Module III: Syllabus

FINANCIAL INSTITUTIONS & MARKETS

And

PROJECT MANAGEMENT

PART A: FINANCIAL INSTITUTIONS AND MARKETS

- Unit 1. Overview of Financial System
  - Lending, Payments and Risk Trading
  - Interest rates and Exchange rates
  - Capital Market and Money Market, Primary Market & Secondary Market
  - Stock Exchange
  - SEBI

PART A: FINANCIAL INSTITUTIONS AND MARKETS

- Unit 2. Financial Intermediaries
  - a. Banks
  - b. NBFCs
  - c. RBI
  - d. Other Financial Institutions
- Unit 3. Insurance (General Insurance)
- Unit 4. Mutual Funds

PART B: PROJECT MANAGEMENT

- Unit 1: Project Identification, Planning and Formulation
- Unit 2: Project Selection & Feasibility Studies and Project Appraisal
- Unit 3: Project Organisation

PART B: PROJECT MANAGEMENT

- Unit 4: Source of Project Finance, Estimation of Project Costs
- Unit 5: Risk Factors, Project Planning & Scheduling including PERT & CPM
- Unit 6: Project Cost Control, Project Review & Appraisal
- Unit 7: Computer aided Project Management (MS Project)

Why it is important?
Financial System

- For Individual
- For Business Organisation
  - Private Entity
  - Partnership
  - Corporates
- For Government

Annual Financial Statements

- Statement of Profit and Loss (P/L Account)
  - [Profit/ Loss]
  - What parameters (Ratios) ROI
  - ERP
- Balance Sheet
  - Assets and Liabilities
- Cash Flow Statement
  - Cash inflow and Outflow (Operating Activity)
  - Investment Activity
  - Financing Activity

Lecture Outline

- Financial System
  - Meaning and Importance
  - Functions
- Relationship between Financial System and capital formation
- Structure of Financial System
- Components of Financial System

Finance

- Finance refers to monetary resources and to the study and discipline of money, currency, assets and liabilities.
- Raising of Financial Resources (How)
- Investing of Resources (Where)
- Tools and Techniques (What types)

Finance

- Finance can be broadly divided into three categories:
- Public finance
- Corporate finance
- Personal finance
- Subcategories of finance include social finance and behavioral finance.

Public Finance

- Public finance includes tax systems, government expenditures, budget procedures, stabilization policies and instruments, debt issues, and other government concerns.

Corporate and Personal Finance

- Corporate finance involves managing assets, liabilities, revenues, and debts for businesses.
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- Personal finance defines all financial decisions and activities of an individual or household, including budgeting, insurance, mortgage planning, savings, and retirement planning.

Corporate Finance

- Corporate finance is a subfield of finance that deals with how corporations address funding sources, capital structuring, accounting, and investment decisions.

Social Finance

- Social finance typically refers to investments made in social enterprises including charitable organizations and some cooperatives.
- These investments take the form of equity or debt financing in which the investor seeks both a financial reward and a social gain.

Behavioral Finance

- Behavioral finance is an economic theory that studies how psychology affects the financial decisions of investors and analysts.
- It explains why people make irrational financial decisions that may not seem rational or have unpredictable consequences.

Financial System

- Financial system is a set of complex and closely-connected or intermixed institutions, agents, practices, markets, claims, and so on in an economy.
- A financial system may be defined as a set of institutions, instruments and markets which promotes savings and channels them to their most efficient use. It consists of individuals (savers), intermediaries, markets and users of savings (investors).

Informal Financial System

- The informal financial system is a sector of the economy that consists of financial activities that take place outside of regulatory authorities.
- It's characterized by personal relationships between the provider.

Informal Indian Financial System

- Individual lenders, groups of people acting as funds or associations, partnership firms made up of local brokers.

Informal Financial System

- Advantages
  - Low transaction costs
  - Minimum default risk
  - Transparency of procedures
- Disadvantages
  - Wide range of interest rates
  - Higher rates of interest
  - Unregulated

Functions of a Financial System

- Mobilize and allocate savings
- Monitor corporate performance
- Provide payment and settlement systems
- Optimum allocation of risk-bearing and reduction
- Disseminate price related information
- Offer portfolio adjustment facility
- Lower the cost of transactions
- Promote the process of financial deepening and broadening

Pre-requisites of a well-functioning Financial System

- A strong legal and regulatory environment,
- Stable money
- Sound public finances and public debt management,
- A central bank
- A sound banking system,
- An information system, and
- A well-functioning securities market

Financial System Designs

- Bank-Based: In bank-based financial systems, banks play a pivotal role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers, and providing risk management facilities.
- Example:
  - Developed Countries: Japan, Germany, France, Italy
  - Under-developed Nations: Argentina, Pakistan, Sri Lanka, Bangladesh

Financial System Designs

- Market-based: In market-based financial systems, the securities markets share centre stage with banks in mobilizing the society's savings for firms, exerting corporate control, and easing risk management.
- Example:
  - Developed Countries: US, UK, Singapore, Malaysia, Korea
  - Under-developed Nations: Brazil, Mexico, the Philippines, Turkey
  - Source: Demirguc Kunt, A. and R. Levine (1999), Bank-based and Market-based Financial System: Cross-Country Comparisons, World Bank Policy Research Working Paper No. 2143.

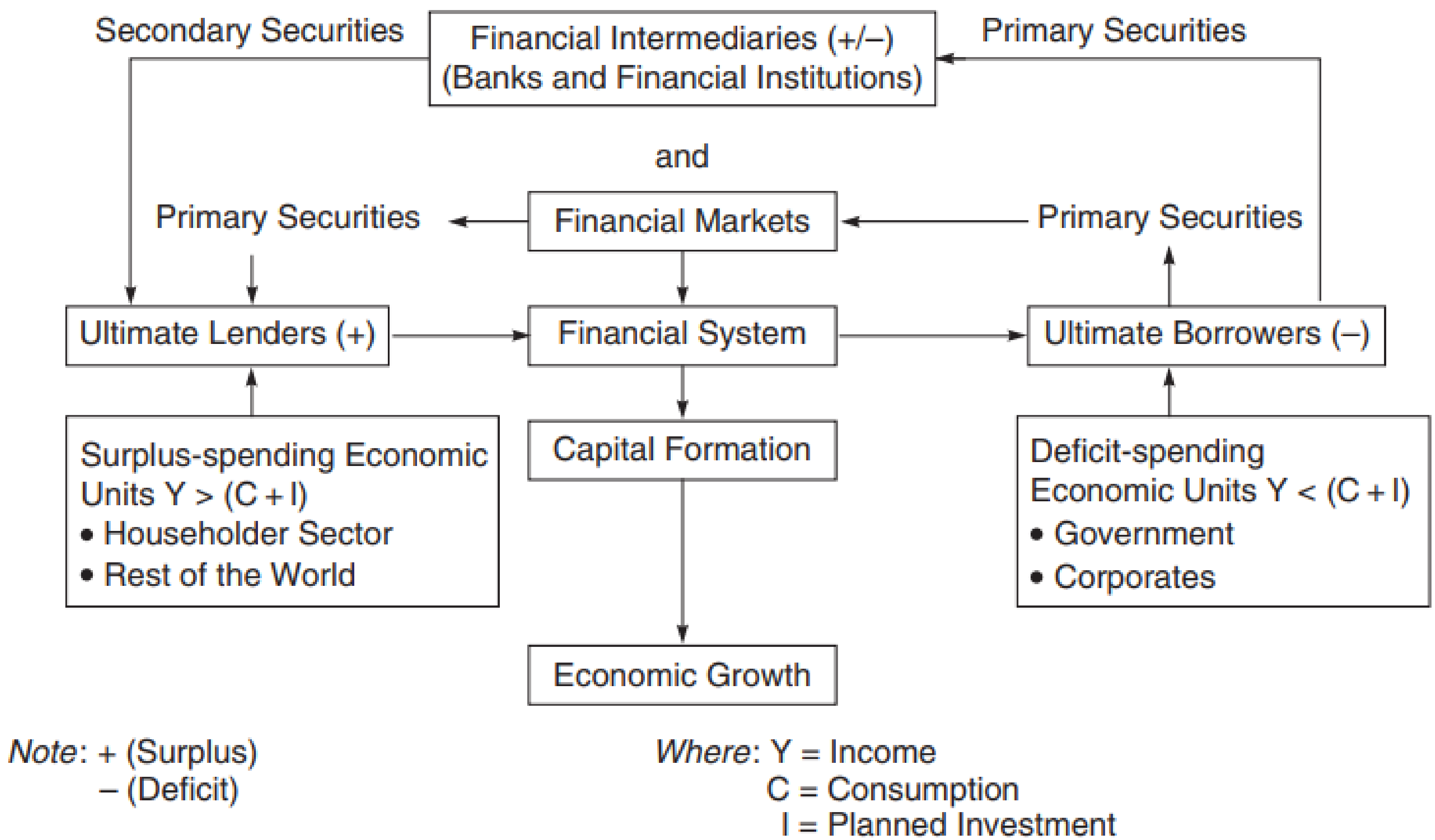
Capital Formation

- The main function of financial systems is the collection of savings and their distribution for industrial investment, thereby stimulating the capital formation and, to that extent, accelerating the process of economic growth.
- Types of Economic Units:
  - Surplus-spending Economic Units
  - Deficit-spending Economic Units

Process of capital formation

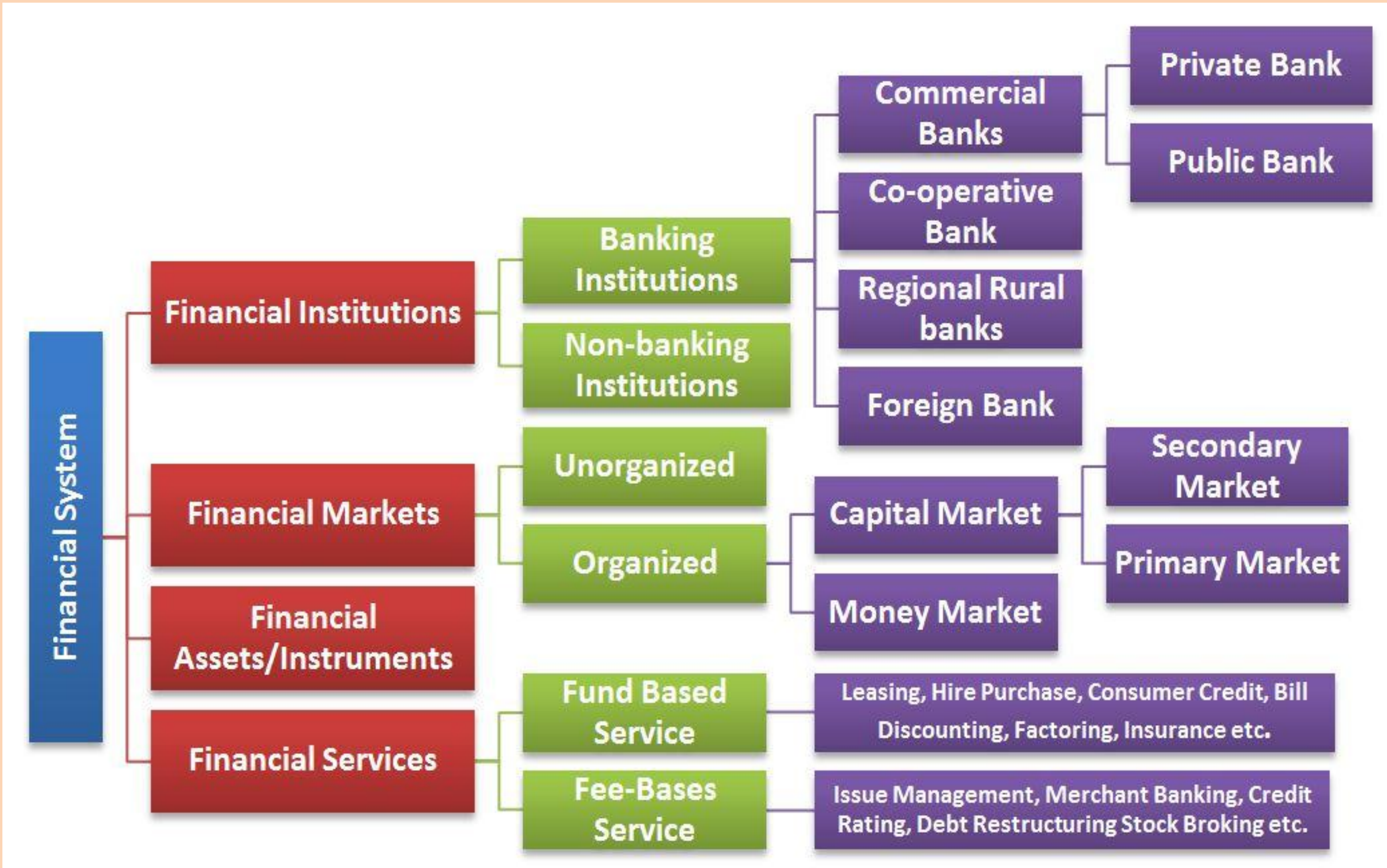
- Savings: The ability by which claims to resources are set aside and become available for other purposes.
- Finance: The activity by which claims to resources are either assembled from those released by domestic savings, obtained from abroad, or specially created usually as bank deposits or notes and then placed in the hands of the investors.
- Investments: The activity by which resources are actually committed to production.

Financial System and Economic Growth



Source: Bharati V. Pathak, Indian Financial System, Pearson

Structure of Financial System



Components of Financial System

1. Financial Institutions
2. Financial Intermediaries
3. Financial Markets
4. Financial Services
5. Financial Regulators

Financial Institutions

- They are business organizations dealing in financial resources.
- They collect resources by accepting deposits from individuals and institutions and lend them to trade, industry and others.
- This means financial institutions mobilize the savings of savers and give credit or finance to the investors.

Classification of FI

On the basis of the nature of activities, financial institutions may be classified as:

- Banking Financial Institutions:

  Banking institutions mobilize the savings of the people.

  They provide a mechanism for the smooth exchange of goods and services.

  They extend credit while lending money.

  They not only supply credit but also create credit.

Non-banking Financial Institutions

- Mobilize financial resources directly or indirectly from the people.
- Lend funds but do not create credit. Companies like LIC, GIC,UTI,
- Development Financial Institutions.
- Non-banking financial institutions can be categorized as investment companies, housing companies, leasing companies, hire purchase companies, specialized financial institutions.

Financial Markets

- Financial markets are the centres or arrangements that provide facilities for buying and selling of financial claims and services.
- They create financial assets.
- Financial markets exist wherever financial transactions take place.
- Financial transactions include issue of equity shares by a company, purchase of bonds in the secondary market, deposit of money in a bank account, transfer of funds from a current account to a savings account etc.

Classification of Financial Markets

- Classification on the basis of structure
- 1. Organized markets
  - These are financial markets in which financial transactions take place within the well established exchanges or in the systematic and orderly structure.
- 2. Unorganized markets.
  - These are financial markets in which financial transactions take place outside the well established exchange or without systematic and orderly structure or arrangements.

Classification of Financial Markets

- Classification on the basis of instruments
- **Money Market**—a market for short-term debt instruments
- **Capital Market**—a market for long-term equity and debt instruments

Money Market

- A market where short term funds are borrowed and lend is called money market.
- It deals in short term monetary assets with a maturity period of one year or less.
- Call market, Treasury-bills market, Commercial bills market, Commercial papers (CPs) market, Certificate of deposits (CDs)

Capital Markets

- Capital market is the market for long term funds.
- This market deals in the long-term claims, securities and stocks with a maturity period of more than one year.
- Participants: Mutual funds, insurance organisations, foreign institutional investors, corporates and individuals.

Financial Instruments

- They represent claims on a stream of income and/or assets of another economic unit and are held as a store of value and for the return that is expected.
- The maturity and sophistication of the financial system, indeed, depends on the prevalence of a variety of securities/ financial assets to suit the investment requirements of heterogeneous investors.
- Ordinary/equity shares, preference shares, debentures/bonds including innovative debt instruments.
- Treasury bills, gilt-edge securities, state government and public sector instruments, commercial paper, certificate of deposit, commercial bills etc.

Financial Services

- The term ‘financial services' in a broad, sense means "mobilizing and allocating savings". Thus, it includes all activities involved in the transformation of savings into investment.
- Financial services can also be called 'financial inter mediation'. Financial intermediation is a process by which funds are mobilizing from a large number of savers and make them available to all those who are in need of it and particularly to , corporate customers.

Types of Financial Services

Financial Services

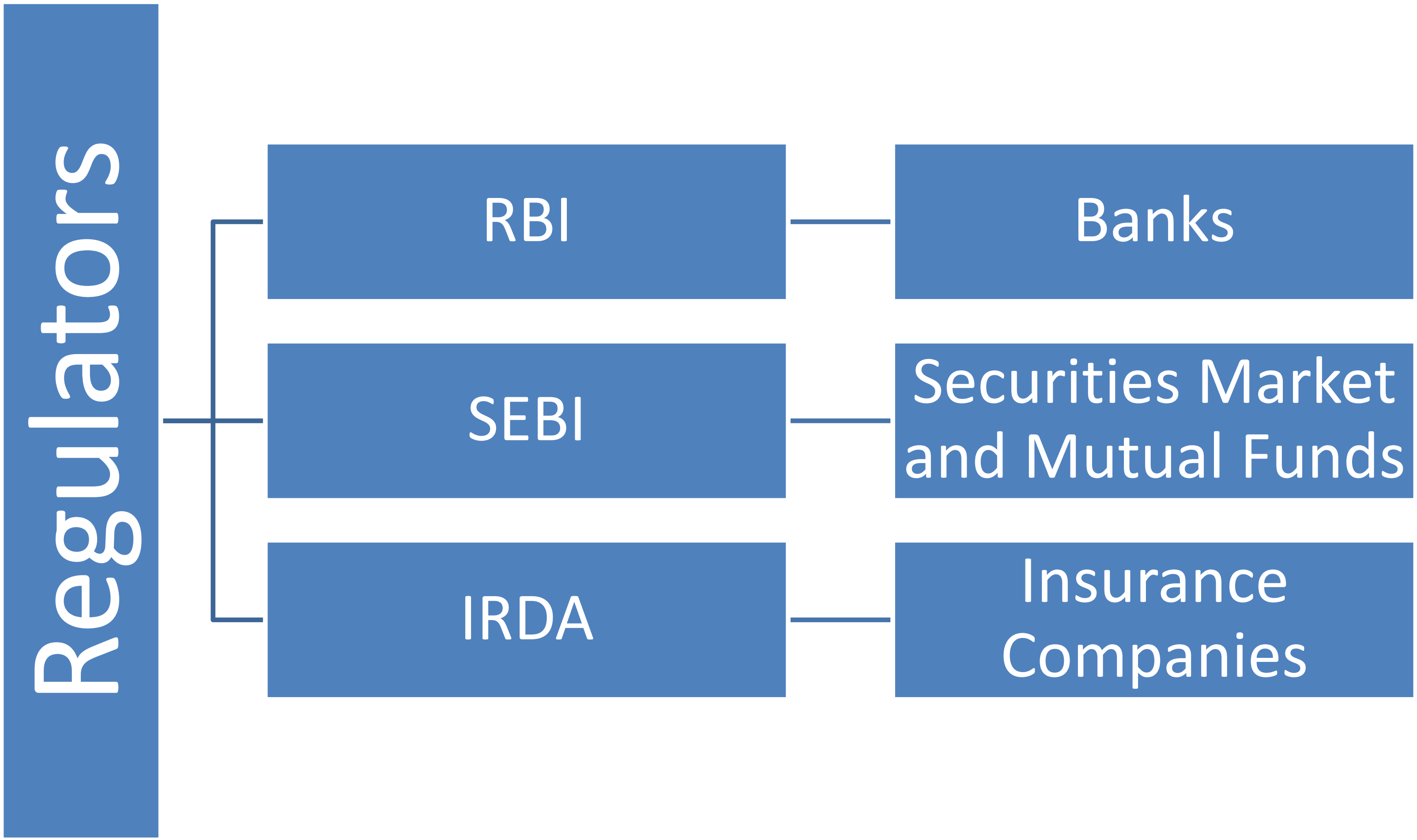
Fee-based

- Leasing
- Hire purchase
- Factoring
- Credit Financing
- Housing Financing

Fund-based

- Issue Management
- Portfolio Management
- Corporate Counsellig
- Merchant banking
- Credit rating

Regulators


Regulators
RBI
SEBI
IRDA
Banks
Securities Market and Mutual Funds
Insurance Companies

thank you