



FINANCIAL



MARKETS AND INSTITUTIONS

DR. PARAMJEET KAUR



Sultan Chand & Sons



**Financial Markets
and
Institutions**

Dedicated to

'Arvinder, my husband, my friend and fellow traveller'

Financial Markets and Institutions

■ **Dr. Paramjeet Kaur** ■

Associate Professor

Department of Commerce
SGTB Khalsa College
University of Delhi



SULTAN CHAND & SONS[®]
Educational Publishers
New Delhi

SULTAN CHAND & SONS®

23, Daryaganj, New Delhi-110002

Phone: 011-23281876, 23266105, 23277843 (*Showroom & Shop*)

011-40234454, 23247051 (*office*)

E-mail: sultanchand74@yahoo.com; info@sultanchandandsons.com

Fax: 011-23266357; Website: www.sultanchandandsons.com

First Edition: 2023

ISBN: 978-93-91820-53-4 (TC-1291)

Price: ₹ 395

EVERY GENUINE COPY OF THIS BOOK HAS A HOLOGRAM

In our endeavour to protect you against counterfeit/fake books, we have pasted a copper hologram over the cover of this book. The hologram displays the full visual image, unique 3D multi-level, multi-colour effects of our logo from different angles when tilted or properly illuminated under a single light source, such as 3D depth effect, kinetic effect, pearl effect, gradient effect, trailing effect, emboss effect, glitter effect, randomly sparking tiny dots, micro text, laser numbering, etc.



A fake hologram does not display all these effects.

Always ask the bookseller to put his stamp on the first page of this book.

All Rights Reserved: No part of this book, including its style and presentation, can be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording or otherwise without the prior written consent of the publishers. Exclusive publication, promotion and distribution rights reserved with the Publishers.

Warning: An unauthorised act done in relation to a copyright work may result in both civil claim for damages and criminal prosecution.

Special Note: Photocopy or Xeroxing of educational books without the written permission of publishers is illegal and against Copyright Act. Buying and Selling of pirated books is a criminal offence. Publication of a key to this book is strictly prohibited.

General: While every effort has been made to present authentic information and avoid errors, the author and the publishers are not responsible for the consequences of any action taken on the basis of this book.

Limits of Liability/Disclaimer of Warranty: The publisher and the author make no representation or warranties with respect to the accuracy or completeness of the contents of this work and specifically disclaim all warranties, including without limitation warranties of fitness for a particular purpose. No warranty may be created or extended by sales or promotional materials. The advice and strategies contained therein may not be suitable for every situation. This work is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If professional assistance is required, the services of a competent professional person should be sought. Neither the publishers nor the author shall be liable for damages arising herefrom.

Disclaimer: The publishers have taken all care to ensure highest standard of quality as regards typesetting, proofreading, accuracy of textual material, printing and binding. However, they accept no responsibility for any loss occasioned as a result of any misprint or mistake found in this publication.

Author's Acknowledgement : The writing of a Textbook always involves creation of a huge debt towards innumerable authors and publications. We owe our gratitude to all of them. We acknowledge our indebtedness in extensive footnotes throughout the book. If, for any reason, any acknowledgement has been left out we beg to be excused. We assure to carry out correction in the subsequent edition, as and when it is known.

Preface

The International Financial System has been through a process of rapid change and continues to evolve. The primary driving forces behind such changes have been the information technology and liberalization measures adopted in countries across the globe. The Indian Financial System has also evolved continuously since the economic reforms were initiated and has undergone profound transformation over the last three decades- from a highly fragmented, underdeveloped system to a deeper, more mature, and diversified one. Economic reforms have not only helped in raising the growth rate of the economy, but also in avoiding crisis, promoting greater efficiency and have imparted resilience to the financial system.

There has been substantial theoretical and empirical work on the role of financial markets in fostering economic growth, economic development and economic stability. The process of economic development is generally accompanied by a parallel growth in the financial system. A growing body of evidence suggests that countries with sound and efficient financial systems – banks, equity markets, bond markets, and foreign exchange markets, facilitate channeling of capital to its most productive uses, and thus, tend to grow faster over longer periods of time. This book aims to provide an understanding of the working of the financial system and the role of financial institutions and markets in the economy, focusing in particular on contemporary developments in the Indian context. Further, the book explores various conceptual additions to the new syllabus for this paper introduced in the current year, *viz.*, Financial stability and its indicators, Global Financial Crisis, Indicators of Financial Development used by the World Bank, Integration of Financial Markets, to name a few.

The book derives its primary impetus from a very specific need of the present Undergraduate student of Commerce and Finance as experienced in the Classroom. While there are books that offer extensive coverage of relevant areas, they are voluminous and dated. As such, they do not carry sufficient representation of contemporary scenarios. On the other hand, more recent publications on the subject, while more concrete and updated, do not provide in-depth analysis and theoretical exposure of the key areas. The present text aims at bridging this precise gap by connecting theoretical understanding with recent and contemporary developments in the financial system particularly, within the Indian context.

This book is designed to cater to the learning requirements of Undergraduate Courses in Commerce – B. Com (Hons.), B. Com and BA (Finance) in particular and similar courses in Finance offered by other institutions/universities. The book is exclusively based on new UGCF syllabus prescribed under the ‘New Education Policy, 2022’ for the students of B Com Hons, Delhi University. Particular attention has been paid to the structuring of chapters such that they are in consonance with syllabus content for the undergraduate Curriculum framework (UGCF) -2022 based on National Education Policy (NEP)-2020.



This book's subject matter has been presented cohesively across 15 Chapters, which are divided into five parts. Part 1 of the book consists of two chapters; Chapter one introduces the concept of the financial system and explains its structure, organization and how it is linked to economic growth. It also clarifies the concepts of financial intermediation and financial development, while introducing various indicators of financial development as developed by the World Bank. Chapter 2 presents a historical perspective of the Indian financial system in the pre-reform era and gives a detailed account of the reforms and developments that have taken place since 1991 with a focus on recent reforms undertaken during the last decade.

Part 2 has two chapters that deal with the financial markets. Chapter 3 covers the money market which is the most important component of the financial system comprising the banking system. As regulators of the money market, the main role of Central Banks is to ensure smooth functioning of the money market. While Chapter 3 discusses in detail the structure, significance, participants and instruments of money market, chapter 4 presents the role of the RBI in the regulation and functioning of money market in India with a specific reference to the role of Monetary Policy Committee (MPC) in India.

Part 3 of the book focuses on capital markets and comprises chapters 5-9. These provide an in-depth view of the different elements of the capital market such as the primary or New Issue Market, Secondary markets, Debt market and explain various aspects related to these markets such as methods of flotation, the role of stock exchanges and major stock indices, capital market instruments, government securities market, to name a few. The role of SEBI with specific emphasis on investor protection is also discussed in chapter 9.

Part 4 which consists of chapters 10 to 14, deals with institutional aspects of the financial system. Chapters 10 provides an in-depth coverage of the concept, classification and role of the commercial banking system in India. Chapter 11 has been dedicated entirely to a discussion of recent developments in the field of commercial banking in India which includes new initiatives and reforms, the role of technology in banking, the issues of Asset-liability management and that of Non-Performing Assets (NPAs). Chapters 12, 13 and 14 delve into the concept and functioning of other non-banking financial institutions, viz., Insurance sector, Mutual Funds and NBFCs. Recent developments and contemporary issues in the areas of Insurance, Mutual funds and NBFCs have been addressed in these chapters.

Lastly, Part 5 of the book includes chapter fifteen which discusses the concept and importance of financial stability in an economy and its lack thereof which may lead to a financial crisis. It also discusses various indicators which are used to measure financial stability. The chapter also describes some of the major financial crises (with a specific focus on the global financial crisis (2008)), their causes and the policy measures undertaken by policy makers to mitigate the adverse impact of such crises.

I hope that the book will serve as a valuable resource for both students and teachers. I look forward to the suggestions and feedback for the improvement of future editions.

A

Acknowledgements

The book would not have been possible without the invaluable contribution from several people. The original impetus for writing this book came from my students' need for it. They asked me to publish my lectures and of course my interaction with them over years has gone on to add to the lived quality of the book.

I would also like to express my gratitude to Prof. Jaswinder Singh, the principal of my college for his constant support and encouragement. He has also helped build an academic ethos in the college which stimulates us.

A special thanks is also due to Ms. Anusha Goel, Assistant Professor from Shaheed Sukhdev Singh College of business studies for providing me substantial inputs for the chapter on Commercial Banks. Her contribution for the chapter was indeed crucial. I also thank Ms. Ashween Anand, my colleague from SGTB Khalsa College for her feedback on the chapter on Financial Sector Reforms.

My sincere thanks to Mr Manick Wadhwa, Executive Director at Ski Capital Services Limited for providing his feedback and suggestions on the chapters on capital market and SEBI. As a practitioner in stock market, the practical insight provided by him was indeed valuable.

I would also like to thank Mr. Gangadhar Chaudhary from the publishers, Sultan Chand and Sons for his continued patience, support and cooperation without which this book would not have been released on time. My thanks are also due to Dr. Shubhra Vaish and Ms. Shikha Vaish and the entire editorial team at Sultan Chand & Sons Publishers for their constructive feedback and timely handling of my manuscript.

I owe a lot to my husband, Arvinder S. Sachdeva, a fine scholar himself, but self-effacing, he gave me freedom to think and work independently but supported me in all kinds of way. He was always willing to go through my drafts and provide his invaluable suggestions. Thanks are also due to my children Himani and Gagandeep. Part of the academia themselves, the value they give to my work is a reward in itself. Last but not the least, my sincere gratitude to my family and friends who have been a source of immense energy and support and provided me strength whenever I needed it.

Syllabus

Financial Markets and Institutions

BCH: DSE- 3.2

Objective: The course aims to provide students an overview of the financial system to help them understand the role of financial institutions and the financial markets.

Learning Outcomes: After completion of the course, learners will be able to:

1. describe the meaning, components and functions of a financial system.
2. interpret different financial systems and describe how they operate.
3. analyse theoretical concepts underlying money and capital markets.
4. describe the evolution of the Indian financial system.
5. assess information related to financial markets and institutions in a global context with special emphasis on financial stability.

Unit 1: Introduction

An introduction to financial system - components, inter-linkages between financial system and economic development, financial intermediation, indicators of financial development (World Bank); capital allocation-financial institutions vis-a-vis financial markets; evolution of Indian financial system since 1951; recent reforms and developments in Indian financial system.

Unit 2: Financial Markets I: Money Markets

Financial markets - integration of Indian financial markets with global financial markets; money market – functions, organisations and participants; money market instruments; role of central bank in money market; role of Reserve Bank of India in Indian money market; Fixed Income Money Market and Derivative Association of India (FIMMDA).

Unit 3: Financial Markets II: Capital Markets

Capital Markets - introduction, components, role and functions; equity market-methods of issue; debt market-concept, significance and classification; capital market instruments; raising funds from global financial markets; primary and secondary markets- concept, similarities, differences; stock exchanges in India - NSE, BSE; Stock Indices: concept and construction, Major stock indices - global (including Dow Jones and NASDAQ) and Indian (NIFTY and BSE-SENSEX); concept of DEMAT account and depositories (NSDL, CDSL); SEBI and investor protection.

Unit 4: Financial Institutions

Commercial banking - introduction, classification, role, asset liability management, nonperforming assets; role of technology in banking sector; financial inclusion, recent developments in banking



including restructuring, privatisation, MUDRA financing; Insurance - life and non-life insurance companies in India: public and private; Mutual Funds – introduction and their role in capital market development, types of mutual fund schemes (open ended vs close ended, equity, debt, hybrid schemes and Exchange Traded Funds (ETFs); Non-banking Financial Companies (NBFCs) – role and types; private equity, venture capital and hedge funds.

Unit 5: Financial Stability

Financial stability-importance and indicators (World Bank, IMF, RBI); understanding financial crisis - causes and policy response; global financial crisis (2008); emerging challenges to financial stability.

Contents

Part - 1:

Introduction

1 An Introduction to Financial System 1-26

1.1. Introduction	1
1.2. Financial System – Meaning and Concept	2
1.3. Functions/significance of a Financial System	3
1.4. Components/Organisation/Structure of a Financial System	5
1.4.1. Financial Institutions	5
1.4.2. Financial Markets	7
1.4.3. Financial Instruments/Securities/Assets	10
1.4.4. Financial Services	11
1.5. Interlinkages between Financial System and Economic Development	12
1.6. Financial Intermediation	14
1.6.1. Functions of Financial Intermediaries (FIs)	15
1.6.2. Types of Financial Intermediaries in India	16
1.7. Indicators of Financial Development (World Bank)	19
1.7.1. Financial Development – Concept and Importance	19
1.7.2. Indicators for Measurement of Financial Sector Development	20
1.8. Capital Allocation-Financial Institutions <i>vis-à-vis</i> Financial Markets	22
1.8.1. Role of Financial Markets in Capital Allocation	22
1.8.2. Role of Financial Institutions in Capital Allocation	22
<i>Summary</i>	23
<i>Key Words</i>	24
<i>Review Questions</i>	24

2 An Overview of the Indian Financial System 27-62

2.1. Evolution of Indian Financial System	27
---	----



2.1.1.	Phase I: The Financial System During the Period Extending from 1950 to 1990	27
2.1.2.	Phase II: The Indian Financial System During 1990 Onwards	35
2.2.	Financial Sector Reforms	40
2.2.1.	Need for Financial Sector Reforms	40
2.2.2.	Objectives of Financial Sector Reforms	41
2.3.	Types of Financial Sector Reforms	42
2.3.1.	Banking Sector Reforms	42
2.3.2.	Reforms in the Money Market	47
2.3.3.	Reforms in the Capital market	49
2.3.4.	Reforms in the Debt Market	55
2.3.5.	Foreign Exchange Market Reforms	56
2.4.	An Appraisal of Financial Sector Reforms	58
	<i>Summary</i>	59
	<i>Key Words</i>	61
	<i>Review Questions</i>	61

**Part - 2:****Financial Markets I: Money Markets****3****Financial Markets 1 – Money Market****63-94**

3.1.	Introduction – Concept, Functions of Financial Markets	63
3.2.	Integration of Financial markets	64
3.3.	Classification of Financial Markets	65
3.4.	Money Market – Concept and Characteristics	66
3.4.1.	Concept of Money Market	66
3.4.2.	The Characteristics of Money Market	67
3.5.	Functions of Money Market	67
3.6.	Participants/Players in the Money Market	69
3.6.1.	Government	69
3.6.2.	Central Bank	69
3.6.3.	Financial Institutions	70
3.6.4.	Primary Dealers (PDs)	70
3.6.5.	Money Market Mutual Funds (MMMFs)	71
3.7.	OrganiSation of Money Market	71
3.7.1.	Structure/Components of Money Market	73
3.8.	Money Market Instruments/Sub-Markets	73

3.8.1. Call/Notice Money Market	74
3.8.2. Treasury Bills	76
3.8.3. Commercial Bills	78
3.8.4. Commercial Paper (CP) Market	81
3.8.5. Certificate of Deposits Market	83
3.8.6. Collateralised Borrowing and Lending Obligation (CBLO)	86
3.8.7. Repo market/Repurchase Agreement	88
3.9. FIMMDA	91
3.9.1. Objectives of FIMMDA	92
<i>Summary</i>	93
<i>Key Words</i>	94
<i>Review Questions</i>	94

4 Role of Central Bank in Money Market



95-112

4.1. Introduction – Evolution of Central Banking	95
4.2. Reserve Bank of India (RBI) – Origin and Objectives	96
4.2.1. Brief History of RBI	96
4.3. Functions of RBI	97
4.3.1. Main Functions of RBI	97
4.3.2. Related Functions of RBI	100
4.4. Role of RBI in Indian Money Market	102
4.4.1. Monetary Policy of RBI	102
4.4.2. Instruments of Monetary Policy	103
4.4.3. RBI Monetary Policy – An Appraisal	107
4.5. Monetary Policy Committee	108
4.5.1. Background	108
4.5.2. Constitution of the Monetary Policy Committee	109
<i>Summary</i>	109
<i>Keys Word</i>	111
<i>Review Questions</i>	111

Part - 3: Financial Markets II: Capital Markets

5 Financial Markets - II – Capital Market



113-132

5.1. Capital Market – An Introduction	113
---------------------------------------	-----



5.1.1. Money Market vs. Capital Market	114
5.2. Role and Functions of Capital market	114
5.3. Components/structure of capital market	116
5.3.1. Primary/New Issue Market (NIM) vs. Secondary Market	117
5.3.2. Difference between the Primary and Secondary Markets	118
5.3.3. Relationship between the Primary Market (NIM) and the Secondary Market	119
5.3.4. Functions of Primary/New Issue Market	120
5.4. Issue Mechanism – Methods of Floatation of New Issues	122
5.4.1. Public Issue	122
5.4.2. Rights Issue (RI)	126
5.4.3. Composite Issue	127
5.4.4. Private Placement	127
5.4.5. Bonus Issue	129
<i>Summary</i>	130
<i>Key Words</i>	131
<i>Review Questions</i>	131

6 Secondary Markets

**133-162**

6.1. Introduction – concept of secondary market	133
6.2. Functions of Secondary Markets	134
6.2.1. Nexus between Savings and Investment	134
6.2.2. Provide Liquidity and Market Place	134
6.2.3. Continuous Price Formation	134
6.2.4. Safety and Fair Dealing to Protect Investor's Interests	134
6.2.5. Induce Companies to Improve Performance	135
6.2.6. Stimulate Raising of Funds in the Primary Markets	135
6.2.7. Facilitates Inflow of Capital from International Markets	135
6.2.8. Contributes to Economic Growth	135
6.2.9. Miscellaneous Services	135
6.3. Structure/Organisation of Secondary Markets	135
6.3.1. Stock Exchange	136
6.3.2. Over the Counter Market (OTC) Market	136
6.4. Notable Stock Exchanges in the World	137
6.4.1. New York Stock Exchange (NYSE)	137



6.4.2.	National Association of Securities Dealers Automated Quotations (NASDAQ)	137
6.4.3.	Shanghai Stock Exchange (SSE)	137
6.4.4.	European New Exchange Technology (EURONEXT), Europe	138
6.4.5.	Hong Kong Stock Exchange (HKEX), Hong Kong	138
6.4.6.	Tokyo Stock Exchange (TSE), Japan	138
6.4.7.	Shenzhen Stock Exchange (SZSE), China	138
6.4.8.	London Stock Exchange (LSE), United Kingdom	138
6.5.	Major Stock Exchanges in India	139
6.5.1.	History of Stock Exchanges	139
6.5.2.	Bombay Stock Exchange (BSE)	141
6.5.3.	National Stock Exchange (NSE)	142
6.6.	Demutualisation of Stock Exchanges	144
6.7.	Stock Market Index	145
6.7.1.	Construction of a Stock Market Index	145
6.8.	Major Stock Indices	146
6.8.1.	Prominent Stock Indices in the World	146
6.9.	Widely used Stock Indices in India	148
6.9.1.	S&P BSE Sensex	148
6.9.2.	NIFTY 50	149
6.9.3.	Difference between SENSEX and NIFTY	150
6.10.	Depository System	151
6.10.1.	Demat Account	151
6.10.2.	Depositories	152
6.10.3.	National Securities Depository Limited (NSDL)	154
6.10.4.	Central Depository Services India Limited (CDSL)	156
	<i>Summary</i>	158
	<i>Key Words</i>	160
	<i>Review Questions</i>	160
	<i>Appendix</i>	160



7.1.	Introduction – Concept and Types of Capital Market Instruments	163
7.1.1.	Types of Capital Market Instruments	163
7.2.	Ownership Securities	164
7.2.1.	Equity/Ordinary Shares	164



7.2.2. Preference Share Capital	165
7.3. Debt/Creditorship Securities	167
7.3.1. Debentures/Bonds	167
7.3.2. Types of Debentures	167
7.3.3. Advantages and Disadvantages of Debentures	168
7.4. Innovative Debt Instruments/Securities	169
7.4.1. Convertible Debentures/Bonds	169
7.4.2. Zero Interest/Zero Coupon Bond	170
7.4.3. Deep Discount Bond	170
7.4.4. Warrants	171
7.4.5. Secured Premium Notes (SPNs)	171
7.4.6. Floating Rate Bonds (FRBs)	171
7.5. Derivatives	172
7.5.1. Derivatives – Concept	172
7.5.2. Types of Derivatives	173
7.6. Financial Instruments for Mobilising Resources from International Markets	177
7.6.1. Depository Receipts	177
7.6.2. Types of Depository Receipts	178
7.6.3. Foreign Currency Convertible Bonds (FCCBs)	182
7.6.4. Foreign Currency Exchangeable Bonds (FCEBs)	183
7.6.5. External Commercial Borrowings (ECBs)	184
7.6.6. Masala Bonds	184
<i>Summary</i>	185
<i>Key Words</i>	187
<i>Review Questions</i>	188

8 Debt Market

**189-212**

8.1. Introduction – Concept of Debt Market	189
8.2. Functions of Debt Market	190
8.3. Regulators of Debt Market in India	191
8.4. Components of Debt Market in India	191
8.4.1. Government Securities Market	192
8.4.2. PSU Bond Market	193
8.4.3. Private Corporate Debt Market (PCD Market)	194
8.5. Primary and Secondary Segments of Debt Market	196
8.5.1. Primary Debt Market	196

8.5.2. Secondary Debt Market	197
8.6. Participants in the Debt Market	198
8.7. Debt Market Instruments	201
8.7.1. Types of Debt Instruments Traded in Government Securities Market	201
8.7.2. Securities Issued by Corporate Bond Market	204
8.8. Debt Market Reforms	205
8.8.1. Reforms in Government Securities Market	205
8.8.2. Reforms in the Corporate Debt Market	207
<i>Summary</i>	209
<i>Key Words</i>	210
<i>Review Questions</i>	211

9 Securities and Exchange Board of India (SEBI)



213-232

9.1. SEBI – Introduction and Background	213
9.1.1. Need for SEBI	213
9.1.2. Constitution and Organisation of SEBI	214
9.2. Objectives of SEBI	215
9.3. Role of SEBI in the Capital Market	216
9.3.1. Functions of SEBI	216
9.3.2. Powers of SEBI	219
9.4. SEBI and Investors' Protection	220
9.4.1. Investors' Grievances Redressal	221
9.4.2. Investor Education and Protection Fund (IEPF)	223
9.5. Major achievements of SEBI	224
9.5.1. Primary Market Reforms	224
9.5.2. Reforms in the Secondary Markets	225
9.5.3. Modernisation of Stock Exchanges	225
9.5.4. Improvement in the Clearance and Settlement System and Establishment of Depositories	225
9.5.5. Dematerialisation of Securities	225
9.5.6. Trading and Settlement Process	225
9.5.7. Demutualisation and Corporatisation of Stock Exchanges	226
9.5.8. Promoting Mutual Fund Industry	226
9.5.9. Circuit-Breaker System	226
9.5.10. Grievance Redressal System	226
9.5.11. Prohibiting Fraudulent and Unfair Trade Practices and Safety Measures	227
9.5.12. Promoting Investors' Education and Awareness	227



9.5.13. Encouragement to FIIs	227
9.6. Key SEBI Regulations for Capital Markets and intermediaries	227
<i>Summary</i>	231
<i>Key Words</i>	232
<i>Review Questions</i>	233

**Part - 4: Financial Institutions****10 Commercial Banks****233-262**

10.1. Introduction – Concept and Meaning of Commercial Bank	233
10.2. Classification and Structure of Banks	234
10.2.1. Indian Banks	236
10.2.2. Foreign Banks	240
10.3. Role of Commercial Banks	240
10.3.1. Mobilising Savings for Capital Formation	241
10.3.2. Source of Financing	241
10.3.3. Credit Creation	242
10.3.4. Payment and Settlement	242
10.3.5. Liquidity	242
10.3.6. Risk Management	243
10.3.7. Trade and Commerce	243
10.3.8. Development of Marginalised Sectors	243
10.3.9. Economic Growth and Development	244
10.3.10. Help in Implementation of Monetary Policy	244
10.3.11. Finance to Government	244
10.4. Functions of Commercial Banks	244
10.4.1. Primary Functions	246
10.4.2. Secondary Functions	249
10.5. Working Capital Financing by the Commercial Banks	253
10.5.1. Fund-Based Methods of Providing Working Capital Finance	254
10.5.2. Fee-Based Methods of Providing Working Capital Finance	256
10.6. Commercial Banks Role in Project Financing	256
10.6.1. Features of Project Finance	258
10.6.2. Difference Between Project Financing and Traditional Financing	259
10.6.3. Recent Developments in Project Financing in India	260



<i>Summary</i>	260
<i>Key Word</i>	262
<i>Review Questions</i>	262

11 Recent Developments in the Commercial Banking Sector



263-292

11.1. Introduction	263
11.2. Asset-liability Management (ALM)	264
11.2.1. Interest Rate Risk	264
11.2.2. Liquidity Risk	264
11.2.3. Need for ALM	264
11.3. Non-Performing Assets (NPAs)	265
11.3.1. Basic Trends in India's Non Performing Assets (NPAs)	268
11.4. Major Initiatives and reforms in the Banking Sector	270
11.4.1. Banking Ombudsman Scheme	271
11.4.2. Deposit Insurance	271
11.4.3. Capital Adequacy Ratio and Basel Norms	272
11.4.4. CAMELS Rating System	273
11.4.5. Marginal Cost Based Lending Rate (MCLR)	274
11.4.6. Know Your Customer (KYC)	275
11.4.7. CIBIL Score	275
11.4.8. Digital Rupee	276
11.4.9. Conversion of Kisan Credit Card (KCC) into RuPay KCCs	276
11.5. Impact of Technology on Banking Sector	276
11.5.1. Recent IT Trends in Indian Banking	277
11.6. Recent Developments in Banking sector	281
11.6.1. Restructuring in the Banking Sector-Merger of Banks	281
11.6.2. Mergers of Public Sector Banks During the Last Decade	284
11.6.3. Setting up of Small Finance and Payment Banks	284
11.6.4. Micro Unit Development and Refinance Agency (Mudra)	285
11.6.5. Mission Indradhanush – 2015	285
11.7. Financial Inclusion	286
11.7.1. Steps taken to Promote Financial Inclusion	286
<i>Summary</i>	289
<i>Key Words</i>	290
<i>Review Questions</i>	291

**12 Insurance****293-318**

12.1. Introduction – concept of insurance	293
12.1.1. Principles of Insurance	293
12.2. Significance and the role of Insurance	295
12.3. Types of Insurance–Life and Non-Life Insurance	296
12.3.1. Life Insurance Policies	297
12.3.2. Non-Life Insurance/General Insurance	300
12.4. An Overview of Insurance Sector in India	302
12.4.1. Insurance Sector in India at Present	303
12.4.2. Market Share of Public and Private Sectors in the Life Insurance Sector in India	305
12.5. Life Insurance Corporation of India (LIC)	306
12.5.1. History	306
12.5.2. Objectives of LIC	307
12.6. General Insurance Corporation of India (GIC Re)	308
12.6.1. Objectives and Functions of GIC Re	309
12.7. Recent Developments, initiatives and Reforms in the Insurance sector	309
12.7.1. Recent Developments in the Insurance Sector	309
12.7.2. Recent Initiatives and Reforms taken by the Government in Insurance Sector	310
12.8. Insurance and Regulatory development Authority of India (IRDAI)	311
12.8.1. Mission and Objectives of IRDAI	312
12.8.2. Composition and Structure of IRDAI	312
12.8.3. Entities Regulated by IRDAI	313
12.8.4. Duties, Powers and Functions of IRDAI	313
<i>Summary</i>	315
<i>Key Words</i>	316
<i>Review Questions</i>	317

13 Mutual Funds**319-348**

13.1. Introduction	319
13.2. Mutual Funds – Concept	319
13.3. Advantages and Limitations of Investing in Mutual Funds	321
13.3.1. Advantages of Investing in Mutual Funds	321
13.3.2. Limitations of Investing in Mutual Funds	322



13.4.	History of Mutual funds	323
13.4.1.	History of Mutual Funds in India	323
13.5.	Structure of Mutual funds in India	325
13.5.1.	Other Components in the Structure of Mutual Funds	327
13.6.	Some Basic Mutual Fund Concepts	328
13.6.1.	AMC – Asset Management Company	328
13.6.2.	NAV – Net Asset Value	328
13.6.3.	Expense Ratio	329
13.6.4.	Entry and Exit Load	329
13.6.5.	AUM – Asset Under Management	330
13.6.6.	Fund House	330
13.7.	Methods of investing in Mutual funds	330
13.7.1.	Systematic Investment Plan (SIP)	330
13.7.2.	Systematic Transfer Plan (STP)	331
13.7.3.	Systematic Withdrawal Plan (SWP)	331
13.8.	Types of Mutual Funds	332
13.8.1.	Types of Mutual Funds Based on Asset Class/Investment Portfolio	333
13.8.2.	Types of Schemes Based on Maturity period	336
13.8.3.	Types of Mutual Funds Based on Investment Objective	337
13.8.4.	Other Mutual Funds	339
13.9.	Role of Mutual Funds in Capital Market Development	342
13.10.	Regulation of Mutual Funds	343
13.11.	An Overview of Mutual Fund Sector in India	345
	<i>Summary</i>	346
	<i>Key Words</i>	348
	<i>Review Questions</i>	348

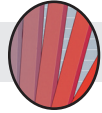
14 Non-Banking Financial Companies


349-374

14.1.	Introduction	349
14.2.	Concept of NBFCs	350
14.3.	Difference between NBFC and a Bank	351
14.4.	Role of NBFCs	353
14.4.1.	Source of Credit	353
14.4.2.	Facilitating Economic Growth	353
14.4.3.	Supporting Infrastructure Development	353
14.4.4.	Promoting Financial Inclusion	354
14.4.5.	Role of NBFCs in Capital Market	354



14.4.6. Role of NBFCs in Factoring	354
14.5. Types of NBFCs	355
14.5.1. Based on their Asset/Liability Structure	355
14.5.2. Based on their Size	355
14.5.3. Based on Activity	356
14.5.4. Other categories of NBFCs	361
14.6. Private Equity Funds (PE Funds)	362
14.7. Venture Capital Funds	363
14.7.1. Difference Between PE Fund and Venture Capital Fund	364
14.8. Hedge funds	365
14.8.1. Difference Between a Hedge Fund and Venture Capital Fund	365
14.8.2. Difference Between a Hedge Fund and Private Equity Fund	366
14.9. Regulation of NBFCs	367
14.9.1. Exemption from RBI Regulation:	368
14.10. Growth of NBFC Sector in India	369
<i>Summary</i>	372
<i>Key Words</i>	373
<i>Review Questions</i>	374

**Part - 5:****Financial Stability****15****Financial Stability and Financial Crisis****233-262**

15.1. Introduction	375
15.2. Financial Stability – Concept and importance	376
15.3. Financial Stability Indicators	377
15.3.1. Key Financial Stability Variables	378
15.3.2. Financial Soundness Indicators (FSIs) – IMF	379
15.3.3. Financial Stability Indicators – World Bank	382
15.3.4. Financial Sector Assessment Program (FSAP)	384
15.4. Financial Stability Indicators – RBI	384
15.4.1. Financial Stability and Development Council (FSDC)	384
15.4.2. Financial Stability Indicators (RBI) – (Methodology used by RBI)	385
15.4.3. Financial Stability Report, 2023, RBI	388
15.5. Financial Crisis	389
15.5.1. Concept of Financial Crisis	389
15.6. Causes of financial Crises	390



15.6.1. Financial Crises in Advanced Economies	391
15.6.2. Financial Crisis in Emerging Market Economies	392
15.7. Types of Financial Crises	393
15.8. Major Financial Crises in the World Since the Great Depression	394
15.8.1. Financial Crisis of Late 1920s and Early 1930s, The Great Depression	394
15.8.2. OPEC Crisis of 1973	395
15.8.3. International Debt Crisis	395
15.8.4. The US Saving and Loan Crisis of 1980s	395
15.8.5. The Junk Bond Crash of 1980s	395
15.8.6. The Mexican Peso Crisis of 1994	395
15.8.7. Asian Currency Crisis	396
15.8.8. Global Financial Crisis 2007-2009	396
15.8.9. European Debt Crisis	396
15.9. Global Financial Crisis of 2007-09	397
15.9.1. Similarities Between the Global Financial Crisis and the Previous Crises	397
15.9.2. Main Causes of the Global Financial Crisis	398
15.10. Effects of 2007-09 Financial Crisis	399
15.10.1. Impact of the Global Financial Crisis on India	402
15.11. Emerging Challenges to Financial Stability	404
<i>Summary</i>	405
<i>Key Words</i>	407
<i>Review Questions</i>	407
References	409

About the Book

This book on Financial Markets and Institutions provides a comprehensive coverage of the relevant areas which are part of the syllabus for paper on Financial Markets and Institutions for Semester III of B Com (Hons) of University of Delhi. The book attempts to provide an in-depth analysis and theoretical exposure of the key areas to fill critical gaps in the learning needs of the present Undergraduate Commerce student, by bringing together a theoretical perspective with the recent and contemporary developments in the Indian Financial system. The book addresses many of the recent conceptual additions as introduced in the new curriculum framework (UGCF)-2022 based on (NEP) for B Com (Hons) and B Com. The book primarily serves as a text book but may also be used as reference book for the postgraduate courses as well as for courses such as B A (Finance), BMS, BME, MBA, and other professional courses taught at different institutions and universities.

Salient Features of the book

- The book explores various conceptual additions introduced in the current syllabus on 'Financial Markets and Institutions' based on the current UGCF course (NEP) syllabus
- Focuses on keeping the contents of the book current and relevant. Discusses the recent and developments, particularly in Indian perspective.
- Provides an in-depth theoretical knowledge and analysis of the financial markets and institutions from the perspective of contemporary developments.
- The book is written in a lucid, simple and engaging manner to provide a wide perspective of the concept of financial system to the students.
- Each chapter ends with a comprehensive summary of the chapter which helps the student to glance through the contents of the chapter.
- It incorporates the theoretical questions as well as the questions that have appeared in the recent question papers of Delhi University.
- An outline of the chapter is listed at the beginning of each chapter so as to convey the learning outcome of each chapter.
- The different chapters have been written keeping in view the current course requirement of the students for B Com Hons and accordingly, the chapters follow the sequence given in the syllabus.

About the Author

Dr. Paramjeet Kaur is a senior faculty member in the Department of Commerce at SGTB Khalsa College at the University of Delhi. She did her B.Com (Hons) from Lady Shri Ram College, M.Com from Shri Ram College of Commerce, M. Phil from Department of Commerce, Delhi University. Her research interests span the interface between Economics and Finance with her Ph.D from the Department of Business Economics, University of Delhi in 2006, focussing on Spatial Inequities in India. She has over 40 years of teaching experience at the undergraduate and postgraduate level in subjects such as Financial Markets and Institutions, International Business, Macro Economics, Indian Economy, HRM, OBHR, Cost Accounting, among others. She has played a key role in designing the syllabus for various courses such as B. Com Hons., B.Com Program and B. A (Accounting and Finance) in accordance with the National Education Policy (NEP), both as convener and member.



Sultan Chand & Sons

Publishers of Standard Educational Textbooks

23 Daryaganj, New Delhi-110002
Phones (S): 011-23281876, 23266105, 41625022
(O): 011-23247051, 40234454
Email : sultanchand74@yahoo.com
info@sultanchandandsons.com



TC 1291

