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Effect of Financial Services pertaining to the Globalisation

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Abstract :
Banking services are economic in nature and offer many financial services. These services shows a comprehensive range of organizations that manage money, including banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.
Indian economy is going through a severe time. Our economy is facing decline rate in growth. We need some key changes in our banking policies to control the situation. Financial services will surely help to progress this critical situation by more money into economy & to enhance retail demand for consumer goods.
The advancement of banking services will help us to upsurge our standard of living & also help in steadying our economy and push us one step towards becoming in the world. The future of banking services is very optimistic and more & more people should say this run of creating trust
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Keywords: financial services, banking, economy.

Introduction

The importance of banking services industry for developing economies lies not only in channelling scarce capital for necessary economic growth and development, but also as an effective conduit for applying monetary and debt management policies of the government. Financial services cover wide area & also have a direct & immediate effect on various sectors of the economy, which include inflation control, stabilization of foreign exchange rates, money market & debt market situation, general liquidity in economy & demand supply scenario in the overall market. The economies around the world are more integrated than ever before. Major economies are no longer isolated from the happenings in other economies. Amidst all this, since global financial crisis in 2008-09, financial systems are undergoing many changes all over the world. These include the changes in the underlying processes. The national level financial systems are no longer immune to the events around the globe.
Financial markets in particular are becoming more integrated than ever before. When we talk about financial services, the first area come across in our mind is banking services. So, let we check, what 'wiki-pedia' says on financial services, "Financial services are the economic

services provided by the finance industry, which encompasses a broad range of organizations that manage money, with credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

Recent Economic Study :

Indian economy is going through a tough time. Since last one and half year, our economy is facing pressure of slowdown in growth rate. We need some major changes in our financial policies to control the situation. The worst part is that, policy makers are heavily dependent on Foreign Direct Investment (FDI) to manage current account deficit & to maintain our foreign exchange reserve which are currently around $280 billion, which can suffice our 7 month import bill only. The depreciating rupee is also an additional headache for Government & cause of worry for economy which adversely affects on our import bill. It also impacts our budgeted figure of current account deficit.

This slowdown is a result of financial measures taken by the RBI towards controlling inflation by compromising growth of economy. Macro-economic condition of Indian economy continuously degraded & recession in other emerging markets has also played its part.

We can see, impact of all these in reduced GDP number at 4.4% in 1st quarter of FY 2013-14. This was the lowest quarterly growth in last 4 years. India’s Index for Industrial Production (IIP), the most important indicator to judge the performance of industrial sector contracted by 2.2% in June 2013. For the month of May 13, this figure was at 1.6%. This clearly shows how our economy is performing. Though, good monsoon has given some relief, but Indian agriculture could not able to lift GDP by more than 1%. As per global economists, India will face even more critical financial & economic situation in coming 2 years, if current policy makers do not take major decisions to control the situation.

Financial condition in India

An innovative, competitive & thriving financial services industry in any country plays a vital role in its smooth functioning and development. Earlier, India's financial services sector has posited a stable growth curve over the years driven by sound fundamentals, rising personal incomes, corporate restructuring, financial sector liberalization and the growth of a consumer-oriented, credit oriented culture. This has led to the growing demand for financial products, including consumer loans (especially for cars and homes), as well as for insurance and pension products.

According to the Central Statistical Organisation (CSO) data, released in 2009-10, financial services including banking, insurance and real estate sectors rose by 9.7 per cent over last decade. On the back of such dramatic growth, we have seen huge investment by Foreign Institutional Investors.

Here it will be appropriate to mention few positive factors on which growth of our economy is based. The 1st& most important is our average saving rate of around 30% against global average saving rate of 18 to 20%. This saved us from heart threatening global recession of 2008 to 2011. The 2nd factor is favourable demographic profile which supports a higher retail off take - 54% of the population is in the 15-35 years age group. India consists of a dynamic & a growing middle-class class which on a purchasing power uniformity basis is much larger than the entire population of the US and a consumer credit market that is rising by more than 40% per annum.

Impact of Financial Services on Living Standard of Indian society

The growth in financial services industry has made a very positive impact on living standard of the society as a whole. When we compare 2001-02 & 2011-12, we can see tremendous

growth in percentage of middle class segment. People of this segment mainly contain all salary class and Micro-Small & Medium entrepreneurs in India. 70% growth of our indigenous demand based economy is due to this group. Financial services industry provided them many loan including home loan, furniture loan, educational loan & facilities like credit cards and net banking. This has made charmed change in living standard of people. Due to EMI facility, now everybody wants to enjoy luxury facilities. India is known as 'small car hub'. Everybody need his dream home at the age of 30 years. So definitely, Financial Services sector has contributed to a large extent in cumulative standard of living of Indian society.
Financial services in India are mostly controlled by statutory regulating bodies like Reserve Bank of India (RBI) for commercial banking sector, Insurance Authority of India (IRDA) for Insurance Sector, Securities & Exchange Board of India for Capital Markets & Investment banking.

Commercial Banks :

Demand for banking services is growing meaningfully, albeit in a country where less than half of households have a bank account. It is in the retail sector that the improved in demand is most marked. As per data for year 2010, housing loans has seen annualised growth of around 20% over last 5 years & loans to the retail commercial sector rose by more than 32%. According to the weekly statistical supplement (WSS) of the Reserve Bank of India (RBI), Indian bank loans signified a rise of 19.1 per cent as of June 4, 2010 while deposits were up 14.3 per cent from the previous year.
When we compare our banking industry with other country China, then we get amazing facts. Some brief comparison is as below.

Industrial and Commercial Bank of China Ltd. (ICBC) is China's largest bank and the largest bank in the world by market capitalization & by market value. As of 2009, it had assets of US$1.6 trillion compared to which **State Bank of India**, largest Bank in India has a asset size of US$ 200 billion. In terms of size State Bank of India stands at 93rd in world ranking. Top four Banks in China have asset size of 3 times of the entire Indian Banking industry.

Here we feel that our banking industry is lagging far behind from china but on the other hand there is good news also. When we compare NPA level of banking industry in both the countries, we will salute our Indian banking industry. The official data on China's banks on NPA levels are not reliable, but most independent analysts believe that the banks there have a staggering bad loan problem. The estimates vary, ranging from 30 to 50 per cent of total loans. So, even if we go by the lower estimate, a third of all the money lent out by China's banks has been frittered away which compared to India Banks net NPA levels of 3 to 4.5%.

FUTURE PROSPECTS OF INDIAN BANKING INDUSTRY:

Indian Government is trying to connect as much population as possible through banking services. Government wants to use banking services to curb corruption and fast mobilisation of money. As on today 50% of our population do not have bank account or bank connectivity. India has large unorganised SME (Small & Medium Enterprises) sector. For continuous growth of banking industry, banks have to take lead in financing SME sector. With increasing computerization, banks can go to very small locations to capture maximum possible geographical area. Facilities like Debit /

Credit cards are now very routine for urban & semi-urban societies but still we are not confident with facilities like Net Banking, RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund transfer).

Making online banking popular is the next challenge in front of Indian banking industry. It requires aggressive advertisement and bring confidence level in the consumers. Presently internet facilities are available in large part of India. By using online banking, we can save huge number of man hours which could be used for other productive purposes. For e.g. let’s think, payment of electric & mobile bills through Net banking. Online booking of flight, railway & bus tickets will save our energy, time as well as petrol & diesel also. It will have positive impact on pollution control and on traffic problems.

Non-banking Financial Companies

Non banking financial companies are those which are doing business of financing but not directly covered under RBI rules and regulations. Non-banking financial companies (NBFCs) are fast developing as an important segment of the Indian financial system. It is an varied group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans & advances, leasing, hire purchase, etc. They elevate funds from the public, directly or indirectly, and lend them to ultimate spenders. They advance loans to the numerous wholesale and retail traders, small-scale industries and self-employed persons. NBFC are present in all competitive fields such as, vehicle financing, housing loans, leasing, hire purchase and personal loans financing etc.
There are very prevalent examples of NBFCs like Dewan Housing Finance, Mahindra Finance, Tata Finance, Moothroot Finance.

NBFC's are not required to maintain CRR and SLR like commercial banks. Priority sector loaning norm of 40% (of total advances) is not applicable to them. While this is at their benefit, they do not have access to low cost demand deposits. As a result their cost of funds is continuously high, resulting in thinner interest spread. Gradually, they are being recognised as balancing to the banking sector due to their customer-oriented services; simplified procedures; attractive rates of return on deposits; suppleness and timeliness in meeting the credit needs of specified sectors etc.

On regulatory front, NBFCs have been classified into 3 classes: (a) those accepting public deposits, (b) those not accepting public deposits but involved in financial business and (c) core investment companies with 90 per cent of their total possessions asinvestments in the securities of their group/ holding/subsidiary companies. The focus of regulatory attention is on NBFCs accepting public deposits as it involves money of large population.

FUTURE PROSPECTS OF NBFCs IN INDIA:

NBFCs have tremendous scope in growing Indian financial system. As NBFCs do not have sector specific regulations, they can afford to give as much finance to any particular sector which is in demand. Customers need simplified lending procedures, minimum paper work and fast speed of action. NBFCs can give all 3 thing to them.

With maximum computerization and well managed working staff, NBFCs provide far better quality services than any nationalized banks. They give door to door services whenever required. We cannot even imagine, a officer of SBI visiting our home to fill our loan application form & verification of documents. NBFCs have created a tough competition for banking sector by creating their own customer base.

Only a fear factor in case of NBFCs is unexpected increase in NPA levels may hamper their growth & profitability as whole. For e.g when rate of gold decreased from 32000 to 25000 in recent past, all NBFCs which had made loan against gold, have squeezed badly and Share price of such NBFCs dropped by nearly 40%. Same case may happen with Housing Loan financing companies, If Valuation of property reduced for any reason, it adversely affects companies like DHFL and LIC Housing Finance.

Insurance

India is the 5th largest market in Asia by premium following Japan, Korea, China and Taiwan. The life insurance segment is growing at a healthy 32-34 percent annually, according to the Life Insurance Council of India.

Insurance Sector is somehow dependent on other financial services for growth and stability. Increase in vehicle finance has directly impacted on growth of automobile market & then such growth is become a primary cause of increase in general insurance segment.

When we think about Insurance, we think of LIC. Taking life insurance is not a luxury but a need in today’s world of high competition and tension. Let’s see some great facts about **LIC of India**

- LIC is the largest Insurance provider in the world in customer base of more than 23 Crore.
- No.1 insurance company in the world in terms of agency (about 1.1 Million agents)
- Only 4 countries in the world have more population that LIC`s policy holders.
- Total assets value of LIC as on 31-03-13 is more than 14.33 lac Crore.

But still, we as a society are far behind in taking insurance for risk coverage. Most of us used to take insurance policy for saving income tax. Everybody should take proper insurance cover on their life.

As per globally acceptable standard on amount of Life Insurance you required is calculated as below :

At the age of 30-35 yrs, the most proper time to get a term insurance cover for yourself, your total cover should be :

'Your present annual income * 20 times'.

So if you have income of 500000 P.a. then you should take term insurance cover of Rs. 1 Crore, which you can get at around 15000/- p.a.

When we talk about future prospects of Insurance Industry in India, the scope is really huge. Increased participation of private players in insurance market is a good sign for insurance industry. We need more qualitative & educated insurance advisors who will create confidence & sense of safety in the mind of insurer.

Investment In India

Investment services itself is a subject of separate paper. Investment services includes Mutual funds, Private equity players, Personal Fund managers, Portfolio management services, Share brokers, specialised institutions on 'Mergers & Acquisitions', franchise based services for 'Foreign Institutional Investors', Foreign exchange traders, real estate brokers etc.

One major sector come under Investment Services is Capital market. Indian stock market is still based on investors' sentiments. Our stock market is not yet reached to a matured stage & hence large number of people takes it as a Gamble. SEBI has made an investor education fund of Rs. 800 Crore to promote, educate & aware general public about stock & mutual fund market.

Let we check a practical examples of how good investment services can benefit investor :

1. If any company has Rs. 2 crore in its current market and it will not need it for 1 month.

   Our bank manager never give advice to his client to make a Sweep-in Fixed deposit as bank is using this money at 0 cost (No interest on Current A/c).

   On the other hand, a trusted investment advisor will suggest that the company must invest the full amount in Liquid Funds through RTGS / net banking services. In liquid fund, the company will earn around 1.50 lacs and do not incur any entry or exit load.

If you increase the amount to 20 crores, then earning would be of 15 lacs for 1 month.

Hence, we require huge number of investment advisors who have proper knowledge of all investment avenues and should have a passion of creating wealth for his clients. The future of Investment Services is very bright and our young generation should come in this stream. Presently we are lacking on awareness front and this large unorganised sector is waiting for some good news from government agencies.

Conclusion :

Here, we have discussed various details about financial services sector & its importance, classification and impact on our daily life. We can surely say that, advancement of financial services will help us to increase our standard of living & also help in stabilizing our economy and push us one step towards becoming superpower in the world. The future of financial services is very bright and more & more people should join this big journey of creating happiness.

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