

Financial Services

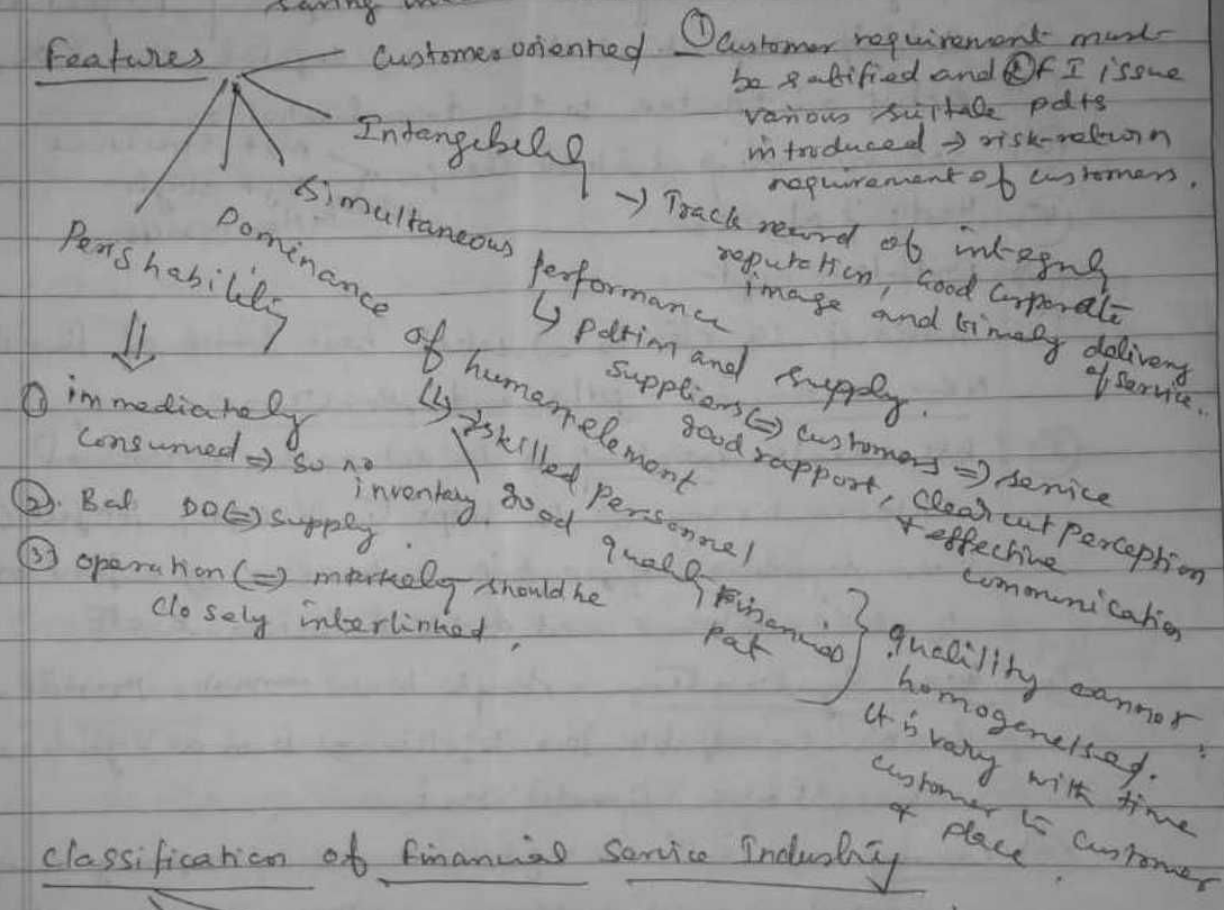
Unit 9 - Financial Services & Merchant Banking

DATE: _____

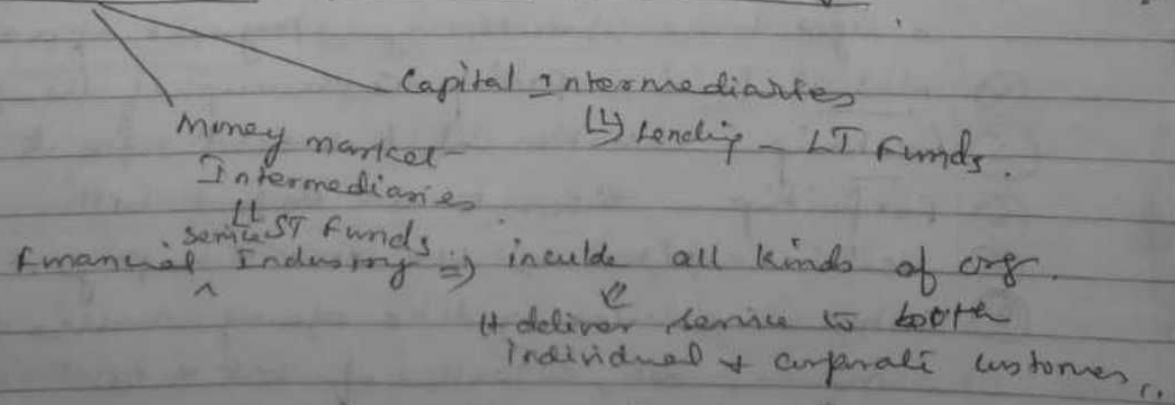
Financial Services

It means mobilizing and allocating savings.
 It includes all activities involved in the transformation of saving into investments.

I Features



II Classification of Financial Service Industry



Scope of financial services - it is divided into

- ① Traditional activities - further divided into
 - ① Fund based
 - ② non-fund based
- ② Modern activities.

fund based activities

- ① Investment -> shares, bonds, debenture etc
- ② Dealing Secondary mkt
- ③ participatory money market
- ④ Dealing in foreign exchange mkt activities.

Non-Fund based activities.

- ① managing capital issues
- ② working capital requirements
- ③ to assist & process of getting all government and other clearances.
- ④ To make arrangement \leftarrow Capital Debt.

Modern activities.

- ① project advisory service \Rightarrow preparing project report
- ② guiding corporate customer \Rightarrow capital structuring
- ③ Acting as trustee to the debentureholders
- ④ Recommend suitable change \leftarrow mgt structure
mgt style
achieve better results
- ⑤ Hedging of risks.
- ⑥ Portfolio mgt
- ⑦ advising the clients \Rightarrow select best source of funds.

New Financial products and services.

- ① Merchant banking \Rightarrow to act as an financial intermediary \Rightarrow he helps to PF mgt, project counselling, loan syndication, acting as banker \Rightarrow refund orders, handling interest and dividend warrant etc.
- ② Loan Syndication - single bank cannot provide \Rightarrow huge loan. no of bk join together \Rightarrow form a syndicate to share credit risk.
- ③ Leasing \Rightarrow it is an agreement. company acquire a right to use \Rightarrow machinery \Rightarrow payment of rent.
- ④ Mutual fund - pooling the saving of the public.
- ⑤ Factoring - collection of trade debt. for its clients.
- ⑥ Forfeiting - discounts an export bill.
- ⑦ Venture capital \Rightarrow new innovation project \Rightarrow finance.
- ⑧ Custodial services \Rightarrow like agency service \Rightarrow to keep shares, deb, collection of int + DD.
- ⑨ Corporate advisory services \Rightarrow bank provide their customers \Rightarrow computer terminals, customers sitting in own office \Rightarrow transact banking transactions.
- ⑩ Securitisation \Rightarrow to help the financial institutions to raise cash against such assets by means of issuing securities of small values to the public.

Challenges facing the financial service sector.

① Lack of qualified personnel.

→ qualified and trained personnel.
↳ but proper training must be given to the various financial intermediaries.

② Lack of investor awareness.

↳ improve that → through literature, seminars, workshops, advertisements.

③ Lack of Transparency. → disclosure requirements and audit practices. → with international standards.

④ Lack of specialisation. financial intermediaries deal different financial services without specialisation in one or two areas.

⑤ Lack of recent data. :- No research, no proper database.

⑥ Lack of efficient risk mgt system - Interest rate risk, political risk and eco risk ⇒ no proper risk mgt followed.

Merchant Banking.

↳ It is an institution ⇒ covers wide range activities
↳ mgt ⇒ customer service, pt mgt, credit syndication, acceptance credit, counselling, insurance etc.

Scope for merchant banking in India

merchant banks ⇒ encourage & support ⇒ entrepreneurs, corporate sector and investors.

① Growth of new issue market.

70's ⇒ ₹ 9000 annual Ar. Cap issue

80's ⇒ ₹ 10000 " "

2009 - 90's ⇒ ₹ 22232.19 cr Trend is continue in future

② Entry of foreign investors

1994 - foreign capital - \$ 5 billion. It is \$ 35-40 billion.

③ changing policy of financial institutions

↳ of FI from security orientation, project oriented enterprises.

④ Dev't debt mkt = NSC + OCTF I

⑤ Innovation and financial instrument.

⑥ Corporate restructuring.