Indian Financial System

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Q.1 Explain the meaning role and functions of Indian Financial System.

Ans.:

Introduction

The economic scene in the post independence period has seen a sea change; the end result being that the economy has made enormous progress in diverse fields. There has been a quantitative expansion as well as diversification of economic activities. The experiences of the 1980s have led to the conclusion that to obtain all the benefits of greater reliance on voluntary, market-based decision-making, India needs efficient financial systems. The financial system is possibly the most important institutional and functional vehicle for economic transformation. Finance is a bridge between the present and the future and whether it be the mobilization of savings or their efficient, effective and equitable allocation for investment, it is the success with which the financial system performs its functions that sets the pace for the achievement of broader national objectives.

Meaning

A set of sub systems of financial institutions, markets, instruments and services, intermediates with the flow of funds between savers and borrowers, facilitates transfer and allocation of scarce resources efficiently and effectively

Role

(a) Role of Intermediaries

In order to create the capital, it is very necessary to interlink the seekers of fund and severs of funds. There must be some link between borrowers and investors for funding and lending the money. Due to vast technological changes, a number of new channels of financial intermediaries have come in to existence.

(b) Role as Bridging the Gap

The financial intermediaries such as insurance companies, Mutual Fund companies, Banks and Non Banking Organizations provide various types of financial services like, credit rating, leasing, merchant banking, hire purchasing, custodian, underwriting, forfeiting, portfolio management etc. Thus by providing financial services, they perform the role of bridging the gap between the investors' lack of knowledge and availabilities.

(c) Role of providing financial Liquidity

Financial System cannot work smoothly if there is no financial liquidity. Trading in security is one of the solutions which can increase the financial security. Easy market for buying and selling the securities definitely provides better financial liquidity. Generally those brokers working as dealers also provide financially liquidity by assisting buyers and sellers.

(d) Role with regards to payment and settlement

The financial service related to payment provides the speedy, secure, convenient transfer of funds from one location to other. Even settlement of various transactions is made possible in a fraction of time.

(e) Role as financial Engineering

An urgent need arises to go for innovative ways of value creation in the period of serve competition, rapid communication & technological changes. The concept of financial engineering provides an opportunity for value creation. In order to cater unique needs of funding, investing and risk management, the financial engineering provides a procedure of designing, developing and implementing novel solutions.

(f) Role as Risk Manager

Risk means the probability of loss. Universal economy is becoming more and more complex due to risk factor. It becomes very necessary to provide protection against the risk by transferring the risk from one financial participant to other financial participants. Such type of role helps financial market participants to transfer unnecessary risk on the share holders of those who are ready to bear it.

Functions of Indian Financial System

1. Promotion of liquidity:

The major function of financial system is the provision of money and monetary assets for the production of goods and services. There should not be any shortage of money for productive ventures. In financial language, the money and monetary assets are referred to as liquidity. The term liquidity refers to cash or money and other assets which can be converted into cash readily without loss of value and time.

2. Link between savers and investors:

One of the important functions of financial system is to link the savers and investors and thereby help in mobilizing and allocating the savings effectively and efficiently. By acting as an efficient medium for allocation of resources, it permits continuous up gradation of technologies for promoting growth on a sustained basis.

3. Information available:

It makes available price- related information which is a valuable assistance to those who need economic and financial decision.

4. Helps in projects selection:

A financial system not only helps in selecting projects to be funded but also inspires the operators to monitor the performance of the investment. It provides a payment mechanism for the exchange of goods and services, and transfers economic resources through time and across geographic regions and industries.

5. Allocation of risk:

One of most important function of the financial system is to achieve optimum allocation of risk bearing. It limits, pools, and trades the risks involved in mobilizing savings and allocating credit. An effective financial system aims at containing risk within acceptable limit and reducing cost of gathering and analyzing information to assist operators in taking decisions carefully.

6. Minimizes situations of Asymmetric information:

A financial system minimizes situations where the information is Asymmetric and likely to affect motivations among operators or when one party has the information and the other party does not. It provides financial services such as insurance and pension and offers portfolio adjustments facilities.

7. Reduce cost of transaction and borrowing:

A financial system helps in creation of financial structure that lowers the cost of transactions. This has a beneficial influence on the rate of return to the savers. It also reduces the cost of borrowings. Thus, the system generates an impulse among the people to save more.

8. Financial deepening and broadening:

A well –functioning financial system helps in promoting the process of financial deepening and broadening. Financial deepening refers to an increase of financial assets as a percentage of the gross domestic product. Financial broadening refers to building an increasing number and a variety of participants and instruments.

9. Mobilization of Savings:

Financial system is a highly efficient mechanism for mobilizing savings. In a fully-monetized economy this is done automatically when, in the first instance, the public holds its savings in the form of money. However, this is not the only way of instantaneous mobilization of savings.

Other financial methods used are deductions at source of the contributions to provident fund and other savings schemes. More generally, mobilization of savings taken place when savers move into financial assets, whether currency, bank deposits, post office savings deposits, life insurance policies, bill, bonds, equity shares, etc.

Q.2 Explain the key elements of Financial System in details.

Ans.:

The followings are the key elements of financial system

Money

(a) Financial Markets (b) Financial Institutions (c) Financial Instruments

(d) Financial Services (e) Financial Institutions

Financial institutions facilitate smooth working of the financial system by making investors and borrowers meet. They mobilize the savings of investors either directly or indirectly via financial markets, by making use of different financial instruments as well as in the process using the services of numerous financial services providers. They could be categorized into Regulatory, Intermediaries, Non-intermediaries and Others. They offer services to organizations looking for advises on different problems including restructuring to diversification strategies. They offer complete array of services to the organizations who want to raise funds from the markets and take care of financial assets for example deposits, securities, loans, etc.

Components of Financial System

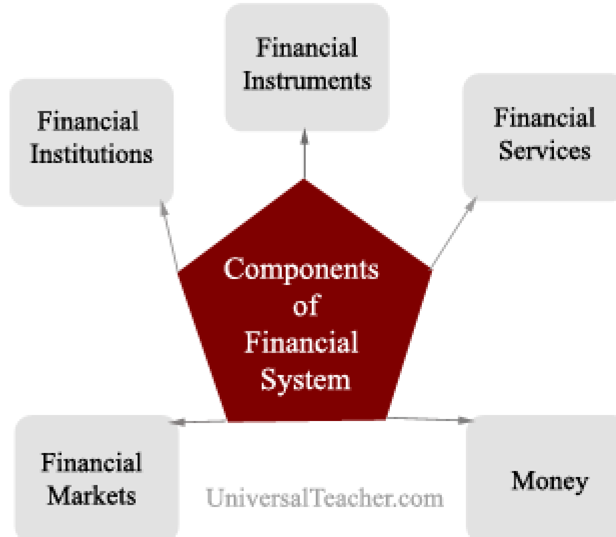

Figure 1: Five Basi ... l System

Financial Markets

A financial market is the place where financial assets are created or transferred. It can be broadly categorized into money markets and capital markets. Money market handles short-term financial assets (less than a year) whereas capital markets take care of those financial assets that have maturity period of more than a year. The key functions are:

1. Assist in creation and allocation of credit and liquidity.
2. Serve as intermediaries for mobilization of savings.
3. Help achieve balanced economic growth.
4. Offer financial convenience.

- One more classification is possible: primary markets and secondary markets. Primary markets handle new issue of securities in contrast secondary markets take care of securities that are presently available in the stock market.

- Financial markets catch the attention of investors and make it possible for companies to finance their operations and attain growth. Money markets make it possible for businesses to gain access to funds on a short term basis, while capital markets allow businesses to gain long-term funding to aid expansion. Without financial markets, borrowers would have problems finding lenders. Intermediaries like banks assist in this procedure. Banks take deposits from investors and lend money from this pool of deposited money to people who need loan. Banks commonly provide money in the form of loans.

Financial Instruments

This is an important component of financial system. The products which are traded in a financial market are financial assets, securities or other type of financial instruments. There is a wide range of securities in the markets since the needs of investors and credit seekers are different. They indicate a claim on the settlement of principal down the road or payment of a regular amount by means of interest or dividend. Equity shares, debentures, bonds, etc are some examples.

Financial Services

Financial services consist of services provided by Asset Management and Liability Management Companies. They help to get the necessary funds and also make sure that they are efficiently deployed. They assist to determine the financing combination and extend their professional services up to the stage of servicing of lenders. They help with borrowing, selling and purchasing securities, lending and investing, making and allowing payments and settlements and taking care of risk exposures in financial markets. These range from the leasing companies, mutual fund houses, merchant bankers, portfolio managers, bill discounting and acceptance houses. The financial services sector offers a number of professional services like credit rating, venture capital financing, mutual funds, merchant banking, depository services, book building, etc. Financial institutions and financial markets help in the working of the financial system by means of financial instruments. To be able to carry out the jobs given, they need several services of financial nature. Therefore, financial services are considered as the 4th major component of the financial system.

Q.3 Write a short note on the regulatory Frame work: S.E.B.I.

Introduction

Securities Exchange Board of India (SEBI) was set up in 1988 to regulate the functions of securities market. SEBI promotes orderly and healthy development in the stock market but initially SEBI was not able to exercise complete control over the stock market transactions.

It was left as a watch dog to observe the activities but was found ineffective in regulating and controlling them. As a result in May 1992, SEBI was granted legal status. SEBI is a body corporate having a separate legal existence and perpetual succession.

Reasons for Establishment of SEBI:

With the growth in the dealings of stock markets, lot of malpractices also started in stock markets such as price rigging, ‘unofficial premium on new issue, and delay in delivery of shares, violation of rules and regulations of stock exchange and listing requirements. Due to these malpractices the customers started losing confidence and faith in the stock exchange. So government of India decided to set up an agency or regulatory body known as Securities Exchange Board of India (SEBI).

Purpose and Role of SEBI:

SEBI was set up with the main purpose of keeping a check on malpractices and protect the interest of investors. It was set up to meet the needs of three groups.

1. Issuers:

For issuers it provides a market place in which they can raise finance fairly and easily.

2. Investors:

For investors it provides protection and supply of accurate and correct information.

3. Intermediaries:

For intermediaries it provides a competitive professional market.

Objectives of SEBI:

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.

2. To protect the rights of investors and ensuring safety to their investment.

3. To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.

4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

Functions of SEBI:

The SEBI performs functions to meet its objectives. To meet three objectives SEBI has three important functions. These are:

i. Protective functions

ii. Developmental functions

iii. Regulatory functions.

1. Protective Functions:

These functions are performed by SEBI to protect the interest of investor and provide safety of investment.

As protective functions SEBI performs following functions:

(i) It Checks Price Rigging:

Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI prohibits such practice because this can defraud and cheat the investors.

(ii) SEBI prohibits fraudulent and Unfair Trade Practices:

SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.

(**iii)** SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

(iv) It Prohibits Insider trading:

Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, e.g., the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

(v) SEBI promotes fair practices and code of conduct in security market by taking following steps:

(a) SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in midterm.

(b) SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.

(c) SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

2. Developmental Functions:

These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories following functions are performed by SEBI:

(i) SEBI promotes training of intermediaries of the securities market.

(ii) SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:

(a) SEBI has permitted internet trading through registered stock brokers.

(b) SEBI has made underwriting optional to reduce the cost of issue.

(c) Even initial public offer of primary market is permitted through stock exchange.

3. Regulatory Functions:

These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.

(ii) These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.

(iii) SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner.

(iv) SEBI registers and regulates the working of mutual funds etc.

(v) SEBI regulates takeover of the companies.

(vi) SEBI conducts inquiries and audit of stock exchanges.

The Organizational Structure of SEBI:

1. SEBI is working as a corporate sector.
2. Its activities are divided into five departments. Each department is headed by an executive director.
3. The head office of SEBI is in Mumbai and it has branch office in Kolkata, Chennai and Delhi.
4. SEBI has formed two advisory committees to deal with primary and secondary markets.
5. These committees consist of market players, investors associations and eminent persons.

Objectives of the two Committees are:

1. To advise SEBI to regulate intermediaries.
2. To advise SEBI on issue of securities in primary market.
3. To advise SEBI on disclosure requirements of companies.
4. To advise for changes in legal framework and to make stock exchange more transparent.
5. To advise on matters related to regulation and development of secondary stock exchange.

Powers of SEBI

- To make rules and regulation for controlling the stock exchanges in India.
- To educate brokers and investors.
- To do amendments in the rules and regulations of stock exchanges in India.
- To encourage investors of foreign to investment in India.
- To safeguard the interests of investors.
- To development the stock and share market in India.
- To stop all fraud and malpractices in stock exchanges.
- To reduce the fluctuations in the market prices of shares.
- To create good relationships among the large numbers of brokers, finance agents and financers.
- To provide license to brokers for activities in stock exchanges in India.
- Compel certain companies to list their shares in one or more stock exchanges.
- To require the stock exchange to amend their by−laws
- To make the investigation of frauds and misleading
- To make the delisting of the companies if the company is not fulfilling the rules and regulations

Que. 4 Explain the functions of Reserve Bank of India

Ans.: The followings are the different functions of Reserve bank of India.

1. Issue of Bank Notes:

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

This concentration of notes issue function with the Reserve Bank has a number of advantages: (i) it brings uniformity in notes issue; (ii) it makes possible effective state supervision; (iii) it is easier to control and regulate credit in accordance with the requirements in the economy; and (iv) it keeps faith of the public in the paper currency.

2. Banker to Government:

As banker to the government the Reserve Bank manages the banking needs of the government. It has to-maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

3. Custodian of Cash Reserves of Commercial Banks:

The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.

4. Custodian of Country's Foreign Currency Reserves:

The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.

5. Lender of Last Resort:

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

6. Central Clearance and Accounts Settlement:

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

7. Controller of Credit:

Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

Legal Framework of RBI

1. Umbrella Acts

Reserve Bank of India Act, 1934: governs the Reserve Bank functions

Banking Regulation Act, 1949: governs the financial sector

2. Acts governing specific functions

Public Debt Act, 1944/Government Securities Act (Proposed): Governs government debt market

Securities Contract (Regulation) Act, 1956: Regulates government securities market

Indian Coinage Act, 1906:Governs currency and coins

Foreign Exchange Regulation Act, 1973/Foreign Exchange Management Act, 1999:Governs trade and foreign exchange market

3. Acts governing Banking Operations

Companies Act, 1956:Governs banks as companies

Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980: Relates to nationalization of banks

Bankers’ Books Evidence Act

Banking Secrecy Act

Negotiable Instruments Act, 1881

4. Acts governing Individual Institutions

State Bank of India Act, 1954

The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003

The Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993

National Bank for Agriculture and Rural Development Act

National Housing Bank Act Deposit Insurance and Credit Guarantee Corporation Act

Q.5 Write a Short note on IRDA

Ans.:

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country’s GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

Role of IRDA

1. To protect the interest of and secure fair treatment to policyholders.
2. To bring about speedy and orderly growth of the insurance industry including annuity and superannuation payments, for the benefit of the common man, and to provide long term funds for accelerating growth of the economy.
3. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.
4. To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard.
5. To ensure speedy settlement of genuine (claims), to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.
6. To promote fairness, (transparency) and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players.

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7. To take action where such standards are inadequate or ineffectively enforced.
8. To bring about optimum amount of self-regulation in day to day working of the industry consistent with the requirements of prudential regulation.

Duties, Powers & Functions of Authority (Section 14):

Duties: -

The duty of the authority is to control, promote and safeguard orderly growth of the insurance industry and reinsurance business subject to the provisions of any other provisions of the act.

Powers & Functions to:-

(1) To protect the interest of the policy holders related to surrender value of policy, settlement of insurance claims, insurable interest, nomination by policy holders, other terms & conditions of insurance contract.

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(2) In case of General Insurance, who assess the loss of policy holder should be stated the code of conduct.

(3) Promoting proficiency in the conduct of insurance business;

(4) Promoting and regulating professional organizations connected with the insurance and re-insurance business;

(5)Calling for information from, undertaking inspection of, conducting inquiries including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the Insurance business;

(6) Stating the form and manner in which books of account shall be kept and statement of accounts shall be rendered by insurers and other insurance intermediaries;

(7) Regulating investment of funds by insurance companies;

(8) Regulating maintenance of margin of solvency i.e., having sufficient funds to pay insurance claim amount;

(9) To settle the disputes between insurers and intermediaries or insurance intermediaries

(10)Stating the percentage of life insurance business and general insurance business to be accepted by the insurer in the rural or social sector; and

(11) Exercising such other powers as may be prescribed.

Q.6 Difference between organized and unorganized market.

Topic	Organized Market	Un Organized Market
Meaning	Those organizations who have regular working hours, weekly offs, etc.	These are generally small units and businesses, shops, self –employed individuals, street vendors, etc.
Rules and Regulations	Most of the rules followed have been framed by the government.	Rules are not followed, although government has made them.
Nature of Work and Employment	Normally regular and assured work is there, the employees cannot be dismissed from job without valid reasons.	Employees can be asked to go at any time without any reason being given.
Working Hours	The working hours will be fixed in the organized market.	The working hours will not be fixed in the un- organized market.
Authority	The authorities have been decided under the organized market to maintain the rules and regulations.	The authorities have not been decided under the organized market to maintain the rules and regulations.

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Topic	Organized Market	Un Organized Market
Personal Contact	In organized market there does not exist the personal contact and information with the customers	In organized market there exists the personal contact and information with the customers
Loan Operations	Loan operations are regulated under acts and rules	Loan operations are not regulated under acts and rules
Accounting System	The accounting system in organized market is based on the double entry system	The accounting system in unorganized market remains simple
Dealing	In organized sector there is no mixed business of money lending and trading	Unorganized Sector of Indian Money Market performs money lending as well as dealing with trading and other economic activities

Q.7 Write a short note on unorganized market.

Ans.:

The major characteristics of the unorganized workers:

The unorganized labor is overwhelming in terms of its number range and therefore they are omnipresent throughout India.

As the unorganized sector suffers from cycles of excessive seasonality of employment, majority of the unorganized workers does not have stable durable avenues of employment. Even those who appear to be visibly employed are not gainfully and substantially employed, indicating the existence of disguised unemployment.

The workplace is scattered and fragmented.

There is no formal employer – employee relationship

In rural areas, the unorganized labor force is highly stratified on caste and community considerations. In urban areas while such considerations are much less, it cannot be said that it is altogether absent as the bulk of the unorganized workers in urban areas are basically migrant workers from rural areas.

Workers in the unorganized sector are usually subject to indebtedness and bondage as their meager income cannot meet with their livelihood needs.

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The unorganized workers are subject to exploitation significantly by the rest of the society. They receive poor working conditions especially wages much below that in the formal sector, even for closely comparable jobs, i.e., where labor productivity are no different. The work status is of inferior quality of work and inferior terms of employment, both remuneration and employment.

Primitive production technologies and feudal production relations are rampant in the unorganized sector, and they do not permit or encourage the workmen to imbibe and assimilate higher technologies and better production relations. Large scale ignorance and illiteracy and limited exposure to the outside world are also responsible for such poor absorption.

The unorganized workers do not receive sufficient attention from the trade unions.

Inadequate and ineffective labor laws and standards relating to the unorganized sector.

Q.8 Write a short note on organized money market

Ans.:

The organized sector of Indian money market can be further classified into the following sub-markets:

1. Call Money Market:

The most important component of organized money market is the call money market. It deals in call loans or call money granted for one day. Since the participants in the call money market are mostly banks, it is also called interbank call money market.

The banks with temporary deficit of funds form the demand side and the banks with temporary excess of funds from the supply side of the call money market. The main features of Indian call money market are as follows:

(i) Call money market provides the institutional arrangement for making the temporary surplus of some banks available to other banks which are temporary in short of funds.

(ii) Mainly the banks participate in the call money market. The State Bank of India is always on the lenders' side of the market.

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(iii) The call money market operates through brokers who always keep in touch with banks and establish a link between the borrowing and lending banks.

(iv) The call money market is highly sensitive and competitive market. As such, it acts as the best indicator of the liquidity position of the organized money market.

(v) The rate of interest in the call money market is highly unstable. It quickly rises under the pressures of excess demand for funds and quickly falls under the pressures of excess supply of funds.

(vi) The call money market plays a vital role in removing the day-to-day fluctuations in the reserve position of the individual banks and improving the functioning of the banking system in the country.

2. Treasury Bill Market:

The Treasury bill market deals in treasury bills which are the short-term (i.e., 91, 182 and 364 days) liability of the Government of India. Theoretically these bills are issued to meet the short-term financial requirements of the government.

But, in reality, they have become a permanent source of funds to the government. Every year, a portion of treasury bills are converted into long-term bonds. Treasury bills are of two types: ad hoc and regular.

Ad hoc treasury bills are issued to the state governments, semi-government departments and foreign central banks. They are not sold to the banks and the general public, and are not marketable.

The regular treasury bills are sold to the banks and public and are freely marketable. Both types of ad hoc and regular treasury bills are sold by Reserve Bank of India on behalf of the Central Government.

The Treasury bill market in India is underdeveloped as compared to the Treasury bill markets in the U.S.A. and the U.K. In the U.S.A. and the U.K., the treasury bills are the most important money market instrument: (a) treasury bills provide a risk-free, profitable and highly liquid investment outlet for short-term, surpluses of various financial institutions; (b) treasury bills from an important source of raising fund for the government; and (c) for the central bank the treasury bills are the main instrument of open market operations.

On the contrary, the Indian Treasury bill market has no dealers expect the Reserve Bank of India. Besides the Reserve Bank, some treasury bills are held by commercial banks, state government and semi-government bodies.

But, these treasury bills are not popular with the non-bank financial institutions, corporations, and individuals mainly because of absence of a developed Treasury bill market.

3. Commercial Bill Market:

Commercial bill market deals in commercial bills issued by the firms engaged in business. These bills are generally of three months maturity. A commercial bill is a promise to pay a specified amount in a specified period by the buyer of goods to the seller of the goods.

The seller, who has sold his goods on credit draws the bill and sends it to the buyer for acceptance. After the buyer or his bank writes the word 'accepted' on the bill, it becomes a marketable instrument and is sent to the seller.

The seller can now sell the bill (i.e., get it discounted) to his bank for cash. In times of financial crisis, the bank can sell the bills to other banks or get them rediscounted from the Reserved Bank.

In India, the bill market is undeveloped as compared to the same in advanced countries like the U.K. There is absence of specialized institutions like acceptance houses and discount houses, particularly dealing in acceptance and discounting business.

4. Collateral Loan Market:

Collateral loan market deals with collateral loans i.e., loans backed by security. In the Indian collateral loan market, the commercial banks provide short- term loans against government securities, shares and debentures of the government, etc.

5. Certificate of Deposit and Commercial Paper Markets:

Certificate of Deposit (CD) and Commercial Paper (CP) markets deal with certificates of deposit and commercial papers. These two instruments (CD and CP) were introduced by Reserve Bank of India in March 1989 in order to widen the range of money market instruments and give investors greater flexibility in the deployment of their short-term surplus funds.

Thank You