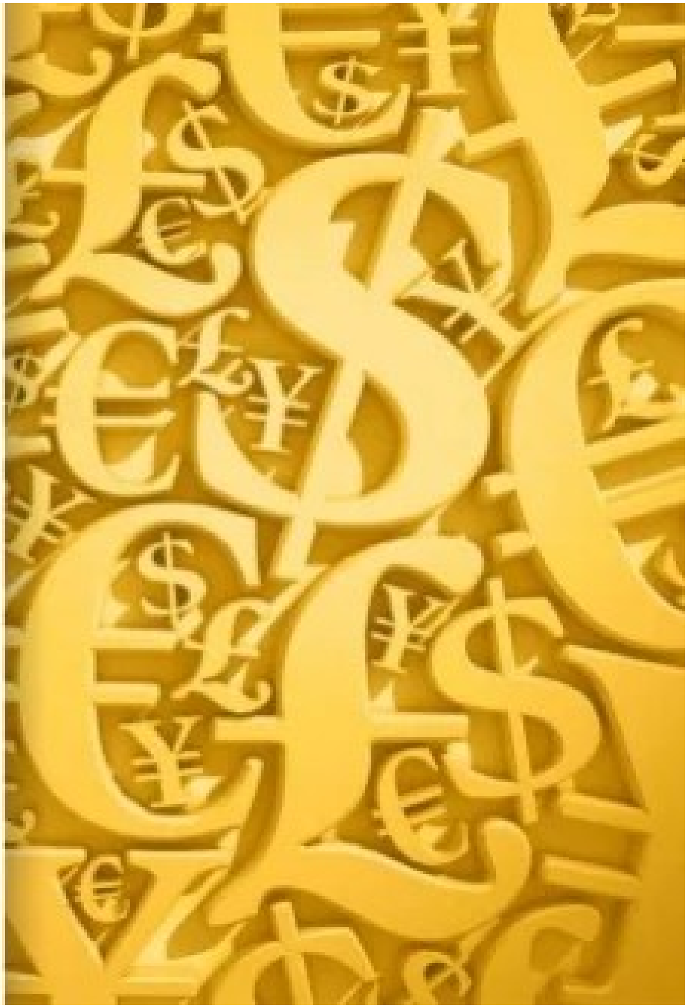
FINANCIAL INSTITUTIONS AND SERVICES



Introduction

- **Financial services** refer to services provided by the finance industry.
- Services that are financial in nature.
- The finance industry encompasses a broad range of organizations that deal with the management of money.
- Among these organizations are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

TYPES OF FINANCIAL SERVICES

- **Banking services**
  - Issuance of checkbooks
  - Provide personal loans, com mercial loans
  - ATMs
- **Foreign exchange services**
  - Currency Exchange
  - Foreign Currency Banking
  - Wire transfer
- **Investment services**
  - Asset manageme nt
  - Hedge fund manageme nt
- **Insurance**
  - Insurance brokerage
  - Reinsurance

TYPES OF FINANCIAL SERVICES

- Fund or asset based financial services
- Fee based financial services

Fund Based Services

- The firm raises funds through debt, equity, deposits and the bank invests the funds in securities or lends to those who are in need of capital.
- The following are some of these fund-based services such as:
  - Leasing and Hire Purchase
  - Housing Finance
  - Credit Cards
  - Venture Capital
  - Factoring
  - Forfeiting
  - Bill Discounting
  - Insurance

Leasing

- A lease transaction is a commercial arrangement whereby an equipment owner or Manufacturer conveys to the equipment user the right to use the equipment in return for a rental.
- In other words, lease is a contract between the owner of an asset (the lessor) and its user (the lessee) for the right to use the asset during a specified period in return for a mutually agreed periodic payment (the lease rentals).

Consumer Credit

- Consumer credit is basically the amount of credit used by consumers to purchase non-investment goods or services that are consumed and whose value depreciates quickly.
- This includes automobiles, recreational vehicles (RVs), education, boat and trailer loans but excludes debts taken out to purchase real estate or margin on investment accounts.
- For example, a mortgage for purchasing a house is not consumer credit. However, the 52 inch television you put on your credit card is consumer credit.

Hire Purchase

- A system by which a buyer pays for a thing in regular installments while enjoying the use of it. During the repayment period, ownership (title) of the item does not pass to the buyer. Upon the full payment of the loan, the title passes to the buyer.
- A method of buying an article by making regular payments for it over several months or years. The article only belongs to the person who is buying it when all the payments have been made

Factoring

- **Factoring** is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount.

Advantages of Factoring

- **Time Savings.** Factoring can save you time and effort that would otherwise be spent on collecting from customers.
- **Good Use for Growth.** The instant cash to generate growth, maybe hiring another salesperson who will bring in more business. Or buying an advertisement that will reach new customers. Or buying a piece of equipment that will accelerate production.
- **Doesn’t Require security.** Unlike traditional bank loans, factoring doesn’t require to risk your home or other property as collateral.
- **Qualify for More Funding.** Factoring firms will typically give a cash advance on up to 80% of receivables. That may be more than be able to get from a bank.

Housing Finance

- *Housing finance is what allows for the production and consumption of housing.*
- *It refers to the money we use to build and maintain the nation’s housing stock.*
- *But it also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments.”*

Venture Capital Financing

- It is a fund that is available for investment in an enterprise which offers the probability of profit along with the possibility of loss.
- Venture is a course of proceeding associated with risk whose outcome is uncertain.
- Capital means the financial resources to start an enterprise.

Fee Based Services

- The services wherein financial institutions operate in specialized fields to earn a substantial income in the form of fees or dividends or brokerage on operations.
- The major fee based financial services are as follows:
  – Issue Management
  – Corporate Advisory Services
  – Credit Rating
  – Mutual Funds
  – Asset Securitization
  – Stock Broking Services

Stock Broking

- The process of investing in the share market, either individually or through a broker is known as stock broking.
- This is primarily done by opening a Demat account.
- If done through a broker, he opens an account, helping to operate through online stock broking facility.

Stock broker

- Licensed agent who has to pass certain qualifying tests to be certified to offer securities investment advice to investors.
- He or she may
  - counsel what and when to buy
  - counsel whether to hold or sell securities,
  - execute buy-sell orders on behalf of the investors, and
  - charge a percentage of the transaction amountants brokerage fee for the services rendered.

Credit Rating

- It is an opinion on the future ability and legal obligation of an issuer to make timely payments of principal and interest on a specific fixed income security.
- As per credit rating agencies regulations 1999 rating means
  - An opinion regarding securities
  - Expressed in the form of standard symbols
  - Assigned by a credit rating agency
  - Used by an issuer of such securities

CRISIL rates a wide range of entities, including

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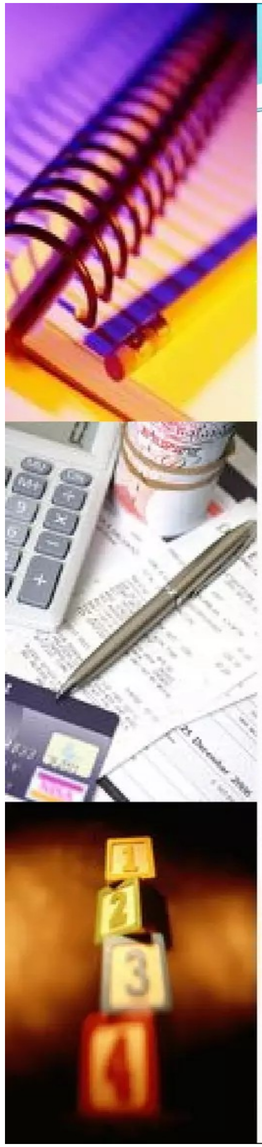
- Industrial companies
- Banks
- Non-banking financial companies (NBFCs)
- Infrastructure entities
- Microfinance institutions
- Insurance companies
- Mutual funds
- State governments
- Urban local bodies



Thank you