

Indian Financial System - meaning

The Indian Financial System plays crucial role in the economic development of the country. It is the System that manages the flow of funds between the people and the investors and thus contributes in capital formation in the country.

Indian Financial System is constituted by financial institutions like banks, insurance companies, pensions, funds, etc.

Components of Indian Financial System

There are four main components of the Indian Financial System. They are:

- Financial Institutions

It act as a mediator between the investor and the borrower. eg: Banks, Insurance, NBFCs, mutual funds etc.

- Financial Assets

The products which are traded in the Financial Markets are called Financial Assets. eg: Call Money, Treasury Bills, Certificate of Deposits etc.

- Financial Services

Financial Services provided by Asset Management and Liability Management Companies. eg: Banking Services, Insurance Services, Foreign Exchange Services etc.

- Financial Markets

Here buyers and sellers interact with each other and participate in the trading of financial assets.

There are two types of Financial Markets:

Money Market – It deals with small-term investments only. It is mostly dominated by government, banks and other large institutions. It involves low-risk and highly liquid instruments.

Capital Market – It deals with transactions which are taking place in the market for more than a year.

Indian Financial System Structure

It is a network of financial institutions, financial markets, financial instruments and financial services to facilitate the transfer of funds. The system consists of savers, intermediaries, instruments and the investors.

Functions of Indian Financial System

- Helps in mobilisation of savings.
- Issuing and gathering of deposits (mainly by Banking institutions)
- Supply of loans from the collected pool of money (Banks)
- The undertaking of financial transactions (like mutual funds)
- Boosting the growth of stock markets and other financial markets.
- Setting up the legal commercial substructure.

Indian Financial System Code

The Indian Financial System Code (IFS Code or IFSC) is an alphanumeric code that facilitates electronic funds transfer in India. A code uniquely identifies each bank branch participating in the three main Payment and settlement systems in India: the National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS) and Immediate Payment Service (IMPS) systems.