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ROLE OF BANKING SECTOR IN THE DEVELOPMENT OF FINANCIAL MARKET OF INDIA

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Abstract
India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. Banks play an important role as an intermediary, or go between, in the financial system. Banks do a variety of other things, such as helping corporations with their often more complex, financial needs. This can range from the various ways to gain access to capital for growth and investments, to assisting in merges and acquisitions, to converting currencies. Banks play a dominant and useful role in promoting economic development by – mobilizing the financial resources of the community and by making them flow into the desired channels. The banks are the main participants of the financial system in India. Banks provide the security to the saving of customers, controls the supply of money and credit, encourage public confidence in the working of a financial system and also avoids focus of financial powers in the hands of a few individuals and institutions.

Key Words:- Banks, Investment, Capital, Loans, Financial Market Etc.

Introduction

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 whether it to be the mobilization of saving or their efficient, effective and equitable allocation for investment. It is the success with the financial system performs its functions that set the pace for the achievement of broader national objectives.

Financial market is a highly organized place which provide mechanism to bring for and supply of financial instruments (financial assets, securities etc.). The financial market consists of two major segments:

1. Money market
2. Capital market

Money market is regulated by Reserve Bank of India, it is related to short-term funds and deals in securities like treasury bills, commercial paper, trade bills, deposit certificates, and the participants of money market are Reserve Bank of India, Commercial Banks, and Non-banking financial Companies etc.

Capital market is regulated by Securities Exchange Board of India (SEBI), it is related to long term funds and deals in shares, debentures, bonds and Government securities. The participants of capital market are stockbrokers, underwriters, mutual funds, financial institutions and individual investors. Various institutions like commercial banks and development banks are important players of capital market. Development banks provide direct and indirect assistance to large and medium scale enterprises. Development banks/institutions include:

- IDBI (Industrial Development Bank of India)
- IFCI (Industrial Finance Corporation of India)
- ICICI (Industrial Credit and Investment Corporation of India)
- IIBI (Industrial Investment Bank of India)
- SIDBI (Small Industries Development Bank of India)

Functions of Financial Market

- It provides facilities for interaction between the investors and the borrowers.
- It provides pricing information resulting from the interaction between buyers and sellers in the market when they trade the financial assets.
- It provides security to dealings in financial assets.
- It ensures liquidity by providing a mechanism for an investor to sell the financial assets.
- It ensures low cost of transactions and information.
- Facilitating balanced economic growth.
- Improving trading floors.

Indian financial market comprises of primary market, FDI, alternative investment options, banking and insurance and the pension sector, asset management segment as well. With all these elements in the Indian financial market, it happens to be one of the oldest across the globe and is definitely the fast growing and best among all the financial markets of the emerging

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economy. The financial market in India at present is more advanced than many others sectors as it became organized as early as the 19th century with the securities exchanges in Mumbai, Ahmadabad and Kolkata.

Indian financial market helps in promoting the savings of economy- helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well developed, competitive, efficient and integrated to face all shocks. In Indian financial market there various types of Indian markets help in the functioning of the Indian financial sector.
Financial structure of India:
The Indian financial system comprises the following institutions

1. Commercial Banks
    - Public sectors
    - Private sectors
    - Foreign banks
    - Cooperative institutions
2. Financial institutions
    - All Indian Financial Institutions (AIFC's)
    - State Financial Institution (SFI's)
    - State Industrial Development Corporation (SIDC's)
3. Non-banking financial Companies (NBFC's)
4. Capital Market Intermediaries

Role of Banks
Banks play a rather remarkable role in Indian economy. Banking has the prime, foremost and most significant share in shaping up Indian economy.

- The banks finance the industrial sector. They not only provide finance for industry but also help in developing the capital market for India. For example, recently NTPC, the country's largest thermal power producer has signed a term loan agreement with SBI for 10,000 crores INR for funding its capital expenditure.
- Banks promote entrepreneurship by underwriting the share of new and existing companies.
- Banks finance education loans for a large significant population.
- Banks help in creating demand for consumer goods by providing loans to consumers for the purchase of items as houses etc. in the way they also help in raising the standard of living of the people in developing countries.
- The banks help the large agriculture sector by providing finance directly to agriculturists for the marketing of their produce.

Bank activities

- Retail banking, dealing directly with individual and small business.
- Business banking, providing services to mid-market business.
- Corporate banking, direct at large business entities.
- Private banking, providing wealth management services to high net worth individuals and families.
- Investment banking, relating to activities on the financial markets.

Banks fulfil the role of bridging the gap between the need of deficit units and the need of surplus units. Deficit units seek large-sized loans, for a long period and have a higher risk of defaulting in their repayment. Surplus units on the contrary, save small-sized amounts seek liquidity (short-term deposits), and have a low risk of not getting their money back. The three pronged transformation carried out by banks are;

1. Size transformation: - refers to the joining several small deposits by different surplus units to issue loans of large amount of deficit units.
2. Maturing transformation: - refers to the short term mature of continuously incoming client deposits being converted in longer-period loans of deficit units.
3. Risk transformation: - means minimizing the risk of funds deposited by savers and lent to borrowers (credit risk). Banks do this by diversifying their investment funds, pooling risks, screening and monitoring borrowings, and holding capital and reserve to be able to make up for unexpected losses without affecting the savers badly.

Conclusion
The support and attitude of banks in favor of certain industrial houses have vitally added to their capacity and influence to raise internal capital and secure foreign collaboration. The Indian banking industry plays an important role in the economic

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development of the country and is the most dominant segment of the financial sector. If the bank credit was used as an instrument of ensuring better spatial balance in development, the bank could have helped in the achievement of the broader social objective. The bank credit cannot only help rational decision making in the field of investment but also be used to regulate the level of activity in industrial sector. Without a sound and effective banking system, no country can ever have a healthy economy.

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