility	Backwardation
28	………….is the amount paid by bear to facilitate him to renew a bargain until next settlement date	Backwardation
29	………….. is the process of selling securities without owning them	Short selling
30	Bull speculators are also known as	Tharawaniwalas
31	Bear speculators are also known as	Tharawaniwalas
32	Another name of jobber is	Tharawaniwalas
33	Those who provides finance for carry forward transactions in securities is called	Tharawaniwalas
34	The speculator who observes very fast the trends and changes in market is	Bull
35	……………is the bear speculator who struggling to complete his commitments because of wrong foot	Bull
36	An option (right) to purchase shares in future at predetermined price is called	Hedging
37	An option (right) to sell shares in future at predetermined price is called	Hedging
38	……………...refers to the process of creating an artificial condition in market in order to push price of particular shares.	Cornering
39	An attempt to gaining short term profit from the price difference or movements of securities are called	Investment
40	Companies (Amendment) bill-1999 restricts buy back of shares up to........... of the paid up capital	50%
41	SIDBI is fully owned subsidiary of	IDBI
42	"AMBI" stand for	Association of Management of Banks in India
43	In listed securities, "Group A shares" are also known as	Specified shares
44	In listed securities, "Group B shares" are also known as	Specified shares
45	Odd lot shares are coming under ………………. of listed securities	Group A
46	ALBM (Automated Lending &Borrowing Mechanism) was introduced by	NSDL
47	under public issue of shares, reservation for permanent employees	10%
48	The conditions to be satisfied by a public company for issuing Right shares	Sec.75
49	……………..is a method of cancellation of shares	Book building
50	Which of the following is / are method of Buy back of shares	Tender offers
51	Over the Counter Exchange of India commenced operation in the year	1988
52	Members of the OTCEI are……………. only	Individuals
53	The whole sale market segment for NSE is meant for	Corporate securities

54	As per SEBI guidelines, a new company which has not completed 12 months commercial productions has to issue shares at ……………	Discount
55	National Stock Exchange (NSE) established in the year	1990
56	Method of trading in NSE is	Floor based- Order driven
57	Method of trading in OTCEI is	Floor based- Order driven
58	…………..are eligible to list in OTCEI	Small companies
59	Discount and Finance House of India (DFHI) mainly deals in	Commercial bills
60	………….. of shares is the first step in depository process	Mutualisation

INDIAN FINANCIAL SYSTEM - UNIT 3

I MCOM - 19CMP105A

Option B	Option C	Option D
Hundis	Trade bills	Sight bills
Dutirali	Sagoma	Sinsirati
T-bills	Clean bills	Supply bills
T-bills market	Acceptance market	Commercial bill market
1952	1969	1982
Commercial banks	Treasuries	RBI
Commercial paper	Secured Premium Notes	Interbank participation Certificate
Co-operative banks	Commercial banks	Indigenous banks
Private placement	Issue by prospectus	Offer for demand
At discount	With detachable warrant	Offer for demand
Underwriting	Registration	Issue by prospectus
Underwriting	Distribution	Listing
1995	1992	1999
Underwriting	Distribution	Listing
Odd lot	Tag lot	Tied lot
1998	1996	1999
Badla	Cornering	Arbitrage
Wash sales	Rigging	Arbitrage
Commission broker	Authorised clerk	Remisiers
Commission broker	Authorised clerk	Jobbers
Open order	Discretionary order	Stop loss order
Stag	Bull	Bear
Wash sales	Rigging	Arbitrage
Bear market	Grey market	Bull market
Bearish	Grey	Odd

Bearish	Grey	Odd
Contango	Spread	Margin
Contango	Spread	Margin
Long selling	Margin trading	Prise rigging
Tejiwalas	Mandiwalas	Badliwalas
Tejiwalas	Mandiwalas	Badliwalas
Tejiwalas	Mandiwalas	Badliwalas
Tejiwalas	Mandiwalas	Badliwalas
Bear	Stag	Wolves
Lame duck	Stag	Wolves
Put option	Push option	Call option
Put option	Pull option	Call option
Arbitrage	Option deal	Rigging
Speculation	Hedging	Rigging
20%	25%	60%
RBI	SEBI	IFCI
Association of Merchant banks in India	Association of Modern Banks in India	Automated Mechanism for Borrowing and Investment
un specified shares	Non- specified shares	only share
un specified shares	Non- specified shares	only share
Group B	Group C	Group D
SEBI	NSCCL	CDSL
25%	15%	50%
Sec.79	Sec.81	Sec.91
Bonus issue	Buy back	Reissue
Switch offer	minor offer	major offer
1992	1995	1989
Corporates	Financial institution	Banks
Govt.securities	Securities of MNCs	Securities of Financial Institutions

Premium	Par	auction
1992	1995	1999
Screen based- Code driven	Screen based - Order driven	Floor based - Quote driven
Screen based- Code driven	Screen based - Order driven	Floor based - Quote driven
Large companies	Medium size companies	Small and Medium size companies which are not listed in any other stock exchange
Corporate securities	Treasury bills	Commercial papers
Mobilisation	Immobilisation	Rematerialisation

Answer

Hundis
Shah jog
Usance bills

Call loan market
1952

RBI

Commercial paper

Commercial banks

Offer for sale

At discount

Underwriting
Listing
1995

Listing
Odd lot
1998

Badla

Arbitrage

Authorised clerk

Sub-broker

Limit order

Stag

Cornering
Grey market

Bullish

Bearish

Contango

Backwardation

Short selling
Tejiwalas
Mandiwalas
Tharawaniwalas

Tejiwalas

Wolves

Lame duck

Call option
Put option

Rigging

Speculation

20%
IDBI

Association of Merchant banks in India

Specified shares

Specified shares
Group C
NSCCL
10%

Sec.81
Buy back
Tender offers
1992

Corporates

Govt.securities

Par
1992

Screen based - Order driven

Screen based- Code driven

Small and Medium size companies
which are not listed in any other
stock exchange

Treasury bills

Immobilisation

S.No	Question	Option A
1	In depository system, ……………. is a link between depository and the owner.	Depository participant
2	“A central location for keeping securities on deposit” is	Stock exchange
3	The group of shares which are not permitted for short selling are	A group
4	……………..group includes shares of companies which have failed to comply with listing requirements	A group
5	In listed scrips, …………..group includes small cap stocks.	S group
6	Shares of well established and financially sound compnies,with very little investment risk and good history of earnings is known as	Alpha shares
7	In a stock exchange where the ownership, management and trading are concentrated in a single group, it is called	Mutual exchange
8	In India, currently method of calculation of stock indexes is	Free float market capitalisation
9	Fully automated screen based trading system in NSE is known as	BOLT
10	The Chief promoter of National Securities Depository Limited (NSDL) is	NABARD
11	The Chief promoter of Central Depository Services Limited CDSL) is	NABARD
12	The third largest stock exchange in the world is	NSE
13	In the index “CNX Nifty”, C stands for	Central
14	The dollar version of Index of BSE is	Defty
15	In BSE, T+2 rolling settlement began in the year	2002
16	In settlement T+2, ‘T’ stands for	Trade time
17	Which one of the following is an example of derivative?	Warrants
18	The process in which illiquid assets are converted into marketable securities is known as	Mutualisation
19	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act passed in the year	1992
20	In security market, “ASBA” stands for	Application Supported by Blocked Amount
21	In financial circle, the name “Dalal Street” is used synonyms to.........	BSE
22	The name “Wall Street” is used to synonyms to..........	Bombay Stock Exchange
23	Credit rating indicates ……………of a company	Financial status
24	Credit rating is only a / an.............	Opinion
25	Which of the following is not a credit rating agency?	CRISIL
26	At present, how many Non-scheduled banks are functioning in India	2

27	Investment Information and Credit Rating Agency of India (IICRA) is a	Private company
28	…………..variety of mutual fund is known as "Nest Eggs"	Balanced Funds
29	Generally mutual funds are of	High risk
30	The corpus of funds and its duration is fixed in case of ……….. fund	Open ended
31	The market performance of mutual fund can be judged on the basis of	Net asset value or intrinsic value
32	………….. is the regulator of mutual funds in India	RBI
33	………….. is the venture capital assistance at the stage where the project started to fetch profit but not reached in its full efficiency	Start up capital
34	In …………..leasing, the risk of obsolescence is assumed by the lessee	Financial lease
35	……………….is a tripartite lease arrangement	Financial lease
36	In hire purchase depreciation can be claimed by the	Hirer
37	A merchant bank can claim a charge ……….% as the commission for the whole issue	5%
38	Which of the following is not a quantitative credit control tool of RBI?	Bank rate
39	Which of the following is a selective (qualitative) credit control method?	Bank rate
40	Currency notes of rupee one and other lower subsidiary coins are issued by	RBI
41	American Depository Receipts (ADRs) are issuing by	Indian Company
42	………….. is the process of converting security in electronic form into physical form	Rematerialisation
43	………….is dealing in securities done by those who having access to price sensitive information.	Margin trading
44	…………..is a calculated move with an expectation to reap huge profit from market fluctuations	Gambling
45	………….. speculators are optimistic in nature	Bull
46	………….. speculators are Pessimistic in nature	Bull
47	The scheme in which company can allot shares not more than 15% of the issue size, to the public in addition to the shares already offered- is called	Right issue
48	The merchant banker coordinating a public issue is called as	Syndicator
49	……………….is a shortened form of prospectus	Red herring prospectus
50	……………..is an offer document is used in public issue made under book building method.	Red herring prospectus
51	In technical sense, short sellers (bears) will be "squeezed" through	Wash sales

52	……………. is known as ‘Traffic in securities’	Wash sales
53	A system of security trade in which one is allowed to invest in excess of his financial capacity by borrowing funds	Margin trading
54	Which of the following speculative transactions are unfair and prohibited?	Margin trading
55	Which of the following is not a prohibited act in security market?	Insider trading
56	…………….is undertaken for making a dishonest claim for tax deduction	Wash sales
57	………… means temporary halt of trade in stock exchanges whenever index moves upward or downward beyond the specified limits	Laddering
58	Unsecured debentures are also known as..........	Registered debentures
59	Non-voting shares were introduced by Companies (Amendment) bills in the year	1997
60	in the case of……………. bonds, the value is inversely related to short term interest rates	Fixed rate bonds

INDIAN FINANCIAL SYSTEM - UNIT 4

I MCOM - 19CMP105A

Option B	Option C	Option D
Register and Transfer Agent	Issuer	Custodian.
Investment bank	Merchant banks	Depository
B group	T group	Z group
B group	T group	Z group
TS group	T group	Z group
Blue chip shares	Star stock	Beta stock
Recognised exchange	Dominant exchange	Un -recognised exchange
Full float market capitalisation	Fixed float market capitalisation	Minimum float market capitalisation
ALBM	BLISS	NEAT
BSE	NSCCL	NSE
BSE	NSCCL	NSE
BSE	NASDAQ	USE (United Stock Exchange)
Credit	CRISIL	Cumulative
Dollex	Rolex	Euro
2003	2001	1995
Trade day	Trade terms	Time for settlement
Stocks	Sare	Warehouse
Dematerialisation	Rematerialisation	Securitisation
2002	2005	2000
Automated Security Borrowing Arrangement	Active Securities Buying Agreement	Automatic Security Buying Assistance
NASDAQ	NSE	OTCEI
NASDAQ	National Stock Exchange	New York Stock Exchange
Overall efficiency	Management efficiency	Management Core
Recommendation	Suggestion	Advice
ICRA	DCR India	IMR
5	1	0

Public company	Govt. Company	Statutory company
Fund of funds	Money Market Mutual fund	Growth oriented funds
Risk free	Low risk	Moderate risk
Balanced	Close ended	Income fund
Capital Depreciation	non stable incom	profit
IRDA	SEBI	Both SEBI and GOI
Mezzanine capital	Bridge capital	Seed capital
Operating lease	production Lease	Leverage lease
Operating lease	Leverage lease	Sale and lease back
Vendor	Financiers	Buyer
2.50%	0.50%	0.25%
Open market operation	SLR	Margin requirements
Open market operation	Variable reserve ratio	Credit rationing
Commercial banks	Ministry of Finance	Bank Note press
American company	Overseas depository	International exchange
Dematerialisation	Demutualisation	Mutualisation
Insider trading	Price rigging	Wash sales
Speculation	Genuine investment	Inflation
Bear	Stag	wolves
Bear	Stag	wolves
ESOPs	Green shoe option	Bonus issue
Lead manager	Post issue manager	Loan manager
Abridged prospectus	Statement in lieu of prospectus	Shelf prospectus
Abridged prospectus	Statement in lieu of prospectus	Shelf prospectus
Cornering	Rigging	Arbitrage

Cornering	Rigging	Arbitrage
Cornering	Rigging	Arbitrage
Option deals	Rigging	Arbitrage
Price rigging	Cornering	Margin trading
Price rigging	Cornering	Margin trading
Cornering	Circuit breaking	Side by siding
Bearer debentures	Naked debentures	Collateral debentures
1999	2000	2002
Inverse float bonds	Perpetual bonds	Option bonds

Answer

Depository participant

Merchant banks

T group

Z group

S group

Blue chip shares

Mutual exchange

Free float market capitalisation
NEAT
NSE
BSE

NSE
CRISIL
Dollex
2002

Trade day

Warrants

Securitisation

2002

Application Supported by Blocked
Amount
BSE

New York Stock Exchange

Financial status

Opinion
IMR
0

Public company

Fund of funds
Low risk
Close ended

profit

Both SEBI and GOI

Mezzanine capital

Financial lease

Leverage lease

Hirer

0.50%

Margin requirements

Credit rationing

Ministry of Finance

Overseas depository

Rematerialisation

Insider trading

Speculation

Bull
Bear

Green shoe option

Lead manager

Abridged prospectus

Red herring prospectus
Cornering

Arbitrage

Margin trading

Rigging

Margin trading
Wash sales

Circuit breaking

Naked debentures

1997

Inverse float bonds

INDIAN FINANCIAL SYSTEM - UNIT 5
I MCOM - 19CMP105A

S.No	Question	Option A	Option B	Option C	Option D	Answer
241	“D vs. P” system for government securities market means	Delivery and payment settlement	Dividend and principal settlement	Dollar and Pound settlement	Delaying and postponement	Delivery and payment settlement
242	Non banking financial institutions (NBFIs) are registered under	RBI Act	Banking Regulation Act	Companies Act	SEBI Act	Companies Act
243	According to IFRS, the term financial asset includes	Cash or Cash equivalent	only cash	only cash equivalent	Debit	Cash or Cash equivalent
244	Which of the following is /are example of primary or direct financial instrument	Fixed deposit receipt	Insurance policies	Mutual fund Unit	Debentures	Debentures

245	Which of the following is /are example of Secondary or indirect financial instrument	Equity shares	Preference shares	Post office saving deposit	Bonds		Post office saving deposit
246	A Non Banking Financial Institution	Can accept demand deposit	Can issue cheques to customers	Cannot accept demand deposit and cannot issue cheques	Cannot accept fixed deposit		Cannot accept fixed deposit
247	Kerala State Financial Enterprises ltd (KSFE) is an example of	Banking institution	Investment institution	NBFI	State level development banks		NBFI
248	UTI, LIC etc are examples of	Banking institution	Investment institution	NBFI	Development banks		Investment institution
249	SFC is an example of	Banking institution	Investment institution	NBFI	Development banks		Development banks
250	Which of the following is /are not regulatory institutions	RBI	SEBI	IRDA	IFCI		IFCI

251	Which of the following is not a negotiable instrument?	ADR	GDR	FDR	IDR	FDR
252	'Follow on Public Offer' is also known as	Further public offer	Dated Public offer	Issued public offer	Value public offer	Further public offer
253	"Uberrimae Fidei" means	Indemnity	Insurable interest	Good faith	Mitigation of loss	Good faith
254	.... is the oldest insurance	Fire insurance	Life insurance	Marine insurance	Social insurance	Marine insurance
255	In ………………., insurable interest is enough at the time of loss	Fire insurance	Life insurance	Burglary insurance	Marine insurance	Marine insurance
256	In life insurance, instalment policy is also known as	Annuity policy	Endowment policy	Whole life policy	Lump sum policy	Annuity policy
257	In insurance, "Causa Proxima" means	Utmost good faith	Contribution	Prevent the causes of loss	Closely connected perils	Closely connected perils

258	..............is a financial service which pooling risks of people	Mutual fund	Venture capital	insurance	Securities	insurance
259	In India Insurance business are regulated by	IRBI	RBI	IRDA	IRDP	IRDA
260	Except life insurance maximum term of other insurance is	12 months	6 months	24 months	36 months	12 months
261	Central office of Life Insurance Corporation of India is located at	New Delhi	Kolkata	Mumbai	Banglore	New Delhi
262	There are........ associated companies of GIC	3	4	6	5	4

263	“Native Stock and Share Brokers Association” is the old name of...........	SEBI	NSE	BSE	NASDAQ	BSE
264	General insurance business nationalised in the year……… …..	1956	1972	1969	1982	1972
265	Principle of Indemnity does not apply to…………… ..	Fire insurance	Marine insurance	Life insurance	Auto insurance	Life insurance
266	Mutual Funds fall within supervisory purview of	SEBI	NSE	BSE	NASDAQ	SEBI

267	Which of the following cannot be included in the definition of a financial intermediatory	Banks and NBFC	Companies engaging in manufacturing goods	financial institutions	Mutual Funds			Companies engaging in manufacturing goods
268	which of the following cannot be included in the money market?	call or notice money	corporate securities	treasury bills	Certificate of deposit			corporate securities
269	Urban cooperative banks are controlled by	RBI and NABARD	NABARD	Central Govt and NABARD	State Govt and RBI			State Govt and RBI
270	which among the following is world's largest foreign exchange market?	NewYork	London	Dubai	Tokyo			London
271	what is the fullform of FCCBs?	Foreign currency convertible bonds	Future currency and credit bureau	Foreign convetible credit bonds	financial consortium and credit bureau			Foreign currency convertible bonds

272	The Head quarter of IRDA is	Mumbai	Hyderabad	Chennai	Pune		Hyderabad
273	what is the fullform of IFSC?	Invesment in Foreign System Console	Indian Financial System Code	International Financial System code	Indian and Foreign Committee for Credit		Indian Financial System Code
274	A Non Banking Financial Institution is registerd under	Companies Act 1956	RBI and Companies Act-1956	RBI	SEBI		RBI and Companies Act-1956
275	Minimum net worth of MNBC	Rs.100	Rs.1 crore	Rs.10	Rs. 1000		Rs.10
276	Asset Finance company's principal business is the financing of physical assets supporting	Equipment leasing	Production	Real estate	Productions/economic activity		Productions/economic activity
277	How many companies are included in the SENSEX?	30	50	100	20		30
278	KOSPI is the index of which country?	Japan	South Korea	Singapore	France		South Korea

279	Which of the following words does not belong to the stock exchange?	NAV	NSE	IPO	KPO	KPO
280	What is called "Blue Chip"?	Companies which are run by large corporate houses	A company, whose share always provides profit	A multinational company	A company which is listed on a foreign stock exchange	A company, whose share always provides profit
281	When was Nifty established?	1952	1965	1991	1996	1996
282	A………is a specialized firm that finances young, startup companies	venture capital firm	finance company	small finance company	capital creation company	venture capital firm
283	Venture capital firms are usually organized as	closed ended mutual funds	limited partnership	corporation	non profit business	limited partnership

284	Markets which deal with buying and selling of bonds, mortgages, notes and stocks are considered as	financial instruments	financial asset markets	physical asset markets	easy markets	financial asset markets
285	'New York Stock Exchange' is an example of	capital markets	money markets	liquid markets	short-term markets	capital markets
286	Type of bonds that pay coupon interest are classified as	forward bond	payment bonds	coupon bond	interest bonds	coupon bond
287	Type of bond whose present value is lesser than that of its face value is classified as	discount bond	premium bond	coupon bond	interest bonds	discount bond

288	ype of bond for which bonds present value is greater than bonds face value is classified as	discount bond	premium bond	coupon bond	interest bonds			premium bond
289	Type of bonds in which whole issues get mature on a single date is considered as	term bonds	premium bond	coupon bond	interest bonds			term bonds
290	Type of bonds that have tangible property as a collateral are classified as	collateral security	commercial trust notes	equipment trust certificates	equipment bonds			equipment trust certificates
291	Markets in which derivatives are traded, are classified as	assets backed market	cash flow backed markets	mortgage backed markets	derivative securities markets			derivative securities markets

292	Situation in which large portion of majority is borrowed from broker of investor is classified as	future investment	forward investment	leveraged investment	non-leveraged investment			leveraged investment
293	Type of contract which involves future exchange of assets at a specified price is classified as	future contracts	present contract	spot contract	forward contract			forward contract
294	Type of unit which guarantees that all buying and selling will be made by traders of exchange is called	trading house	guarantee house	clearing house	professional house			clearing house

295	Example of derivative securities is	return backed security	mortgage backed security	cash flow backed security	interest backed security		mortgage backed security
296	Stocks or shares that are sold to investors without transacting through financial institutions are classified as	direct transfer	indirect transfer	global transfer	pension transfer		direct transfer
297	Transfer of financial instruments from suppliers of funds to users of funds without any intermediary in between is classified as	global transfer	pension transfer	direct transfer	indirect transfer		direct transfer

298	Institutions deal in financial functions and protects corporations and individuals against accidents, theft and death are considered as	penalty companies	insurance companies	events dealers	protecting companies			insurance companies
299	Type of institutions that write securities, engage in brokerage and security trading are considered as	trading institutions	activity institutions	investment banks	mortgage banks			investment banks

300	Financial intermediaries offering savings plan to individuals and funds are exempted from taxation are considered as	trading funds	penalty funds	pension funds	global funds		pension funds