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Paper Authors **RAJU S, DR. ANSHUMAN SHARMA**


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# A STRATEGIC ANALYSIS OF FINANCIAL DEVELOPMENT IN INDIA

**CANDIDATE NAME = RAJU S**
DESIGNATION- RESEARCH SCHOLAR MONAD UNIVERSITY HAPUR U.P
**GUIDE NAME= DR. ANSHUMAN SHARMA**
DESIGNATION- PROFESSOR MONAD UNIVERSITY HPUR U.P

**ABSTRACT**
The meaning of "System" in financial system implies the set of nexus and closely linked institutions, agents, practices, market, transactions, liabilities and claims in the economy. Money, credit, and finance form the foundation of the financial system. Each of the three words is closely linked to the others, yet they are also distinct. Money refers to the means of payment. Credit or loan is the sum of capital to be returned with interest, it refers to the liability of economic unit. Finance is a monetary resource comprising debt and ownership, funds of the state, company or persons. All of these measures have had an impact on the banking industry and the financial markets. As a result, it is critical to examine the finance-growth relationship both before and after liberalisation. India is contributing considerably to the increase in trade and economic activity, and consequently to global economic development, due to its size and improving economic performance in the previous decade or so. As a result, it's critical to consider how India's financial growth has progressed and how it has influenced the contours of India's economic advancement, as well as how it has been impacted by it. It will also be useful to look at what else India has to do to join the league of countries with well-functioning financial markets and financial sectors.

**KEYWORDS:** Financial Development, India, banking industry, financial markets, global economic development

## INTRODUCTION

Finance is a link which connects saving and investment. Banking is a method which collects money from savers and is put in hands of those who are willing to invest. It is divided into financial institutions, financial markets, and financial services and instruments, according to a classification scheme. A financial institution's loans are the primary source of credit for all economic units in the society - businesses, households, and governments - according to one categorization. Intermediate and non-intermediary financial institutions are distinguished. They make loans and keep funds flowing, but their primary duty is to savers, while their earnings come from investors and borrowers. Savings are not directly collected by non-intermediary institutions. Banks of all types are middlemen. There are a large number of financial intermediaries that are non-banking institutions (NBFI). NBFIs in India include UTI, LIC, GIC, etc. For example, IFCI, NABARD and IDBI are non-intermediary organizations that were created as a result of government initiatives to offer financial assistance for certain objectives and sectors. The financial markets are the locations where financial claims and services may be bought and sold. By using dealers and brokers at established exchanges and

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financial institutions, companies, financial institutions, individuals and the government may trade in financial goods. Organized and unorganized financial markets are distinguished. A well-established exchange is the location where companies' transactions take place in an organized market setting.

As a result of the financial markets, players are able to trade financial claims. Due to market forces, demand and needs for such claims are intertwined, resulting in a price determination process. Money market and capital market are India's two largest structured financial marketplaces. Short-term securities are traded on the first, whereas long-term securities are traded on the second. A short-term debt market is sometimes known as a money market. Liquidity is well-known on this market. Securities with high denominations are exchanged in this market to minimize transaction costs. Money market products include call money market, certificate of deposits, commercial paper, and treasury bills, among others.

**MEANING OF FINANCE:**

Finance is the integral part of modern economic life and occupies vital place in all economic activities. Economic growth virtually rests to the considerable extent on availability of adequate and timely finance. Finance brings together different segments of the confederation and transforms them to the integrated whole so as to work smoothly in direction of achieving the goals of the organization. That is the reason why finance is a backbone of business activities.

**Circular Flow of money and Income:-**

Before independence, our economy was running without any financial intermediation and there was no clear cut standard medium of exchange which we called "A barter system economy".

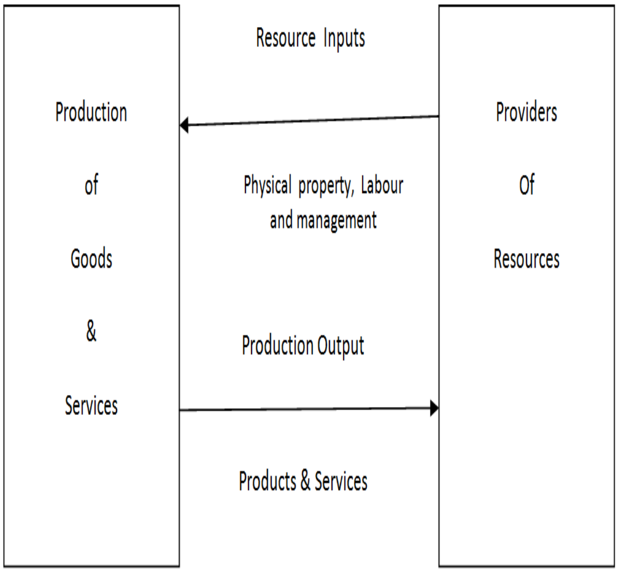


**Figure 1Circular flow of income for a barter economy**

Income earned by the barter economy is paid in goods and services form. Income may be earned by the recipient for any of these resources: - (a) physical property i.e., land, tools or other goods. (b) labour (c) by providing services of an entrepreneurial nature.

**FINANCIAL SYSTEM**

Financial sector can have many faces in the economy. It collectively includes legal arrangements, instruments, financial intermediaries and markets. A financial system helps to mobilize the financial surpluses of the economy and to transfer them to the areas of financial deficits. It is the key factor of any development strategy. The financial system promotes savings by providing a broader variety of the financial assets to common public. Savings rose from the household sectors pooled together and assigned to different sectors of economy to increase production levels. For the economy to grow it is necessary that

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credit should be allotted in equal manner, with judicious allocation so that all sectors are equally justified.

**Structure of financial system**

The meaning of "System" in financial system implies the set of nexus and closely linked institutions, agents, practices, market, transactions, liabilities and claims in the economy. Financial system is based on money, credit and finance. The three terms are closely related yet are different from one another. Money refers to the means of payment. Credit or loan is the sum of capital to be returned with interest, it refers to the liability of economic unit. Finance is a monetary resource comprising debt and ownership, funds of the state, company or persons. Figure 2 Present the Typical structure of financial system in any economy.

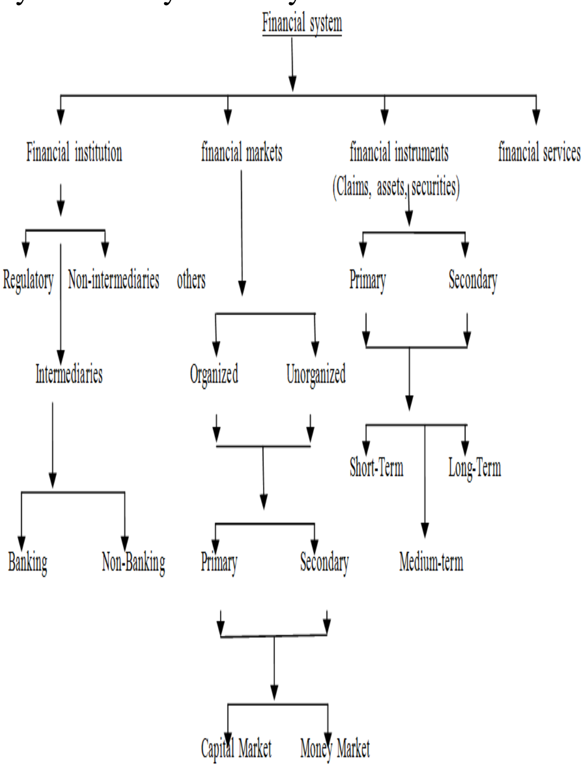


**Figure 2 Financial System – Various parts and types of classification**

Financial system is classified into financial institutions, financial markets, financial services and financial instruments.

According to one classification, financial institutions are among the principal means for making payments for goods and services and their loans are the chief source of credit for all economic units in the society, business, household and governments. Financial institutions are classified as intermediaries and non-intermediaries. As the term indicates intermediaries are connecting link between savers and investors, they provide loans as well as keep savings in flow, but its main responsibility are towards the savers, while their profits are from the investors and borrowers. Non-intermediary institutions do not directly collect money from savers. All banking institutions are the intermediaries. Many of the non-banking institutions act as non-banking financial intermediaries (NBFI). UTI, LIC, GIC etc., are some of NBFIs in India. Reason for the existence of Non-intermediary institutions like IFCI, NABARD and IDBI is because of government efforts to provide financial aid for certain purposes, sectors and regions. Financial markets are the places that provide facilities of buying and selling of the financial claims and services. The corporations, financial institutions, individual and government trade in financial products via organized exchanges, dealers and brokers. Financial markets are classified as organized and un-organized. In organized market firms transactions take place inside the well-established exchanges.

**BANKING SYSTEM IN INDIA:**

The performance of banking system affects the success of the economic expansion of country especially Indian capital market. In this backdrop it is

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essential to know the financial background of Indian banks which have been the major player in Indian money market.

The major banking companies are:

**A. Public Sector Bank (PSBs)**

i. **State Bank of India (SBI):** SBI is an Indian public sector bank, it is the government owned bank with headquarter in Mumbai (Maharashtra). The bank is listed in "fortune global 500"as it acquired 217th rank in the list of world biggest companies in 2017.Largest bank in India and acquires 23%market share in assets and one fourth of total market's loan and deposits. It has 18354 branches and 59291 ATMs in India. SBI is the biggest employer in the country with 209567 employees. Founded in the year 1806 as Bank of Calcutta, was the first ever banking that was established in India and in a course of time raised into State Bank of India (SBI). SBI represents the exceptional legacy of more than 200 years.

**Punjab National Bank (PNB):** Punjab National Bank, the India's first bank to come out of the Swadeshi movement, established on April 12, 1895 at Lahore, with a capital of only Rs 2 lac and with Rs 20000 as working capital. The first bank completely managed by Indians with the Indian capital and Founded by Dayal Singh Majhithia.Its headquarter is in New Delhi with Mr. Sanjiv Gupta as MD and CEO. It has a revenue of 47424.35 crore and operating income of 12216 crore, net income of 3974.39 crore and total asset of 667390.45 crore.

**Bank of Baroda (BOB):** It was started 109 yrs ago on 20th july1908, founded by the Maharaja of Baroda, Maharaja Sayajirao Gaekwad III .Its headquarter is in Vadodara Gujraat. Till July 2017 it has 5481 branches all over India. Its chairman is Mr. Ravi Venkatesh and PS Jayakumar as MD and CEO. Its main fields are consumer and corporate banking, finance and insurance, investment banking, credit cards, private equity and wealth management. Its operating income in 2017 was 10975.907 crore and net income of 1383.14 crore .It is owned by GOI with a total of 52420 employee and capital ratio of 13.17%.The bank with 13 other commercial Indian banks, were nationalized on 19 July 1969 and has been nominated as a profit-making PSU.

ii. **Bank of India (BOI):** A group of businessman established BOI on 7th September 1906.It was under private ownership till 1969 after which it was taken over by the Government, and later on merged with thirteen other banks. It started with a 50 lakhs capital and 50 employees and it has taken a mighty shape with net income of 609913.93 crore and total 45603 employees, it's headquarter is in Mumbai with Mr. Dinbandhu Mohapatra as MD and CEO. It provides retail banking, mortgages loan, corporate banking, asset management and other banking services.

iii. **Canara Bank (CB):** It is a public sector bank in India and was founded as Canara Bank Hindu Permanent Fund in 1906 at Mangalore India. Later it was coined as Canara Bank ltd in 1910 and finally Canara bank in 1969.It has it's headquarter at Bangalore, Karnataka. Shri TN Machala is the chairman and Shri Rakesh Sharma is the MD and CEO of Canara bank. It offers a broad range of banking services and product like investment banking, retail banking, consumer banking, commercial banking, private banking, asset management, pensions, mortgages loan and credit cards. It has 549413 employees as on October 2017 and is having a capital ratio of 12.86%.

iv. **Union Bank of India (UBI)**: It was set up in 1969 under banking companies act. Headquarter is based in Kolkata. Mr. Rajkian Raoji is the MD and CEO. Bank provides corporate banking, consumer banking, personal banking, wealth management, investment and mortgages loan. It has a total asset of 404695.93 crore, about 35415 employees with a capital ratio of 10.6%.

v. **Central Bank of India (CBI):** Established in 1911, Central Bank of India was the 1st Indian commercial bank that was completely owned and managed by the Indians. Headquartered in Mumbai, Maharashtra the establishment was theutmost realization of the aspiration of Sir Sorabji Pochkhanawala, the founder. Sir Pherozesha Mehta was the 1st Chairman of a truly 'Swadeshi Bank'. At present Shri Rajiv Rishi is the managing director of central bank of India with 37685employees .Its capital ratio is 10.41%.

**vi. Syndicate Bank (SB):** Syndicate Bank is among the crucial and oldest commercial banks of India (BSE532276,NSE SYNDIBANK). It was founded by T M APai, Vaman Kudva and Upendra Pai. At establishment time, the bank was known as Canara Industrial and Banking Syndicate Limited. The bank with thirteen other crucial commercial banks of India was nationalizedon 19 July 1969, by Government. The Bank has it's headquarter in Manipal, India. Its annual revenue is about Rs.6913.09 crore with operating income of 1514 crore and annual net income of 359 crore.Its total asset is worth Rs 299073.34 crore. It is governed by GOI with about 34989 employee and capital ratio of 12.03%.

vii. **Oriental Bank of Commerce (OBC):** Sri. Rai Bahadur Lalaji and Sohanlalajithe 1st Chairperson of the Bank established it in 1943 in Lahore. Within 4 years of its existence it had to face the partition. Today it's headquarter is in Gurgaon (BSE500135, NSE ORIENTBANK).Present CEO and MD is Shri Mukesh Kumar Jain. Along with banking and financial services it takes careof retail and private banking, pensions, asset management and credit cards. It has total revenue of Rs. 2005.71 crore its total asset in Indian market is Rs 23754.54 crore. Total no employees are approx 21469 with capital market of 11.76%.

viii. **UCO Bank (UCO):** Government of India Undertaking, the United Commercial Bank Ltd., established on 6$^{th}$January 1943 with its Registered Head Office in Kolkata. Today it is having a worldwide expansion with Mr. Ravi Kishan Takkar as the active CEO and MD. Bank is exhaling in various products in the market like consumer and corporate banking, mortgage loans pension, insurance, private banking and wealth management. Its annual revenue is about Rs 18560.97 with operating income of Rs 3603 crore and total asset in capital market around Rs 244882.57. Total number of employees is about 24724 and capital ratio of 9.63%.

## B. Private Sector Banks

**i. ICICI Bank Ltd. (ICICI): Industrial Credit and Investment**

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**Corporation of India :** (ICICI Bank) is a multinational Indian bank which was initially promoted in 1994, its principal aim was to develop a financial institution for supplying medium and long-term project financing to the Indian businesses. It offers a broader range in banking services with specialized area in investment banking, lifeinsurance, non-life insurance, venture and assets management. Trades on BSE- 532174, NSE-ICICIBANK.It had it's headquarter in Mumbai and branches spread worldwide. Working chairman is Mr. M.K. Sharma with Mrs. Chanda Kocher as CEO and MD and Mr. Sandeep Bakshi as COO. Annual revenue generated by bank is rs.73660.76 crore, with a operating income of Rs.58905.705 crore.Net income is Rs. 9801.08 crore and has a total market asset of Rs.737546.29crore.Its branches are spread over to China, UK, Canada, Singapore, Bahrain, Hongkong, Srilanka, Qatar, Oman, Dubai and South Africa.

**ii. HDFC Bank (HDFC):** HDFC Bank was incorporated in August 1994. It is an Indian banking and financial services company having the headquarters at Mumbai, Maharashtra. It is having about 76,286 employees with 12,680 females and a presence in Hong Kong, Bahrain even Dubai. HDFC Bank is the $2^{nd}$ largest private sector bank in India in terms of assets.

**iii. Axis Bank Ltd. (AXIS):** It is the $3^{rd}$ largest private-sector banks of India that offers a comprehensive package of financial products with HQ in Mumbai with registered office in Gujarat's Ahmadabad. Came into work from July 30, 2007, Axis bank was known as UTI bank initially**.** It was founded in 1993 by UTI bank and now has headquartered in Mumbai. Shikha Sharma is the present MD and CEO with Mr. Sanjay Mishra as chairman. The areas served in the banking sector are wealth management, private banking and equity, investment, finance and insurance. Total revenue generated by the bank as on July 2017 was Rs.414.9025 crore with the net income of Rs.83.5759 crore.

**iv. The Federal Bank Limited** is an important private sector commercial bank having it's headquarter at Aluva, Kochi, Kerala. It has 1252 branches and about 1680 ATMs across India till 31 March 2016. Current chairman is Mr. K.M. Chandrshekhar with Mr.Shyam Shriniwasan as CEO and MD. Its annual revenue is Rs.9759.20 crore and operating income of Rs.1924.23 crore. Their markets total asset is Rs.114976.93 crore. It has a total of 11593 employees and a capital ratioof 12.39%.

**EMERGENCE OF FINANCIAL INSTITUTION IN INDIA**

Before independence financial system mechanism linked between investments and saving for the safety, liquidity and profitability of the savers and on the other hand to the various types of working requirements of investors. In India the institution are generally grouped into two parts –

1. The money market.
2. The capital market.

The money market includes banks and also other financial institution giving loans for short and medium term period where as capital market composed of institutions that grant long term loans and also invest in securities. The Indian capital market and money market before independence was

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not developed for providing the needs of long term finance. This is one of the crucial constituent for the development of our economy. After attainment of Independence Government of India took steps to fill the gaps in the capital market and created notional and state level financial institutions. These financial institution were like development bank which served as development not only carrying or lending operation but also development activities including promoting projects and helping the clients in their problems and difficulties.

The needs of financial institution in India are largely forced by the industries in India. As capital is the backbone of an industrial organization. Present era Industrial Enterprises need various types of capital namely initial capital, working capital, fixed capital, operational capital, maintenance capital, development capital, etc. Since modern industries have to use the latest scientific technology and pursue a process or specialization to produce commodities on a larger scale to meet market demands, they have to invest very heavy capital for buying sufficient infrastructure in advance for fulfilling the capital needs.

Another reason that they came into existence for the emergence of financial institution in India was poverty, national savings were very few, and there was no capital formation because of minimal savings. The gap between the capital formation and capital utilization could be fulfilled with the establishment of financial institutions.

Government taxation and interest policies are also accountable for the emergence of financial institution in India. The interest to be paid on loans is a deductible expenditure for the company's profits. The financial control policies of the government increased the dependence of industrial concerns on debt capital provided by such institution.

For the significant and balanced economic development there is an emergence of Financial Institutions of India. They helped in those projects which are basic for fulfilling population needs. They also assist the projects stated by government for public interest, by providing long term finance, by assisting the new companies in raising funds from the capital market, providing technical and managerial consultancy services to the Industrial Enterprises.

## CLASSIFICATION OF FINANCIAL INSTITUTION

Based on their main activity or specialization with relation to the savers or borrower with whom they deal customarily, there is a need to divide financial institutions. In other words functional, geographic, structural, the type of ownership or the scope of activity are the criteria which were often used to classify a large number of financial institution that exist in economy.

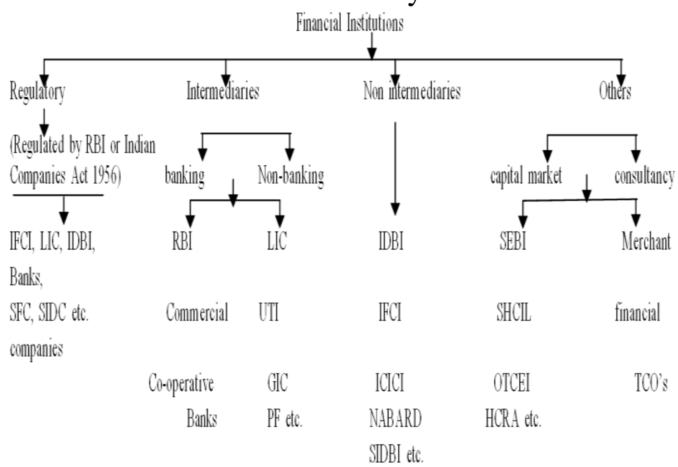


**Figure 3 Classification of financial**

**institution in India**

Regulatory financial institutions are financial institutions, regulated and setup by Reserve Bank of India (RBI) or set up under Indian Companies Act 1956. Furthermore, financial institutions are also divided as intermediaries and non-intermediaries. Financial intermediaries, as name suggests, an intermediary between investors and savers i.e." surplus" spenders among the people and the "Deficit" spenders who borrow funds for investment purpose. Financial intermediaries are further divided into banking and non-banking institutions.

## CONCLUSION

In Indian economy, financial institutions have a function of providing term finance to entrepreneurs and mobilize their resources for their lending operations. They have to comfort the task of entrepreneur by dispensing finance timely and by providing information on market and other related services. The corporate purpose of financial institution is to pace up the level of economic growth and to find out and provide total solution to the business organization for the gap caused by developing long term relationship with credit worthy corporate and institutional clients. Thus, these financial institutions have played a major role in the improvement of all the sectors of economy, which in turn improves the Gross Domestic Product, standard of living of the people, the per capita income and employment generation in the economy. The credit of all these improvements and overall economic development of the country goes to these financial institutions only. At present time, although these institutions are facing a great competition from various domestic and international level institutes but they will resume their responsibility as in their past and will always ready to help the nation in developing a viable nation economy.

The Indian financial system is broad based in the year to come, undoubtedly the Indian financial system will grow in size. After the introduction and announcement of new economic policy 1990, the financial institutions have been well-structured and played a major role as a catalyst in accelerating the growth of the economy. Due to LPG policy in 1990, the financial sectors of the country have experienced huge changes in the money and capital markets and this leads to promote the economic development of a country. These policies have introduced reforms efforts in terms of in strengthening production norms, enhancing transparency standards and positioning best management practices.

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