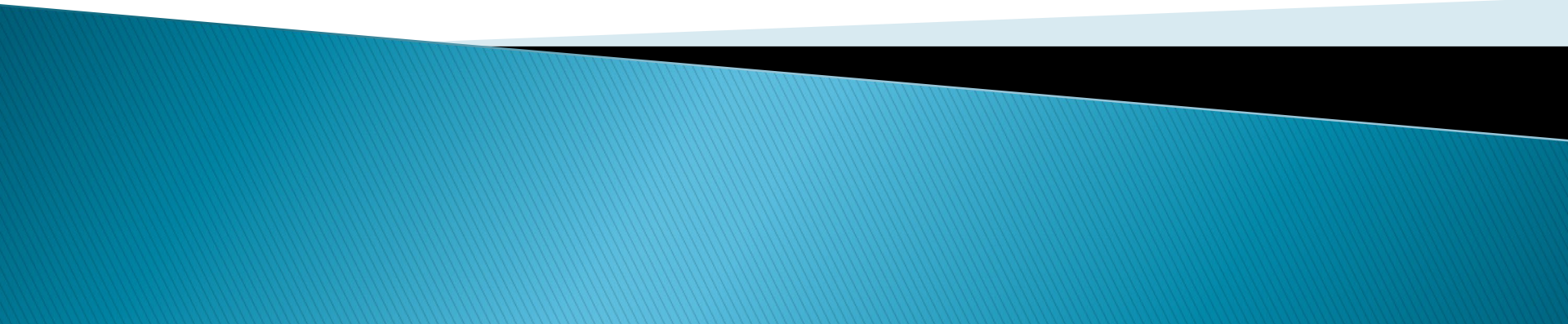


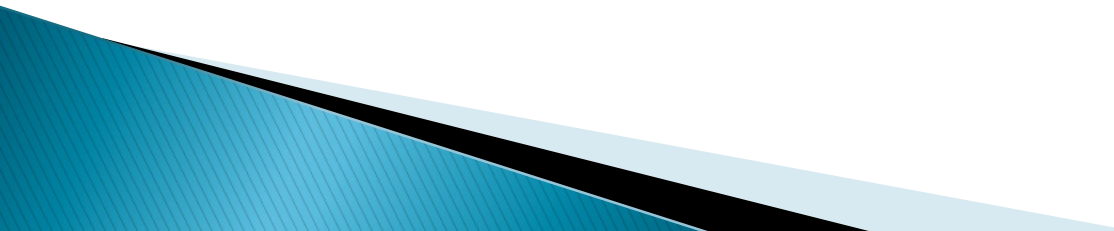
INDIAN FINANCIAL SYSTEM

CHAPTER-2 FINANCIAL INSTITUTIONS



Meaning of financial institution:

A financial institution is basically a term lending institution. It is generally called as development bank. A development bank may be defined as a financial institutions concerned with providing all types of financial assistance to business units in form of loans, underwriting, investment, guarantee operations and promotional activities for economic development and industrial development.



The primary functions of financial institutions are:

- Accepting deposits
- Providing commercial Loans
- Providing real estate Loans
- Providing Mortgage Loans

Issuing Share certificate



- **Types of financial institutions**
- **Banking Institutions**
- **Non Banking Financial Institutions**

• **Banking Institutions** : they are governed by RBI, and come under Banking Regulations Act 1949.

• **Land Mortgage bank/Land development Banks/Agricultural Banks:** Finances Agricultural sector for lesser interest.

• **Indigenous Banks:** includes Money lenders, sahumars lending their own funds to needy persons for interest.

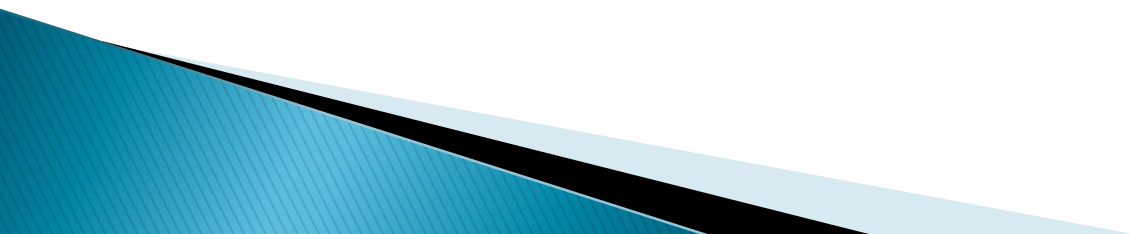
• **Central Bank:** Every country of the World has a Central Bank eg. RBI in India, Federal Reserve in USA, Bank of England in UK.



- Co-operative banks:** are registered under Cooperative societies Act in 1912, give credit facilities to small farmers, SSI etc.

- RRBs:** they are established with the objective to develop Rural Economy.

- Foreign Bank:** they are foreign banks working in India, these banks are concerned with financing corporate clients and specialized in Internationalized Banks.



Non Banking Financial Institutions: These are institutions which do not have full license or is not supervised by a National or International Banking Regulatory Agency.

- **They may be categorized into 2 groups:**

- A. Organized Financial Institution

- A) Development Finance Institution: they are the organized financial Institution

- Eg. IDBI, ICICI, IFCI , SFC, SIDC etc

- **Investment Institution:** These mobilise savings of Public at large through various schemes eg. LIC , GIC, UTI

INDUSTRIAL DEVELOPMENT BANK OF INDIA:

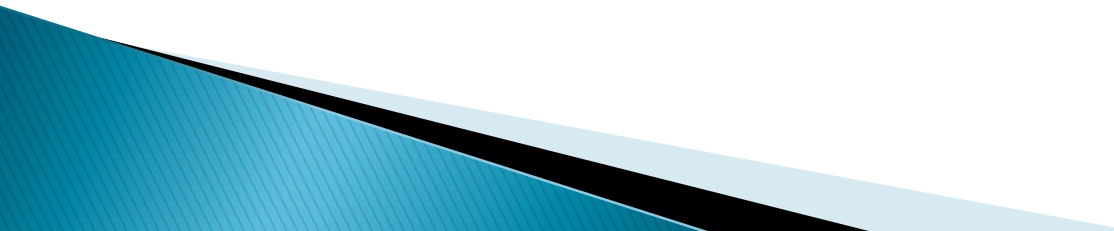
It was established in July 1964 under IDBI act

ROLE OF IDBI:

- It is the principle financial institution for coordinating in conformity with national priorities, promoting or developing industries.
- Providing Technical and Administrative for promotion from a management or expansion of industry.
- Undertaking market and investment research and surveys.

FUNCTIONS OF IDBI:

It falls into the following groups.

1. Direct assistance.
 2. Indirect assistance.
 3. Promotional activities
- 

DIRECT ASSISTANCE:

It further divided into.

- Term loan term loans are provided for period ranging between 10 to 12years.
- Underwriting of securities.
- Direct subscription of shares and debentures.
- Guarantees loan and deferred payments
- Venture capital.
- Equipment leasing.

2. INDIRECT ASSISTANCE:

- Refinancing of industrial loans.
- Resource support to financial institutions.
- Rediscounting of bills.

3 PROMOTIONAL ACTIVITIES:

a) Assistances to backward areas:

Direct assistance like giving concessions in the form of interest longer repayment period, longer grace period and lower margin requirement

b) Refinance:

Refinance facilities are provided at concessional rate of interest to SFCs for financing small and medium industries

NON-FINANCE MEASURES:

By conducting survey of the backward areas for assessing the industrial potential and identifying the projects for resource availability and infrastructure facilities

B) ASSISTANCE TO SMALL SCALE INDUSTRIES:

1. Refinancing to state level institutions which in turn finance small scale industries and small road transport operators.

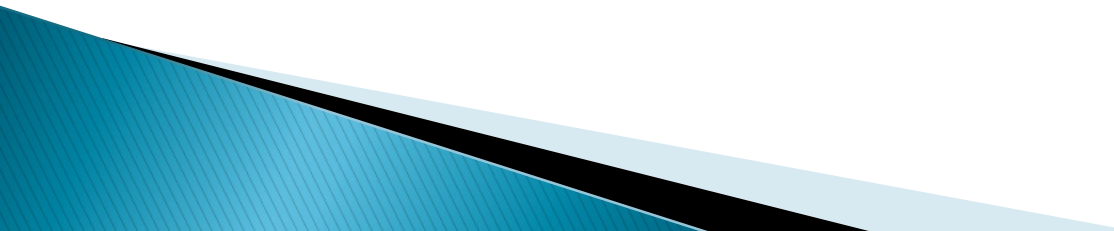
2. Constriction to the shares and bonds issued by SFC's
Refinancing to SFC's to cover loans granted to industrial estates

3 .DEVELOPMENT TO ENTERPRENORS

1) Seed capital assistance through SFC's and SID's

2) 100% refinance in respect of composite loans preparation of project profile.

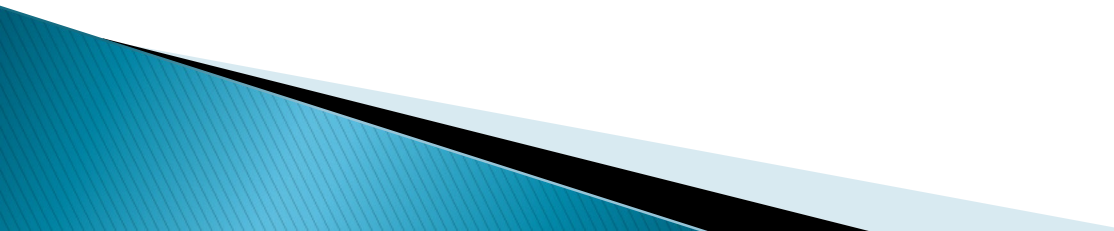
Assistance to state level institutions in the formulation and implementation of training programs for entrepreneur.



INDUSTRIAL FINANCE CORPORATION OF INDIA

It was set up in 1948 under IFCI act its main object is to finance medium and long term period.

FUNTIONS OF IFCI

- Granting of loans both in Rs and foreign currencies.
 - Raised by industrial concern in the capital market.
 - Underwriting of shares debentures and bonds.
 - Direct subscription to the shares and debentures of public Ltd companies.
 - To provide financial assistance in short medium and long term.
 - To provide consultancy and merchant banking.
 - To carry on business of leasing and higher purchase.
 - To undertake activities like wear housing, factoring custodial services, etc.
 - To set up investment company.
 - To deal, transact buy and sell foreign currencies.
 - Acts as trustee, executor, administrator, treasurer and trust.
- 

STATE FINANCIAL CORPORATIONS (SFC'S):

It was established under SFC act 1951.

TYPES OF ASSISTANCE OR FUNCTIONS

- Granting loans for a period not excluding 20 years.
 - Under writing the issue of stock under shares, bonds and debentures.
 - Granting deferred payment.
- Granting loans raised by industrial concerns in the capital market


UNIT TRUST OF INDIA

It was established in the year 1964.

The primary objectives of UTI:

- To encourage and pool the savings of middle and low income and enable them to share the benefits and prosperity of industrial development in the country.
- Selling the units of UTI among many investors in different parts of the country.
- Paying dividends to the unit holders.
- Investing the sale proceeds of the units in the corporate securities.
- Buy or sell or deal in foreign exchange dealings.
- Acquire and sell immovable property.
- Open an a/c or enter in to agency agreement with the bank incorporated outside INDIA.
- Extent port folio management service two persons residing outside INDIA.
- Provide merchant banking and investment advisory service.

Advantages of the Units UTI

- Investments in units are safe because the risk is spread over a wide range of securities which reduces the risk to the unit holders considerably.
- 3) The units are highly liquid.
- 

LIFE INSURANCE CORPORATION OF INDIA:

It was established on 1st SEP 1956. LIC provides funds to industries in 3 forms.

- Direct lending to the industry.
- Purchase of shares and debentures in the stock market.
- Subscription to the shares and bonds of financial institutions.

The LIC finance industry indirectly by investing in the shares and bonds state level financial institutions like IDBI, ICICI, IFCI, etc;

General Insurance Corporation of India (GIC)

It was established in the year 1972. The subsidiaries of GIC are:

- National Insurance Company
- New assurance.
- The oriental fire general insurance company.
- The united INDIA fire and general insurance company Ltd.

THE FUNCTIONS OF GIC ARE:

1) Financial assistance: It is further divided into direct assistance.

- Granting loans.
- Under writing.
- Direct subscription of shares and debentures.

2) Purpose wise assistance.

- New projects.

B) Expansion and diversification

- Modernization, rehabilitation and balancing equipment.
- Working capital including the working of the assistance concerns.

3) Sector wise assistance.

Assistance to public sector is wide when compared to corporative sector.

