Directorate of Distance Education
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Reading Material

ONE YEAR ADVANCED DIPLOMA IN FINANCIAL SERVICES & LEGISLATIONS

1.1.1. FINANCIAL MARKETS AND INSTITUTIONS

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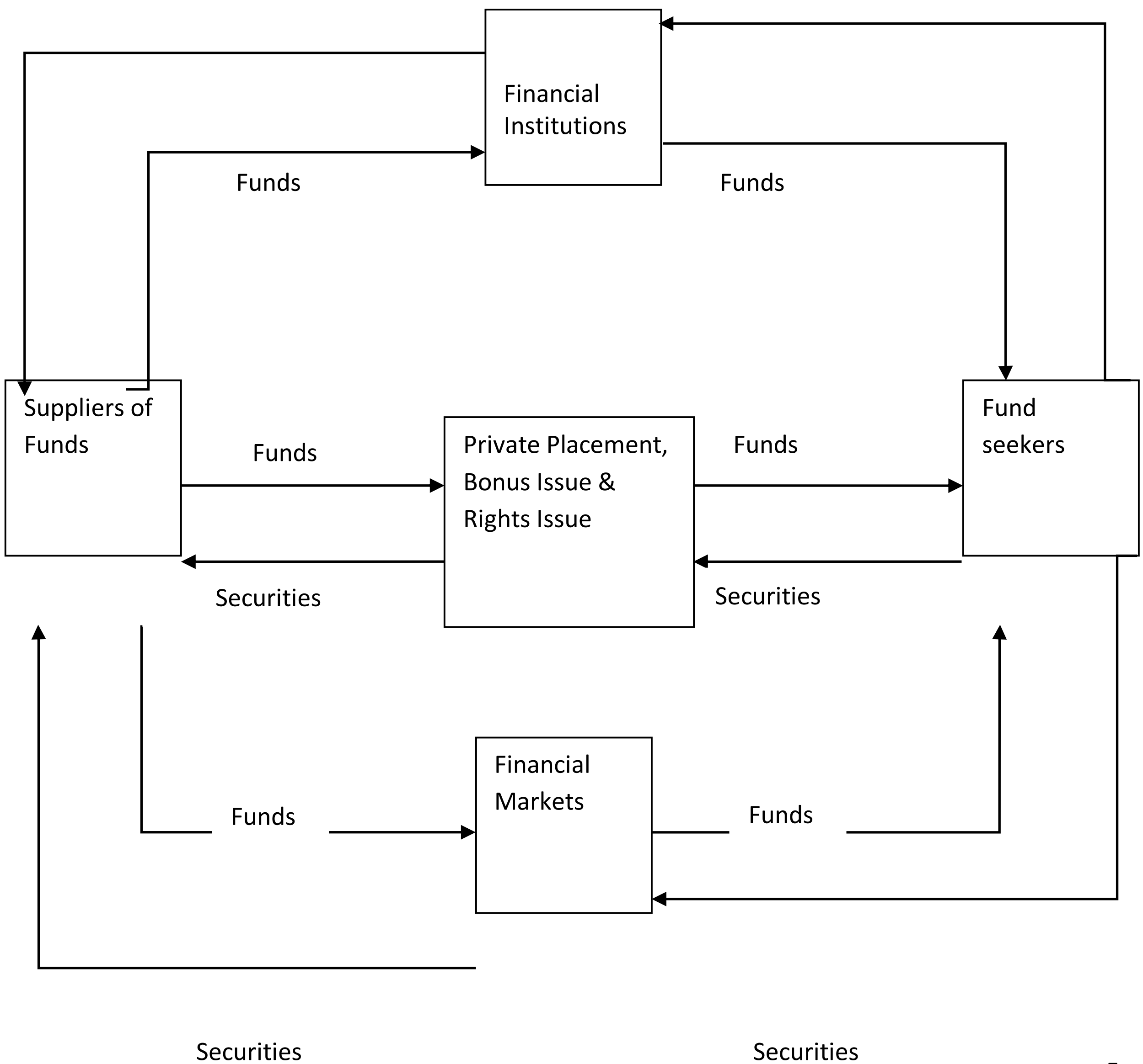
MODULE I

Introduction to Financial Markets and Services

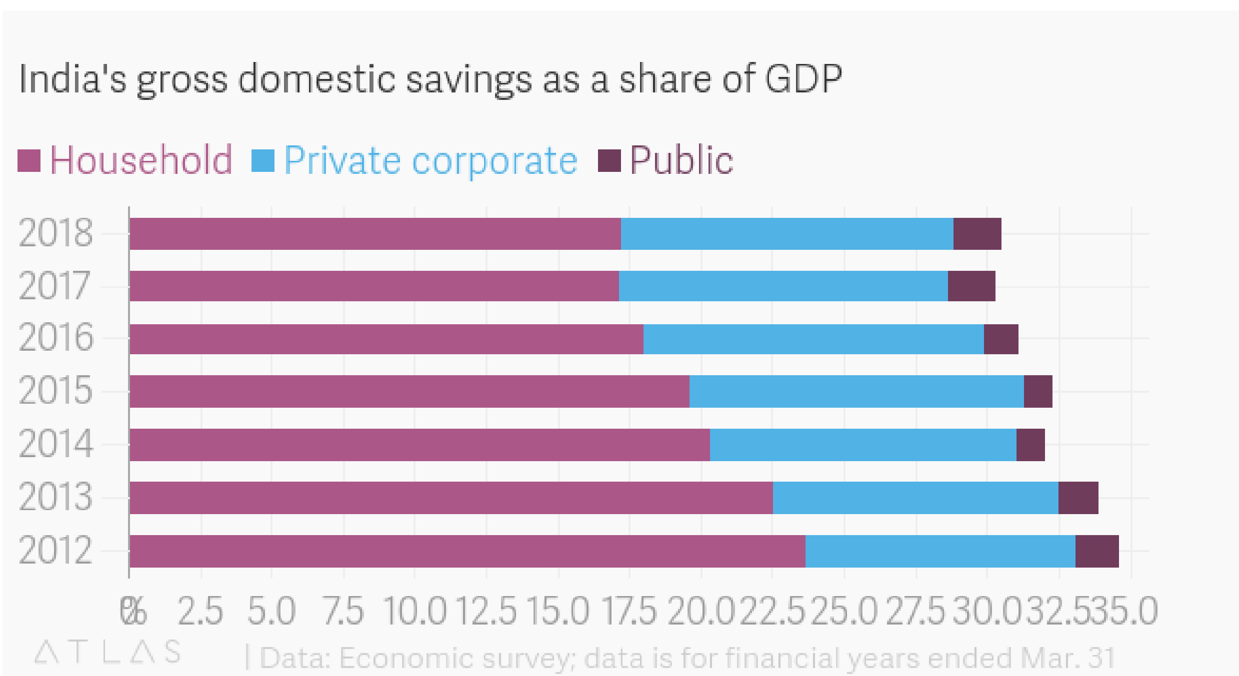
Financial system plays a key role in the economic growth and development of a nation. The strength of an economy is determined by key parameters like Gross Domestic Product (GDP), Inflation levels, Employment levels, composition and growth of Primary, Secondary and Tertiary sectors, Balance of trade and the position of balance of payments, Foreign exchange reserves it is carrying, Investment climate etc. All these parameters post positive figures when the economy has strong manufacturing setup, access to capital and domestic household savings and favorable conditions for trade and commerce. The supporting system for all these to happen in an economy is its Financial System.

Structure of Financial System



Personal Savings in India

Personal or household savings holds a major role in pooling the funds from the fund givers and lend them to fund seekers. The following chart displays the trends of household savings and their growth across years.



A financial system comprises of financial markets which are closely integrated, organized and regulated. The Financial markets in turn comprises of institutions who aim to meet the financing requirements of the corporate as well as individual households. The financial services offered by these financial markets and institutions cover both long-term as well as short-term finance requirements.

In any economy a successful financial system is established when

1. There are minimal and simplified regulatory mechanisms
2. The literacy levels of the investors are high
3. Entry and Exit of the financial institutions into the financial system is smooth
4. There is a favorable environment for inorganic growth options like Mergers, Acquisitions and Alliances
5. The competitive environment is highly concentrated and restricted
6. The entities operating in the financial system are given enough freedom and autonomy.

Traditionally, for taking up new projects companies either rely on their cash surpluses or loans from banks and other financial institutions to meet the capital expenditure requirements. But increase in risk appetite of the retail investors post economic reforms led to the insurge of the huge capital inflows into equity markets, which gave the firms to access capital at cheaper rates from fresh sources. The investments in equity markets came not only from retail investors but also from Banks and financial institutions.

Thus a strong financial system can help in achieving the following economic objectives

- Channeling the supply of funds from fund issuers to fund raisers thereby addressing the demand supply gap for financial resources
- To ensure that fiscal deficit is financed and maintained at controlled levels
- To ensure the liquidity of money in the markets as per the requirements and economic policy adopted by the government
- To ensure that the exchange rate of domestic currency is aligned to the requirements of the economy's growth
- To maintain a string banking system in the economy
- To ensure that the economy is having surplus reserves of foreign exchange
- To balance the interest rate regime in the economy so that the funds are at available are accessible rates to the corporate

A financial system is a combination of the following

1. Financial Institutions
2. Financial Markets
3. Financial Instruments
4. Financial Services

Financial Institutions

Financial institutions play the role of financial intermediaries and ensure that the gap between the investors and borrowers is bridged. The funds of the investors are collected in the form of deposits and are then given as loans to the borrowers. Generally the borrowers are corporate entities who seek funds from these financial institutions to fund their growth plans. Apart from seeking funds from these institutions, corporate can take their help in diversifying their existing business and also to restructure their existing capital structure.

Financial institutions can be broadly classified into two categories

- Banks
- Non-Banking Financial Companies

Financial Markets

Financial markets serve the funding needs of not only corporate but also individuals and other institutions through open market transactions. Generally the transactions at Financial institutions are personal in nature whereas the transactions in financial markets are impersonal in nature.

Financial markets are classified into two groups based on the nature of financing

- Capital markets (Long-term)
- Money Markets (Short-term)

Financial Instruments

Financial instruments are the means through which the financial markets operate. A financial instrument gives buyer a claim on a future payment in the form of dividend or interest payment for the payment of a sum of money.

A financial instrument can be of two types

1) Primary Security
2) Secondary Security

Primary Securities

These securities are directly issued by the issuer to the subscriber either in the form of Equity shares, Preference shares or Debentures.

Secondary Securities

These securities are not directly issued by the issuer to the subscriber, albeit through a financial intermediary like a bank or an insurance company. Examples of secondary securities include

- Insurance Policies
- Mutual Funds
- Bank Deposits

Financial Services

Financial services are the services offered by the financial institutions which include a broad range of services for facilitating the smooth functioning of the financial system. The entities operating in the financial services segment are

1) Personal Finance and Wealth Management Companies
2) Banks
3) Insurance Companies
4) Mutual Funds
5) Credit Cards
6) Non-Banking Financial companies
7) Brokerage Firms
8) Accountancy Firms
9) Investment advisory Firms
10) Forex management firms

Generally financial services deal with the transactional and operational side of the financial system and facilitate buyers, sellers and intermediaries for smooth conduct of operations.

Different Types of Financial Markets

A financial market can be broadly classified into two important markets. They are Capital Market and Money Market. Capital Market is again classified into Securities Market and other forms of Borrowing and lending. Securities Market is again classified into two markets i.e. Primary Market and Secondary Market. The classification is depicted below for easy understanding

1) Financial Markets
   a) Money Market
   b) Capital Market
      i) Securities Market
         (1) Primary Market
         (2) Secondary Market
      ii) Other Forms of Borrowing and lending

Money Market

Money market deals with the entities who are interested in meeting their short term finance or investment requirements. Short-term surpluses of the individuals and corporate can be parked in money markets to fetch better returns whereas short-term finance deficits of corporate can as well be met through money markets.

Capital Market

Capital market is an institutional arrangement which facilitates the movement of funds from investors to borrowers or fund seekers. Generally the transactions in capital market are aimed at meeting the long-term financing requirements

Though the timely nature of the investment differs between capital and money markets a same entity or financial institution can deal with both these markets.

Role of Financial Markets in an Economy

Financial markets in any economy try to accomplish the following objectives

- To address the financing needs of various entities in the financial system
- To facilitate the growth process of an economy
- To successfully play the role of an intermediary in channelizing the funds between fund issuers and find seekers

- To ensure that credit and liquidity needs of the market are efficiently met
- To ensure a smooth and convenience mechanism for availing financing and investment facilities

Different Types of Financial Intermediaries

Financial intermediaries are the entities that aid in channeling of funds between Fund issuers and Fund raisers. The important institutions which are acting as financial intermediaries in Indian Financial system are as follows

1. Banks
    a. Development Banks
    b. Regional Rural Banks
    c. Cooperative Banks
    d. Commercial Banks
2. Non-Banking Financial Companies
3. Mutual Funds
4. Pension Funds
5. Provident Funds
6. Insurance Companies

Financial intermediaries are generally large establishments with wide reach and network. Hence, by leveraging economies of scale they bring down the cost of capital procurement and cost of searching a fund seeker. At the same time since they are part of the organized financial system of the economy they facilitate smooth circulation of money within the system. Some of the key advantages of having financial intermediaries in a financial system are

- Money loses its value with time. Hence a person having surplus money doesn't get any benefit by keeping it idle. This money is collected from these investors by offering an attractive interest rate.
- Money thus collected in the form of deposits from these investors is given as loans to the fund seekers at competitive interest rates, better than the unorganized market thus facilitating the growth of these fund seekers.
- Fund seekers are generally corporate companies and growth of these companies eventually leads to the growth of the economy as a whole.
- Thus active participation of the financial intermediaries leads to the growth of the economy.

Since there is lot of money and the growth of economy is at stake the functioning of the financial intermediaries is closely governed with tight rules and regulations. Otherwise it is very difficult to get the participation of investors to park their funds with financial intermediaries.

Regulators in Financial System

The Indian financial system is regulated by the Indian government through its regulators. This strict regulatory regime helped Indian economy to withstand the 2008 US subprime crisis which pushed major economies of the world. There is no one single regulator controlling the entire financial system. Broadly there are five major regulatory bodies in India controlling its financial system. They are

1. Reserve Bank of India (RBI)
2. Securities and Exchange Board of India (SEBI)
3. Insurance Regulatory and Development Authority (IRDA)
4. Pension Fund Regulatory and Development Authority (PFRDA)

Reserve Bank of India (RBI)

Reserve bank of India (RBI) was formed in the year 1935 as an institution of private shareholders, under the 1934 Act of Reserve Bank of India. After 1949, RBI was nationalized and it is completely owned by government of India. The primary aim of establishing RBI was to manage the currency and credit system of India by issuing currency as per the norms and maintaining sufficient reserves in order to ensure stability in the value of currency and money supply.

RBI performs the following functions for smooth functioning of economy

- It advises government of India on key issues like
    - Planning and mobilization of resources
    - Finance and Banking affairs
    - Legislations on Housing, Agriculture and Industrial Finances
- It acts as a last resort for commercial banks in India to approach for finance
- It is a banker not only to the central government but also to state governments, which means all the payments and receipts of these governments are managed by RBI.
- It is the authority to print and circulate currency in India
- It assists government in addressing fiscal deficit through sale and purchase of money market instruments

- Through its monetary policy initiatives RBI ensures that the availability of money supply in the economy is in line with the requirements by keeping inflation at controlled rates
- RBI intervenes as and when it required to check the exchange of its currency i.e. rupee vis-à-vis the currencies of trade
- It is the apex bank which regulates and monitors the functioning of banking and non-banking operations in India
- It publishes reports on various macro-economic issues of the country and releases monetary and banking data, which helps government and think tanks to devise policies accordingly
- Besides the above mentioned functions RBI plays a key role in promoting the following activities in India
    - Industrial Credit and Finance
    - Rural and Agriculture Credit
    - Commercial Banking Activities
    - Co-Operative Banking
    - Export finance

To carry out the above mentioned functions RBI constituted various departments. The list of these departments are given below

- Industrial Finance Department
- Banking Department
- Banking Operations Department
- Issue Department
- Planning and re-organization department
- Non-Banking Companies Department
- Inspection Department
- Agricultural Credit Department
- Banking Development Department
- Control Department
- Press Relations Department
- Supervision Department
- Legal Affairs Department
- Accounts and Expenditure Department

- Industrial and Export Credit Department
- Economics Department
- External Investment and Operations Department
- RBI Services Board
- Research and Statistics Department
- Exchange Control Department

Industrial Finance Department

The financial needs of the Micro, small and medium enterprises are identified by this department and assistance on credit is facilitated accordingly

Banking Department

The role of this department is to manage the following functions

- Dealing with government securities
- Public Debt management
- Plays the role of a clearing house
- To provide financial assistance to banks
- To main the reserve fund of commercial banks
- To facilitate transfer of government funds

Banking Operations Department

This department takes care of the following functions

- To grant licenses to opening of
    - New banks
    - New branches of an existing commercial bank
- To monitor and control the operations of banks

Issue Department

This department's responsibility is to issue currency as per the needs of the economy

Planning and re-organization department

The department takes an active role in policy formulation and analysis as per the changing needs by means of

- Framing new policies
- Revisiting and revising existing policies

Non-Banking Companies Department

The monitoring of operations of non-banking and other financial institutions in the country is managed by this department

Inspection Department

The role of department is to inspect the functioning of any scheduled commercial bank or any its branches across India and check if its operations are in line with the compliances or not.

Agricultural Credit Department

This department facilitates both the state governments and state cooperatives in the issue of rural credit. It also deals with credit and finance issues pertaining to agriculture sector. Since agriculture is priority sector to Indian economy, it also focuses on other problems pertaining to agriculture sector which it can resolve under its capacity

Banking Development Department

This department aims to promote and develop banking activity in those areas where there are no facilities of the banking system yet so that the objective of financial inclusion can be easily achieved.

Control Department

The role of this department is to coordinate all the branches of RBI and ensure smoothing function of the organization towards realization of its goals.

Press Relations Department

This division handles the release of various circulars, notices and advertisements for public consumption through press releases and press meets. All the communication that has to be dealt with the help of media is handled by this department.

Supervision Department

All the scheduled commercial banks in India are supervised by this department

Legal Affairs Department

The main function of this department is to advice RBI on implementing various laws related to banking in India. Apart from that it also advises other departments of RBI on any matter of legal concern.

Accounts and Expenditure Department

This department handles the payments and receipts of RBI and keeps a record of them

Industrial and Export Credit Department

RBI takes the help of the state Bank of India and its subsidiaries to discharge operations related to industrial and export credit in those areas/cities where it doesn't have presence

Economics Department

The main focus of this department is to frame policy for banking with an objective of realizing the objectives of India's economic policies like Financial Inclusion, Priority sector lending etc.

External Investment and Operations Department

This department handles the investments from RBI into various debt market instruments from government and corporate companies. The primary concern of making these investments is to ensure stability and liquidity in the money and credit supply in the economy.

RBI Services Board

All the manpower planning, recruitment, selection of various posts in the RBI are managed by this department.

Research and Statistics Department

Any policy level decision, be it for monetary policy or fiscal policy or any macro-economic economy policy should have backing of accurate data to understand and assess the impact they are going to create. This department plays a key role in providing research inputs and also releases timely data on inflation, money, production etc

Exchange Control Department

The primary role of this department is to ensure the stability of exchange rate or changes in exchange rate as per the economic situation through buying and selling of foreign exchange

Prohibitory Functions

Though RBI is the apex bank of India, to oversee the banking operations of the economy there are some functions which are restricted for RBI to perform. They are

- Interest payments cannot be paid on the deposits it is holding
- It cannot buy its own ownership/equity
- Shares of any other bank, non-bank or financial institution cannot be purchased by RBI
- Any business, industry or trade cannot obtain direct financing from RBI
- Any asset purchases made by RBI should be towards the functioning or expansion of its operations but not in the form of any investment
- Loans against shares or any fixed asset cannot be given by RBI

Securities and Exchange Board of India (SEBI)

The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India. It was established in 1988 and given statutory powers on 12 April 1992 through the SEBI Act, 1992. Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947.

Initially SEBI was a non-statutory body without any statutory power. However, in 1992, the SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992. In April 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India. The SEBI is managed by its members, which consists of following:

The chairman is nominated by Union Government of India.Two members, i.e., one officer from Union Finance Ministry and One member from the Reserve Bank of India. The remaining five members are nominated by Union Government of India; out of them at least three shall be whole-time members.

After amendment of 1999, collective investment scheme brought under SEBI except NIDHI, chit fund and cooperatives.

Functions and Responsibilities:

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected there with or incidental there to".

SEBI has to be responsive to the needs of three groups, which constitute the market:

- issuers of securities
- investors
- market intermediaries

SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeal process to create accountability. There is a Securities Appellate Tribunal which is a three-member a second appeal lies directly to the Supreme Court. SEBI has taken a very proactive role in streamlining disclosure requirements to international standards.

Powers of SEBI

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

- to approve by−laws of Securities exchanges.
- to require the Securities exchange to amend their by−laws.
- inspect the books of accounts and call for periodical returns from recognized Securities exchanges.
- inspect the books of accounts of financial intermediaries.
- compel certain companies to list their shares in one or more Securities exchanges.
- registration of Brokers and sub-brokers

There are two types of brokers:

- Discount brokers
- Merchant brokers

SEBI committees

- Technical Advisory Committee

- Committee for review of structure of market infrastructure institutions
- Advisory Committee for the SEBI Investor Protection and Education Fund
- Takeover Regulations Advisory Committee
- Primary Market Advisory Committee (PMAC)
- Secondary Market Advisory Committee (SMAC)
- Mutual Fund Advisory Committee
- Corporate Bonds & Securitization Advisory Committee

Insurance Regulatory and Development Authority (IRDA)

The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India. It was constituted by the Insurance Regulatory and Development Authority Act, 1999, an Act of Parliament passed by the Government of India. The agency's headquarters are in Hyderabad, Telangana, where it moved from Delhi in 2001.

IRDAI is a 10-member body including the chairman, five full-time and four part-time members appointed by the government of India.

History of Insurance in India & IRDA

In India insurance was mentioned in the writings of Manu (*Manusmrithi*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthashastra*), which examined the pooling of resources for redistribution after fire, floods, epidemics and famine. The life-insurance business began in 1818 with the establishment of the Oriental Life Insurance Company in Calcutta; the company failed in 1834. In 1829, Madras Equitable began conducting life-insurance business in the Madras Presidency. The British Insurance Act was enacted in 1870, and Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were founded in the Bombay Presidency. The era was dominated by British companies.

In 1914, the government of India began publishing insurance-company returns. The Indian Life Assurance Companies Act, 1912 was the first statute regulating life insurance. In 1928 the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about life- and non-life-insurance business conducted in India by Indian and foreign insurers, including provident insurance societies. In 1938 the legislation was consolidated and amended by the Insurance Act, 1938, with comprehensive provisions to control the activities of insurers.

The Insurance Amendment Act of 1950 abolished principal agencies, but the level of competition was high and there were allegations of unfair trade practices. The Government of India decided to nationalise the insurance industry.

An ordinance was issued on 19 January 1956, nationalising the life-insurance sector, and the Life Insurance Corporation was established that year. The LIC absorbed 154 Indian and 16 non-Indian insurers and 75 provident societies. The LIC had a monopoly until the late 1990s, when the insurance industry was reopened to the private sector.

General insurance in India began during the Industrial Revolution in the West and the growth of sea-faring commerce during the 17th century. It arrived as a legacy of British occupation, with its roots in the 1850 establishment of the Triton Insurance Company in Calcutta. In 1907 the Indian Mercantile Insurance was established, the first company to underwrite all classes of general insurance. In 1957 the General Insurance Council (a wing of the Insurance Association of India) was formed, framing a code of conduct for fairness and sound business practice.

Eleven years later, the Insurance Act was amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee was established. In 1972, with the passage of the General Insurance Business (Nationalisation) Act, the insurance industry was nationalized on 1 January 1973. One hundred seven insurers were amalgamated and grouped into four companies:

1. National Insurance Company
2. New India Assurance Company
3. Oriental Insurance Company
4. United India Insurance Company.

The General Insurance Corporation of India was incorporated in 1971, effective on 1 January 1973.

The re-opening of the insurance sector began during the early 1990s. In 1993, the government set up a committee chaired by former Reserve Bank of India governor R. N. Malhotra to propose recommendations for insurance reform complementing those initiated in the financial sector. The committee submitted its report in 1994, recommending that the private sector be permitted to enter the insurance industry. Foreign companies should enter by floating Indian companies, preferably as joint ventures with Indian partners.

Following the recommendations of the Malhotra Committee, in 1999 the Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop the insurance industry and was incorporated in April 2000. Objectives of the IRDA include promoting competition to enhance customer satisfaction with increased consumer choice and lower premiums while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with an invitation for registration applications; foreign companies were allowed ownership up to 26 percent. The authority, with the power to frame regulations under Section 114A of the Insurance Act, 1938, has framed regulations ranging from company registrations to the protection of policyholder interests since 2000.

In December 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and the GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from the GIC in July 2002. There are 28 general insurance companies, including the Export Credit Guarantee Corporation of India and the Agriculture Insurance Corporation of India, and 24 life-insurance companies operating in the country. With banking services, insurance services add about seven percent to India's GDP.

In 2013 the IRDAI attempted to raise the foreign direct investment (FDI) limit in the insurance sector to 49 percent from its current 26 percent.[6] The FDI limit in the sector was raised to 100 percent according budget 2019.

Functions of IRDA

The functions of the IRDAI are defined in Section 14 of the IRDAI Act, 1999, and include:

- Issuing, renewing, modifying, withdrawing, suspending or cancelling registrations
- Protecting policyholder interests
- Specifying qualifications, the code of conduct and training for intermediaries and agents
- Specifying the code of conduct for surveyors and loss assessors
- Promoting efficiency in the conduct of insurance businesses
- Promoting and regulating professional organisations connected with the insurance and re-insurance industry
- Levying fees and other charges
- Inspecting and investigating insurers, intermediaries and other relevant organisations
- Regulating rates, advantages, terms and conditions which may be offered by insurers not covered by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938)
- Specifying how books should be kept
- Regulating company investment of funds
- Regulating a margin of solvency

- Adjudicating disputes between insurers and intermediaries or insurance intermediaries
- Supervising the Tariff Advisory Committee
- Specifying the percentage of premium income to finance schemes for promoting and regulating professional organisations
- Specifying the percentage of life- and general-insurance business undertaken in the rural or social sector
- Specifying the form and the manner in which books of accounts shall be maintained, and statement of accounts shall be rendered by insurers and other insurer intermediaries.

Pension Fund Regulatory and Development Authority (PFRDA)

The Pension Fund Regulatory and Development Authority (PFRDA), a statutory body, is the pension regulator of India which was established by Government of India on August 23, 2003 and was authorized by Ministry of Finance, Department of Financial Services. Upon introduction of the PFRDA Bill by the Government of India in the Parliament of India and the subsequent passage of the PFRDA Act in 2013, the Authority became a Central Autonomous Body. Like other financial sector regulators namely Reserve Bank of India(RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDAI) and Insolvency and Bankruptcy Board of India (IBBI), PFRDA is a government regulatory body having executive, legislative and judicial powers. PFRDA promotes old age income security by establishing, developing and regulating pension funds and protects the interests of subscribers to schemes of pension funds and related matters. Currently, PFRDA is regulating and administering the National Pension System (NPS) along with administering the Atal Pension Yojana (APY) which is a defined benefits pension scheme for the unorganized sector, guaranteed by the Government of India. PFRDA is responsible for appointment of various intermediate agencies such as Central Record Keeping Agency (CRA), Pension Fund Managers, Custodian, NPS Trustee Bank, etc.The Authority consists of a Chairperson and not more than five members, of whom at least three shall be whole-time members, to be appointed by the Central Government.

Evolution of New Pension System and PFRDA

PFRDA have set up a Trust under the Indian Trusts Act, 1882 to oversee the functions of the Pension Fund Managers (PFMs). The NPS Trust is composed of members representing diverse fields and brings wide range of talent to the regulatory framework. The Union Parliament passed the IPRDA [Interim Pension Fund Regulatory & Development Authority] Bill in February 2003 as a Budget

Announcement, approved by the then President of India, Dr. APJ Abdul Kalam. It was meant to be in place till the final and fool-proof system was prepared, re-approved, and implemented in a way acceptable to all political parties in India, including the opposition. Tamil Nadu became the first state to implement NPS for its newly appointed employees from the financial year 2003–04.

On 19 September 2013, the President of India gave his assent to Pension Fund Regulatory and Development Authority Bill of 2013, which was passed in the Monsoon Session of Parliament on 4 September 2013 in the LokSabha and 6 September 2013 in the RajyaSabha, to make it a Permanent Act. This improved, foolproof and re-approved Bill, with the acceptance of all political parties in India, has replaced the old and imperfect IPRDA Bill of 2003. The President of India is the guardian of the PFRDA, subject to his Financial Emergency Powers, as per the Articles of Indian Constitution. PFRDA now has Full Autonomy & functioning independently from F.Y. 2014-15.

MODULE II

Money Market

Money market forms an essential component of Indian Financial system. Short-term monetary assets with a maturity period up to one year are issued and traded in money markets. The important and attractive feature of money markets is high liquidity. It means the assets in money market can be quickly converted to money. Unlike capital markets there is no loss in the face value of the investment when the asset is sold or liquidated. Since the underlying transaction costs are also low, this market captures the attention of the investors who are looking to deal with their surpluses for short periods. More than the individuals, banks and financial institutions largely operate in this market. The RBI, which regulates this market, also participates in it through sale and purchase of instruments like Treasury Bills in order to finance the fiscal deficit requirements of the Indian economy. Apart from Banks and Financial institutions other players who actively take part in the market are Mutual funds and Investment Companies.

- The money market is inherently vibrant market because of the short-term instruments that are issued and matured every week and the settlements happen on a daily basis. Because of the active participation of the interested entities the volume of the transactions are generally large. The instruments that are traded in money markets carry low-risk and hence the investors who are not willing to take risk but require assured returns consider them as safe bets.

Functions of the Money Market

Money market is a very dynamic and active market and its focus is on addressing the following functions

- Money market is the means in which the central bank regulates the credit flow and the underlying interest rates
- It is one of the important avenues for commercial banks in India to maintain the mandatory statutory liquidity ratio requirements
- Money markets important role is ensure the availability of short-term funds to fund seekers like corporate, government and traders and at the same time act as an avenue for the investors with short-term surplus to park their investments.

As far as market place for money market is concerned, there is no specific place or venue where the transactions are carried out. The fund issuers and fund seekers can transact on email, phone or any medium.

The fund seekers are generally

- Brokers
- Government
- Government Institutions
- Corporate
- Traders
- Merchants

Whereas the fund issuers are

- The Central Bank i.e. RBI
- Commercial Banks
- Financial Institutions
- Insurance Companies

Concept and Evolution of Money Markets in India

Money Market deals with short-term borrowing and lending of funds, whose maturity ranges from as low as one day to as high as one year. This market is dominated by few large players and hence it witnesses high value and high volume transactions. The Money market in India is an important segment of the financial market, which is regulated by Reserve Bank of India.

One of the important objectives of Money markets is to monitor and control the supply of money in the economy through the apex bank of India i.e. RBI.Apart from that monetary markets are best possible avenues for the investors who are interested in parking their funds for short durations and gain decent returns. Money markets also play a key role in meeting the short-term financing requirements at attractive interest rates and decent costs.

Growth of Money Market in India

Money market in India has been in existence even before the RBI came into existence. But the growth of Money market in India has been tremendous only after liberalization started. There are two important committees, whose recommendations led to the growth of money market.

- Review of the working of the monetary system by SukhmoyChakravarty Committee
- Report on the working of the Financial system by Narasimham Committee

Based on their recommendations, RBI implemented the following reforms to facilitate the growth of Money market.

- Reduction in ceiling rate on bank advances and inter-bank call and short-notice money
- Drastic reduction in minimum lending rates of commercial banks.
- Interest rates are set to be determined by the market rather than the administered mechanism

These reforms facilitated the massive growth of the money market with the increase in the number of participants and instruments. Since Liquidity is a key ingredient of the money market, besides the primary market an active secondary market has been created so that these money market instruments can be actively traded in order to facilitate the participants with quick liquidity option.

Different types of Money Market Products

Following are the list of Money market instruments that are available for investors who are looking forward to park their investments for short durations.

1. Treasury Bills
2. Certificates of Deposits
3. Inter-Corporate Deposits
4. Commercial Bills
5. Commercial Paper

Treasury Bills

Treasury bills or T-bills are the money market instruments issued by the Reserve Bank of India. RBI issues T-Bills in order to meet the short finance requirements of the Indian Government. Since they are being issued by the central bank itself, the risk associated with these instruments is low. These instruments are not issued at face value rather they are issued at a discounted value to that of face value. On maturity the return received by the investor is the difference between this issue price/discounted value and Face value. Hence they are called as Zero-Coupon Securities i.e. no interest or coupon amount is paid in between or at maturity.

Generally the interest rates offered on savings and fixed deposits with a duration less than an year are less when compared to the interest rates that are available on T-bills. Hence it wise to consider T-Bills over Fixed and Savings Deposits for short term guaranteed returns. Since T-bills come at various days to maturity, the liquidity requirements of the investor can be met in a better way. It is not only for individual investors but also for business house that has surplus cash in their current accounts; T-bills remain on the best short term investment alternatives giving decent returns.

An investor can avail the following benefits if he invests in T-Bills

- Since they are issued by the central bank, the transparency levels are very high and hence the secondary market for active trading too is very high
- Since the subscription and trading are very high, there is no concern about liquidity
- They provide comparatively better returns
- The risk levels too are negligible as the instruments are directly coming from RBI
- With no deduction of tax at source, the settlement process looks simple and easy

Treasury bills are issued with the following days to maturity

1. 14-days
2. 91-days
3. 182-days
4. 364-days

14-days T-Bill

These treasury bills are put to auction in every week on Fridays.The amount notified for auction happens to be INR 100 crores.

91-days T-Bill

These treasury bills are put to auction in every week on Fridays. The amount notified for auction happens to be INR 100 crores.

182-days T-Bill

These treasury bills are put to auction in every week on Wednesdays, preceding non-reporting Fridays. The amount notified for auction happens to be INR 100 crores.

364-days T-Bill

These treasury bills are put to auction in every week on Wednesdays, preceding reporting Fridays. The amount notified for auction happens to be INR 100 crores.

The major participants of T-Bill auctions happen to be the banks because T-Bills act as an important avenue for them to maintain the obligation of Statutory Liquid Ratio (SLR) requirements.

Investors who got T-Bills allocated in the auction i.e. primary market can trade these instruments in the secondary market. Since the transaction costs involved in trading of these T-Bills is low, they are actively and immediately traded during two periods.

- After issue
- Before redemption

Certificates of Deposits

These deposits are issued by Banks and other eligible financial institutions allowed by RBI. Regional Rural Banks and Local Area Banks are exempted from issuing Certificate of Deposits. They are issued for the duration not less than a week and not more than a year by the banks whereas financial institutions can issue certificate of deposits for a minimum period of over and above 1 year and for a maximum period of 3 years. The limit on the amount of short-term resources that can be raised by these entities is set by RBI. The minimum amount for which a certificate of deposit is issued should be INR 1 lakh. The investor thereafter can purchase them in the multiples of INR 1 lakh.

Inter-Corporate Deposits

Other than Certificates of Deposits, the other provision for corporate to secure short-term finance is Inter-Corporate Deposits (ICDs). ICDs are unsecured finances offered by one corporate to another corporate. ICDs are normally issued by the corporate with large surpluses to the corporate that are in need of short-term loans. Generally this market is dominated by corporate with good credit rating who get loans at a better rate from the financing agencies and lend them to corporate with less credit rating and have no access to better financing. Since financing agencies are very particular about the credit rating of the entities they issues loans to, corporate who are better placed in terms of credit ratings issue ICDs at higher interests, thereby earning higher returns. Since ICDs are unsecured loans the risk is equally high. The market for ICDs is unorganized in nature and normally dealt between two entities.

Commercial Bills

Commercial bills are negotiable instruments between buyer and seller of goods and services when the transaction takes place on credit. They are bills of exchange which can be encashed by the seller upon maturity. Alternatively the seller can endorsed them to a third party upon payment of dues the buyer of goods and services owes him. In general practice the seller discounts the bills of exchange with any financial institution or a bank and collects his money. The discount rate is the benefit obtained by the financial institution or a bank.

Commercial Paper

It is an additional money market instrument introduced in Indian market in 1990 which enables the corporate borrowers with high credit rating to meet their short term finances. It is an unsecured instrument which is issued in the form of a promissory note. Apart from corporate companies, approved financial institutions and primary dealers can issue Commercial papers to finance their short-term requirement of funds to carry out their operations.
An entity can issue a commercial paper only when

- The tangible net worth of the company is more than INR 4 crore as per its latest Balance Sheet which is audited
- The Financing entity should classify its borrowal account as Standard Asset
- Its working capital limit has been sanctioned by the Financial Institution or a Bank

Generally a commercial paper is issued for duration of minimum one week and the maximum period is one year. The minimum denomination for which a commercial paper can issued is INR 5 Lakh. Any additional issue or purchase should in the multiple of INR 5 Lakh. Based upon the understanding between the issuer and subscriber A commercial paper can be issued in a paper form or dematerialized format.

Regulation of Money Market in India

The Reserve Bank of India (RBI) regulates the money market in India. The guidelines towards governance of money market operations too are issued and monitored by the RBI. The interest rates of the money market are largely influenced by timely intervention of RBI. Whenever there is more liquidity in the market RBI sells treasury bills apart from increasing the key rates like Cash reserve ratio (CRR) and statutory liquid ratio (SLR). These measures reduce the money supply in the market. Whenever the economy is experiencing high levels of inflation RBI steps in and resorts to these initiatives.When the inflations levels are well within the control and if the economy needs to be boosted in terms of growth RBI adopts an opposite approach. The statutory rates like CRR and SLR are reduced and also the treasury bills issued are brought from the money market. With these steps, the supply of money in the economy increase, thereby facilitating a favorable condition for its growth prospects.

MODULE III

Capital Markets

Capital markets play an important role in financing the long term financial needs of the corporate entities, thereby directly contributing to the development of commerce and Industries in an economy. Capital markets also attract the attention of foreign investors who can bring in huge capital inflows in the form of institutional Investments.

The growth of capital market in any economy is directly influenced by the amount of domestic household savings that gets into it. Apart from the savings it is the investment climate that boosts the formation of new companies and growth of existing companies highly influences the growth and successful functioning of the capital markets.

Capital markets plays the following functions in an economy

- To boost investments though mobilization of financial resources
- It facilitates the realization of fair value of the securities
- To facilitates purchase and sale of securities

A capital market is segmented into two markets which are dependent on one another. They are

- Primary Market
- Secondary Market

Primary Market

In this market financial resources are mobilized by corporate companies by issuing fresh capital through Initial Public offer or Follow-on Public offer. It is through Primary market companies get the capital to finance their business operations, new projects and other business plans. Primary market helps in the creation of secondary market for the securities issued in primary market.

Secondary Market

In secondary market, securities issued in the primary market are traded through stock exchanges. It is in secondary markets a security discovers its fair value. Any changes that are happening in a company, industry or an economy are reflected immediately in the prices of the securities that are traded in this in the secondary market.

List of IPOs, FPOs and OFS in India

The following table gives the list of Initial Public offerings, Follow-on Public offers and Offer for Sale since financial year 1989-90 to till date.

S.No	YEAR	AMOUNT(Rs. cr)	NO. OF ISSUES
1	1989-90	2,522	186
2	1990-91	1,450	140
3	1991-92	1,400	195
4	1992-93	5,651	526
5	1993-94	10,821	764
6	1994-95	12,928	1336
7	1995-96	8,723	1402
8	1996-97	4,372	684
9	1997-98	1,132	58
10	1998-99	504	22
11	1999-00	2,975	56
12	2000-01	2,380	110
13	2001-02	1,082	6
14	2002-03	1,039	6
15	2003-04	17,807	28
16	2004-05	21,432	29
17	2005-06	23,676	102
18	2006-07	24,993	85
19	2007-08	52,219	90
20	2008-09	2,034	21
21	2009-10	46,941	44
22	2010-11	46,182	57
23	2011-12	23,982	36
24	2012-13	34,313	44
25	2013-14	15,234	83
26	2014-15	29,716	39
27	2015-16	34,322	42
28	2016-17	36,615	53

29	2017-18	98,984	81
30	2018-19	36,405	42
31	2019-20 (as on 31/08/19)	13,707	19
32	Total	6,15,541	6,386

Source: https://www.primedatabase.com/pub_demo.asp

Bonus Issue

Through bonus issue, a company offers its shares to the shareholders without charging anything. Bonus issue is used as an option by the company in lieu of the dividend payments to its shareholders.

Following is the list of latest bonus issues by various companies operating in Indian Stock markets.

S.No	Company	Bonus Ratio	Date Announcement
1	Astral Poly Tec	1:04	2/8/2019
2	Rajratan Global	4:03	22-07-2019
3	Aaron Industrie	1:10	12/7/2019
4	Brigade Ent	1:02	15-07-2019
5	Swelect Energy	1:02	8/7/2019
6	Eco Recycling	1:10	13-07-2019
7	Touchwood Enter	2:01	11/7/2019
8	Bombay Cycle	1:01	22-06-2019
9	RITES	1:04	24-06-2019
10	Zota Health Car	4:10	10/6/2019
11	Varun Beverages	1:02	17-06-2019
12	Captain Technoc	1:01	27-05-2019
13	Focus Lighting	2:01	29-05-2019
14	Panache Digilif	1:01	5/6/2019
15	Bhageria Indu	1:01	30-05-2019
16	Sumit Woods	1:01	23-05-2019
17	Prithvi Exc	1:02	27-05-2019
18	Sirca Paints	1:02	25-05-2019
19	GAIL	1:01	27-05-2019

20	UPL	1:02	17-05-2019
21	A and M Jumbo B	3:01	14-05-2019
22	Magadh Sugar	4:10	14-05-2019
23	Avadh Sugar	1:01	13-05-2019
24	G G Engineering	2:03	16-05-2019
25	Oceanic Foods	2:01	6/5/2019
26	Relaxo Footwear	1:01	10/5/2019
27	Creative Periph	1:01	7/5/2019
28	Mittal Life Sty	2:03	14-05-2019
29	Biocon	1:01	25-04-2019
30	Syngene Intl	1:01	24-04-2019
31	Vitesse Agro Li	1:01	20-03-2019
32	TTK Prestige	1:05	29-03-2019
33	Kapashi Com	3:02	14-03-2019
34	Nandani Creatio	3:02	18-03-2019
35	Foods and Inns	2:01	11/3/2019
36	One Point One S	1:02	11/3/2019
37	Indo US Bio-Tec	1:04	7/3/2019
38	Airan	1:01	6/3/2019
39	Bajaj Healthcar	1:01	19-02-2019
40	South West Pinn	1:01	22-02-2019
41	Inflame Applian	1:02	9/2/2019
42	Sukhjit Starch	1:01	6/2/2019
43	NTPC	1:05	30-01-2019
44	Akash Infraproj	1:01	31-01-2019
45	Wipro	1:03	18-01-2019
46	Vishal Bearing	4:05	31-01-2019
47	Maximus Interna	1:01	16-01-2019
48	The Indian Wood	1:01	2/1/2019
49	White Organic	1:01	17-12-2018
50	Container Corp	1:04	20-12-2018
51	Riddhi Corp	25:10:00	29-11-2018

Rights Issue

Through rights issue, a company invites its existing shareholders to buy the shares of the company at a discounted price. Generally, a company which is in desperate need of funds uses this option to raise funds. It is only a right issued to the shareholder but not an obligation to buy the shares.

The list given below highlights the companies that came up with rights issue recently.

S.No	Company	Rights Ratio	FV	Premium	DATE Announcement
1	Pacific Ind	127:100	10	109	27-02-19
2	Tata Steel Long	15:07	10	490	24-10-18
3	Reliance Chemo	1:01	10	55	28-06-18
4	5paisa Capita	1:01	10	70	12/9/2018
5	Scanpoint Geo	62:127	2	21	14-02-19
6	Ishan Dyes	46:100	10	17	20-03-18
7	Bharti Airtel	0.838194444	5	215	28-02-19
8	Bharat Gears	1:07	10	95	9/10/2018
9	Vodafone Idea	87:38:00	10	3	23-01-19
10	Genus Prime Inf	2:33	2	1	16-07-18
11	Krebs Biochem	0.944444444	10	76	30-07-18
12	LGB Forge	127:127	1	2	10/4/2018

Capital Market and its Constituents

It is understood that how important is a capital market to an economy in its development. The current state of growth and development are directly reflected the capital markets. Hence to understand the functioning of capital markets it is important to know and understand its constituents. Broadly any capital market is constituted of the following players.

- Fund Raisers
- Fund Providers
- Intermediaries
- Organizations
- Regulatory Bodies

Fund Raisers

Fund Raisers are companies that raise funds from domestic and foreign sources, both public and private. The following sources help companies raise funds.

Fund Providers

Fund Providers are the entities that invest in the capital markets. These can be categorized as domestic and foreign investors, institutional and retail investors. The list includes subscribers to primary market issues, investors who buy in the secondary market, traders, speculators, FIIs/ sub-accounts, mutual funds, venture capital funds, NRIs, ADR/GDR investors, etc.

Intermediaries

Intermediaries are service providers in the market, including stock brokers, sub-brokers, financiers, merchant bankers, underwriters, depository participants, registrar and transfer agents, FIIs/ sub-accounts, mutual Funds, venture capital funds, portfolio managers, custodians, etc.

Organizations

Organizations include various entities such as MCX-SX, BSE, NSE, other regional stock exchanges, and the two depositories National Securities Depository Limited (NSDL) and Central Securities Depository Limited (CSDL).

Market Regulators

Market Regulators include the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), and the Department of Company Affairs (DCA).

Role and Importance of Capital Market in India

Capital markets in India didn’t attract much attention from international markets before liberalization started. Once the fruits of economic reforms started ripening, investments from domestic as well as foreign investors flooded Indian capital markets. The role and importance of a capital market in an economy are discussed below

- Capital markets acts as an important source of long term finance for the corporate

- They act as an important channel for placing the investments to investors
- Capital markets facilitate companies to allocate employee stock options to their employees.
- Disinvestments, Mergers and Acquisitions in companies issued equity share capital can be routed through capital markets
- Capital markets act as a good avenue for aggressive investors who are willing to take high risk in their quest for achieving higher returns
- Capital markets helps in finding investors who are ready to invest in new companies, which are finding it difficult to get debt based finance from financial institutions
- Capital markets facilitate good corporate governance practices among corporate companies as they are bound to disclose the information about the company's functioning to its investors in order to gain their confidence.
- Capital markets become an easy exit option for Private Equity and Venture Capital firms if they want to sell their holdings if the firm in which they made investments gets listed in capital market
- Capital markets act as a best source of finance for a company taking up projects involving high capital expenditure as the gestation period for these projects is going to be higher debt financing to take up these projects become very expensive for the company and also take longer time to realize profits from them
- Capital markets reflect the growth prospects and the current state of an Economy's development. A strong and efficient capital market helps in the progress of an economy
- Capital markets also help in attracting investments from foreign nationals in the form of institutional investments.
- Capital markets facilitate the participation of retail investors to park their household savings in the capital markets instead of routing them through financial intermediaries. The investors will have a chance to invest in the companies of their choice rather than going with the choices of the financial intermediaries

Evolution of Capital Market in India

The evolution of Capital Markets in India started when the trading of securities of East India Company started in 18th century. Kolkata (Calcutta) and Mumbai (Bombay) remained the two key centers for trading but the trading in securities was not organized. Mumbai has been an important centre for supply of cotton since then and hence it became a key trading centre for securities. The trading at these centers also witnessed trading in bank shares.

The British government then was not interested in the growth of India’s economy and hence the organization and development of capital markets in India could not happen as it was supposed to grow. Hence the companies were forced to depend on capital market at London to raise the funds instead of raising from Indian Capital market.

The reputed stock exchange in India i.e. Bombay Stock Exchange (BSE) was formed through an informal association of few stock brokers, who were the epicenter of the trading activity. The recognition to BSE came in the year 1927. Followed by the establishment of BSE, stock exchanges came up in other cities like Ahmedabad and Calcutta.

Once India secured Independence from British government it took considerable amount of time for capital market to grow. Because the five year plans in the initial years focused on growth in the Agriculture sector and Government owned companies. Since the economy was highly regulated then the support system for the growth of private companies was not in the expected lines. Because of the strict control regime private companies didn’t come forward to list themselves in the capital markets.

The retail participation in Indian capital markets in the early years of post independence era was more towards scrips like Tats Steel, Bombay Dyeing, Century Textiles few others operating in textile industry. This era was characterized by rampant speculation and defaults in payments. This forced the government to enact two important legislations

- The Companies Act, 1956
- Securities Contracts (regulation) Act, 1956

Early 1960s saw some good changes in the capital market scenario. Unit Trust of India started India’s First mutual fund in the year 1964. Also the government owned insurance companies Life Insurance Corporation of India (LIC) and General Insurance Company (GIC) started investing in corporate and has emerged as the key sources of finance in India.

The next ride of investments and participation were heavily influenced by the entry of Reliance Industries into capital markets in 1980s. There was a craze among the retail investors to own the equity shares of Reliance Industries. Then the Harshad Mehta Scam in 1992 before the start of economic reforms dented the participation of retail investors for a while. To regulate the functioning of capital markets and to prevent scams of such nature in future SEBI was commissioned in the same year through SEBI Act, 1992.

Once the economic reforms started paying rich dividends there is no looking back for Indian capital markets. In the year 2000 internet trading was launched and made trading easier for the investors. Since then the capital markets are evolving with the continued reforms in the Indian economy and are playing a key role in the growth and development of the economy.

Primary Market Operations

In a primary market, companies, governments or public sector institutions can raise funds through bond issues and corporations can raise capital through the sale of new stockthrough an initial public offering (IPO). This is often done through an investment bank or finance syndicate of securities dealers. The process of selling new shares to investors is called underwriting. Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus.

Instead of going through underwriters, corporations can make a primary issue or right issue of its debt or stock, which involves the issue by a corporation of its own debt or new stock directly to institutional investors or the public or it can seek additional capital from existing shareholders.

Since the securities are issued directly by the company to its investors, the company receives the money and issues new security certificates to the investors. The primary market plays the crucial function of facilitating the capital formation within the economy. The securities issued at the primary market can be issued in *face value*, *premium value,* and *at par value.*

Once issued, the securities typically trade on a secondary market such as a stock exchange, bond market or derivatives exchange.

Secondary Market Operations

In a secondary market no fresh capital is issued. Any entity or an individual who could not buy the capital that is issued in the primary capital market can buy it in the secondary capital market. These transactions are normally held in market places which are called as Stock exchanges. The ownership of the capital that is issued in the form of securities is regularly traded in these stock exchanges. Stock exchanges in India operate in a highly regulated environment especially under the purview of Securities and Exchange Board of India (SEBI). SEBI consistently monitors the operations, the underlying rules and regulations of stock exchanges so that investor participation, confidence and protection is restored.

The post reforms period in India led to high investor participation in capital markets. Coupled with the increased penetration of technology, computer literacy and internet, economic reforms facilitated greater participation from retail investors to trade in secondary markets.

Products of Capital Market

Fund raisers can use the following instruments to raise capital from capital markets

1. Equity Shares
2. Preference shares
3. QIPs
4. Bonds
5. Debentures
6. Derivatives
7. Commodity Markets
8. Bullion Markets
9. Depository Receipts
10. Mutual Funds
11. Exchange Traded Funds

Equity Shares

Equity shares represent the ownership in a company which issues them. Each shareholder depending on the shares they hold get fractional ownership and eventually become the company's member with voting rightsat all general meetings conducted by the company.

Preference Shares

A preferential share which gives the owner not only ownership on the company but also a preferential right to

- Dividend payment
- Repayment, whenever the company decides to close its operations

Generally a company can issue the following preference shares

- Cumulative Preference Shares

- Non-Cumulative Preference shares
- Participating Preference Shares
- Non-Participating Preference Shares
- Redeemable Preference shares
- Convertible Preference Shares

Cumulative Preference Shares

Generally for preference shares, whenever the company decides to pay dividend, they will be given first claim. If the company doesn't declare any dividend for whatsoever reason, till the time the company declares dividend, it get accumulated and it will be given first preference at the time of dividend distribution. In case if the company dissolves its operations, until unless it Is not mentioned in their articles of association, the investor holding these shares have to forego the accumulated arrears of dividend.

Non-Cumulative Preference shares

In the case of non-cumulative preference shares accumulation of dividend doesn't happen if it doesn't pays the dividend to its shareholders. If the company decides to pay the dividend, they may have first claim but is no concept of paying dividend arrears. There should be clearly mentioned in the articles of association that if by any chance the company dissolves preference shareholders will be first claim on the proceeds, otherwise these shareholders will not be paid anything, as it is not obligatory on the company's part.

Participating Preference Shares

These shares are entitled to take part in surplus profit, as per the terms and conditions specified at the time of issue. This entitlement is over and above the dividend that has already been paid initially alongwith common stockholders. Surplus profit is the amount left over after the payment of dividend to its shareholders. If the provisions at the time of issue permit, these shareholders are entitled to bonus shares as well.

Non-Participating Preference Shares

If it is a participating preference share, it is specifically mentioned at the time of issue. If it is not mentioned, then any preference share is a non-participating preference share.

Redeemable Preference shares

As the name itself says, these shares are redeemed after specified time and the shareholders should be paid cash. The time period is defined as per articles of association. No company can issue preference shares which cannot be redeemed.

Convertible Preference Shares

These shares are referred as quasi equity shares because at the time of conversion from preference shares to equity shares, if it is not clearly specified in terms and conditions at the time of issue of these shares, the shareholders will not get any specific rights, which happens in the case of common stock or equity like

- Bonus shares
- Higher dividend
- Voting rights etc

If it is specifically mentioned at the time of issue of these shares, they are converted into equity shares with all special rights a common equity share gets. Hence they are called as Convertible Preference shares. At the time of conversion, companies may charge premium as per the terms and conditions.

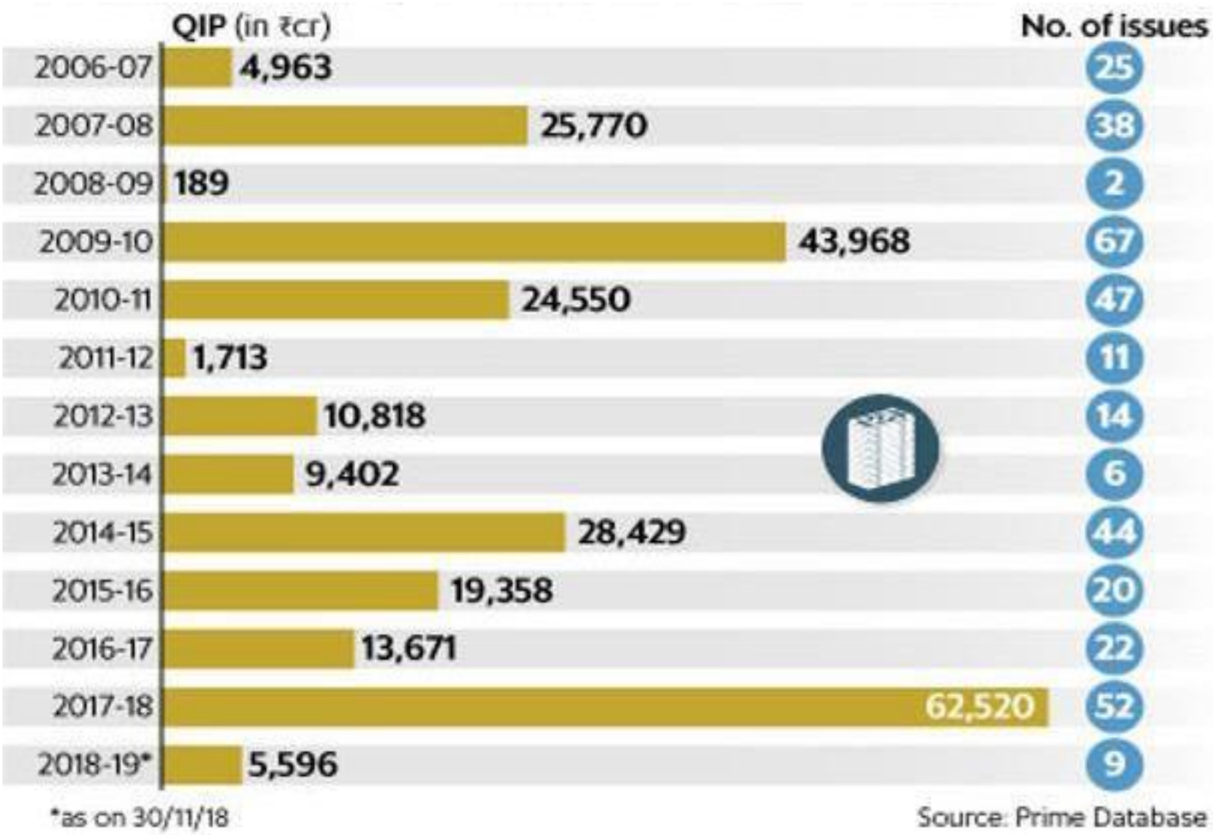
Qualified Institutional Placement (QIP)

QIP is an instrument which is used for raising fresh capital, where listed companies issue securities to Qualified Institutional Buyers.

Through QIP companies can raise capital by issuing

- equity shares
- fully and partly convertible debentures
- any securities other than convertible warrants

Trends in QIP issues in India



Bonds

A bond is a loan given to fund seeker by an investor or fund giver. It is a fixed income instrument where an investor gets periodic payments of interest or a lump sum interest along with principal at the time of maturity. Similar to shares bonds are traded in secondary markets in their debt segment. Bonds can be issued by government or corporate companies.

Bonds can be classified into the following categories based on their underlying features.

- Zero Coupon Bonds
- Easy Exit Bonds
- Disaster Bonds
- Commodity Bonds
- Deep Discount Bonds
- Carrot and Stick Bond
- Stepped Coupon Bond

- Option Bonds
- Industrial Revenue Bonds
- Pay in Kind Bonds
- Tax Free Bonds
- Capital Indexed Bonds
- Floating rate Bonds

Zero Coupon Bonds

These bonds are sold at a discount on their actual face value at the time of issue. On maturity the investor is paid only the maturity value but no interest or coupon payment is made in between. Hence it is called as Zero Coupon Bond. If the discount offered is very high it is called as deep discount bond.

Easy Exit Bonds

These bonds come with relatively an easier and quicker way to redeem as and when the investor decides to redeem. This enhances the liquidity of his money invested for the investor. Generally the issuing entity will have enough cash reserves to accommodate this arrangement and hence come with low risk and because of the same, they are graded high and attract more investments.

Disaster Bonds

The entities issuing these bonds are engaged in the business of insurance who wish to raise the capital by aligning the returns with the business risk i.e. losses. If the insurance entity makes heavy losses, then investor of this bond is expected to make less return. So, higher the probability of a disaster, low will be the chances of earning high on these bonds. The investors are attracted by the interest rate paid on these bonds, which are dependent on the probability associated with the disaster and the entity's ability to default on payments.

Commodity Bonds

A commodity-backed bond is a type of bond whose value is directly related to the price of a specified commodity. Most bonds have a fixed value determined at the time of purchase. This value is a combination of the bond's face value and its interest rate, both of which are set at the time of issue.

A commodity-backed bond, however, will experience fluctuations in value when the price of the specified commodity rises or falls. The bond's issuer determines how the bond's value will change with the price of the commodity. Some commodity-backed bonds gain or lose face value with the commodity's price. For others, the interest rate changes.

These bonds are generally issued by the companies that produce the associated commodity. Some of the commodities that bonds may be linked to include oil, gold, and coal. Investors tend to purchase commodity-backed bonds as a form of speculation when they believe that the price of that commodity will rise.

Deep Discount Bonds

Deep discount bond is a bond issued at a high discount amount on its face value. It is infact a zero coupon bond with high discount. These bonds are considered to the safest as there is a fixed income that is available with high returns on maturity. But the maturity proceeds with respect to interest component are subjected to tax. Because of the prospects of earning high income with low levels of risk they are rated high by the rating agencies.

Carrot and Stick Bond

A convertible bond that comes with a carrot-and-stick provision. Differently stated, its carrot provision provides for a low conversion premium to allure holders to exercise conversion earlier than usual (the carrot). The stick provision allows the issuer to call the bond at a specified premium if the common stock of the issuer is trading at a certain percentage above the conversion price (the stick). This structure combines both rewards and punishments and it is up to the holder to go either course as its investment policy dictates.

Stepped Coupon Bond

In this type of bonds, the interest rate payable on the bond is not fixed. Either it periodically goes up or goes down as per the prevailing interest rate scenario in the economy. If the interest rates are expected to go up then the investor will fetch high returns. Alternatively he will lose returns if the interest rates are expected to go down.

Option Bonds

In this type of bonds, the investor is given an option to receive the interest or coupon payments either on fixed period basis, which are non-cumulative payments, or at one go at the time of maturity, where all interest payments are cumulatively paid. Apart from the terms of payment of coupon or interest amount, investors will be paid maturity premium so that the numbers of investors who buy this bond will go up

Industrial Revenue Bonds

If a fund seeker or a company is planning to expand his business by making some capital expenditure to construct a new facility or building he issues this type of bonds to raise the capital. If there is an incentive or tax concession is associated with that capital expenditure then it will be more beneficial for the investor as he is expected to get higher returns on account of the same.

Pay in Kind Bonds

In this type of bonds, the investor is not paid coupon or interest, rather additional bonds are issued to the investor in lieu of coupon or interest payment. The additional bonds issued are called as baby bonds.

Tax Free Bonds

If the interest paid on the bonds is tax free then these bonds are categorized as Tax free bonds. These bonds are targeted at those investors who are already paying high tax on their earnings but at the same time wants to make money out of those investments by paying no additional tax on the interest earned.

Capital Indexed Bonds

The interest rates in any economy are highly influenced by the prevailing rate of inflation. If the inflation rates are high the investor of the bond will end with low returns. Capital indexed bonds are those bonds which address the increase in inflation and protect the investor from losing the returns.

Floating rate Bonds

If the interest rate payment on bonds is adjusted to market conditions rather than keeping them fixed or unidirectional then those bonds are called as Floating rate Bonds.

Debentures

Debentures are the long term debt instruments issued by the fund seekers to finance any project or a capital expenditure. Debentures are similar to bonds but they are different from bonds in the following ways

- Bonds are secured in nature as they are backed by a collateral or a physical asset, whereas Debentures can be secured or unsecured but are generally unsecured in nature
- Comparatively the risk associated with Bonds is less when compared to Debentures and hence the expected returns on Debentures are high when compared to Bonds.
- If a company issues both the bonds and debentures, investors in bonds are given preference over investors in debentures if the company goes for liquidation.
- Debentures are issued by private companies whereas bonds are issued by both government as well as private entities
- Debentures have the option of getting converted to equity whereas Bonds can never be converted to equity shares.

Types of Debentures

Debentures can be classified in to the following depending on their underlying features.

- Bearer Debentures
- Redeemable Debentures
- Registered Debentures
- Secured Debentures
- Perpetual Debentures
- Naked or Unsecured Debentures

Bearer Debentures

The debentures which are payable to bearer and whose names do not appear in the register of debenture holders are known as "Bearer Debentures". Coupons for interest are attached to the document and interest is paid to the holders as it falls due. Bearer Debentures are transferably by mere delivery.

Redeemable Debentures

These are the debentures which the company has issued for a limited period of time. On completion of the time for which they were issued, principal amount will be returned to the debenture holders (that means redemption of debentures). For example ABC Ltd. issued on 1.1.2010, 1000 10% debentures of Rs.100 each redeemable after 5 years. Now ABC Ltd will have to return this money on completion of 5 years from the date of issue. So on 31.12.2014 these debentures will be redeemed i.e. the money will be returned to the debenture holders.

Registered Debentures

These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.

Secured Debentures

These are the debentures that are secured by a charge on the assets of the company. These are also called mortgage debentures. The holders of secured debentures have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company.

Naked or Unsecured Debentures

Debentures which do not carry any security with regard to the principal amount or unpaid interest are unsecured debentures. These are also called simple debentures.

Perpetual Debentures

These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the company goes to liquidation.

Debenture Categories based on convertibility

As mentioned above, debentures have the option of getting converted to equity shares. In terms of this convertibility debentures can be classified into 3 types.

- Fully Convertible Debentures
- Partly Convertible Debentures
- Non-Convertible Debentures

Fully Convertible Debentures

A fully convertible debenture (FCD) is a type of debt security in which the whole value of the debenture is convertible into equity shares at the issuer's notice. The ratio of conversion is decided by the issuer when the debenture is issued. Upon conversion, the investors enjoy the same status as ordinary shareholders of the company.

Partly Convertible Debentures

Partly convertible debentures are convertible debentures that are converted into equity shares in the future at notice of the issuer. Part of such debentures will be redeemed by the issuing company after a specified period of time and part of it will be convertible into equity or preference shares at the end of the specified period. The issuer decides the ratio for conversion, usually at the time of subscription

Non-Convertible Debentures

Investors are forever on the lookout for improved and more sustainable schemes. The market volatility, sometimes, even makes traditional and trusted investments lose their sheen. Here, Non-Convertible Debenture or NCD proved to be a dark horse when they started delivering smaller but steady returns over time.

Like traditional corporate FDs, NCD too is a fixed-income investment with a specific term and interest income. Companies issue them to raise funds, and evidently you cannot convert it to equities. To make up for this limitation, investors enjoy supreme returns, liquidity, low risk and tax respite as opposed to convertible debentures.

Government Securities Market

The following table gives the turnover in Government-securities since 2000 in India.

	Turnover in G-Secs (Rs billion)	G-Secs (10 yr) yield
2000	162.99	11.08
2001	396.74	9.38
2002	485.20	7.19
2003	619.07	5.65
2004	378.66	5.93
2005	260.59	6.97
2006	95.65	7.66
2007	134.41	7.95
2008	725.16	7.86
2009	1035.73	7.02
2010	999.78	7.83
2011	995.57	8.38
2012	1768.80	8.31
2013	3342.03	8.22
2014	3249.18	8.58
2015	3340.73	7.84
2016	5630.71	7.28
2017	4004.32	6.94
2018	3017.23	7.83

Source: http://www.igidr.ac.in/pdf/publication/WP-2019-007.pdf

Public issue of Corporate Debt in India

The following table gives the amount raised through debt by corporate in India.

S.No	Year	Amount (in INR Crore)
1	2008-09	1500
2	2009-10	2500
3	2010-11	9451.17
4	2011-12	35610.71
5	2012-13	16982.05
6	2013-14	42382.97
7	2014-15	9713.43
8	2015-16	33811.92
9	2016-17	29547.15
10	2017-18	4953.05
11	2018-19	36679.36
12	2019-20	4091.17

Source: https://www.sebi.gov.in/statistics/corporate-bonds/publicissuedata.html

Derivatives

A financial contract or an instrument which derives its value from the value of the underlying asset. The underlying asset can be a stock, bond, commodity, currency, market index, interest rates etc. Derivatives can be classified into segments. They are

- Forwards
- Futures
- Options

Forwards

A forward contract is a customized contract between two parties to buy or sell an asset at a specified price on a future date. A forward contract can be used for hedging or speculation, although its non-standardized nature makes it particularly apt for hedging

Futures

Futures are derivative financial contracts that obligate the parties to transact an asset at a predetermined future date and price. Here, the buyer must purchase or the seller must sell the underlying asset at the set price, regardless of the current market price at the expiration date.

Underlying assets include physical commodities or other financial instruments. Futures contracts detail the quantity of the underlying asset and are standardized to facilitate trading on a futures exchange. Futures can be used for hedging or trade speculation.

Options

Options are financial instruments that are derivatives that are based on the value of underlying securities such as stocks. An options contract offers the buyer the opportunity to buy or sell—depending on the type of contract they hold—the underlying asset. Unlike futures, the holder is not required to buy or sell the asset if they choose not to.

- Call options allow the holder to buy the asset at a stated price within a specific timeframe.
- Put options allow the holder to sell the asset at a stated price within a specific timeframe.

Each option contract will have a specific expiration date by which the holder must exercise their option. The stated price on an option is known as the strike price. Options are typically bought and sold through online or retail brokers.

American options can be exercised any time before the expiration date of the option, while European options can only be exercised on the expiration date or the exercise date. Exercising means utilizing the right to buy or sell the underlying security.

Size of Equity Derivatives Market at NSE

S.No	Year	No. of contracts	Turnover (Rs. cr.)
1	2019-20	2090839042	139630865.5
2	2018-19	3167183212	237590973.7
3	2017-18	1913878548	164984859.1
4	2016-17	1399746129	94370301.61
5	2015-16	2098610395	64825834.3
6	2014-15	1837041131	55606453.39
7	2013-14	1284424321	38211408.05
8	2012-13	1131467418	31533003.96
9	2011-12	1205045464	31349731.74
10	2010-11	1034212062	29248221.09

11	2009-10	679293922	17663664.57
12	2008-09	657390497	11010482.2
13	2007-08	425013200	13090477.75
14	2006-07	216883573	7356242
15	2005-06	157619271	4824174
16	2004-05	77017185	2546982
17	2003-04	56886776	2130610
18	2002-03	16768909	439862
19	2001-02	4196873	101926
20	2000-01	90580	2365

Size of Currency Derivatives Market at NSE

S.No	Year	No. of contracts	Turnover (Rs. cr.)	Average Daily Turnover (Rs. cr.)
1	2019-2020	54,78,49,084	39,32,219.29	36,749.71
2	2018-2019	1,19,83,84,221	85,18,351.52	35,054.94
3	2017-2018	76,49,63,729	50,28,502.17	20,778.93
4	2016-2017	71,24,51,439	48,57,075.85	20,070.56
5	2015-2016	67,35,83,164	45,01,885.58	18,602.83
6	2014-2015	48,06,64,694	30,23,907.67	12,705.49
7	2013-2014	66,01,92,530	40,12,513.45	16,444.73
8	2012-2013	95,92,43,448	52,74,464.65	21,705.62
9	2011-2012	97,33,44,132	46,74,989.91	19,479.12
10	2010-2011	74,96,02,075	34,49,787.72	13,854.57
11	2009-2010	37,86,06,983	17,82,608.04	7,427.53
12	2008-2009	3,26,72,768	1,62,272.43	1,167.43

Commodity Markets

There are six major commodity trading exchanges in India as listed below.

- Multi Commodity Exchange – MCX
- National Commodity and Derivatives Exchange – NCDEX
- National Multi Commodity Exchange – NMCE

- Indian Commodity Exchange – ICEX
- Ace Derivatives Exchange – ACE
- The Universal Commodity Exchange – UCX

In general, commodities are classified into four types across the world.

– Metals

- Silver
- Gold
- Platinum
- Copper

– Energy

- Crude oil
- Natural gas
- Gasoline
- Heating oil

– Agriculture

- Corn
- Beans
- Rice
- Wheat, etc.,

– Livestock and Meat

- Eggs
- Pork
- Cattle, etc

The detailed list of commodities traded in Indian exchanges is given below

List of Commodities traded in Indian Commodity Exchanges

The detailed list of commodities traded at Indian commodity exchanges under various categories is given below

- **METAL**
    - Aluminium
    - Copper

- Lead
- Zinc
- Nickel
- Sponge Iron
- Steel Long
- Steel Flat
- Tin.

- **SPICES**
  - Cardamom
  - Jeera
  - Pepper
  - Red Chilli.
  -
- **BULLION**
  - Gold
  - Gold HNI
  - Gold M
  - i Gold
  - Silver
  - Silver HNI
  - Silver M
- **FIBER**
  - Cotton L Staple
  - Cotton M Staple
  - Cotton Yarn
  - Kapas
- **PULSES**
  - Chana
  - Matur
  - Yellow Peas.
- **ENERGY**
  - Brent Crude oil
  - Furnace Oil
  - Natural Gas.

  - Petrochemicals
  - Light Sweet Crude Oil.
- **AGRICULTURE**
  - Maize
  - Plantations
  - oil and oil seeds
  - Chana
  - Chilli
  - Coffee
  - Cotton Seed
  - Crude Palm Oil
  - Groundnut
  - Groundnut Expeller Oil
  - Guar Gum
  - Guar Seeds
  - Gur
  - Jeera
  - Kidney Beans
  - Masoor Grain Bold
  - Staple cotton
  - Mentha Oil
  - Mulberry Raw Silk
  - Mulbery Green Cocoons etc.
- **BULLION**
  - Gold 1 KG/100 gm
  - Silver 30KG/5 KG.
- **FERROUS METALS**
  - Mild Steel Ingot.
- **PLASTICS**
  - Polypropylene
  - Linear Low Density Polyethene
  - Polyvinyl Chloride.
- **NON-FERROUS METALS**
  - Aluminium Ingot

- Copper Cathode
- Nickel Ingot
- Zinc Cathode.

Commodity Market Size at MCX

S.No	Instrument Type	Year	Traded Contract(Lots)	Quantity (000's)	Total Value (Lacs)
1	FUTCOM	2003	5176	3447.56	13890.50
2	FUTCOM	2004	2621019	2880184.87	9343219.46
3	FUTCOM	2005	20314046	42021773.52	62309762.91
4	FUTCOM	2006	45540142	73793278.47	202443577.44
5	FUTCOM	2007	68945917	91394757.08	272982090.32
6	FUTCOM	2008	94275340	70936296.36	428337785.47
7	FUTCOM	2009	161166289	124485879.18	595652408.13
8	FUTCOM	2010	197206801	178351805.75	869686959.57
9	FUTCOM	2011	346192367	180347727.95	1493285201.99
10	FUTCOM	2012	388751074	226773664.06	1489059632.74
11	FUTCOM	2013	264627693	179830608.55	1073320439.67
12	FUTCOM	2014	133751848	98449174.05	526149936.17
13	FUTCOM	2015	216346961	119547861.94	555164431.85
14	FUTCOM	2016	245077515	136350689.67	611154045.46
15	FUTCOM	2017	198589526	123972472.16	512604887.45
16	OPTFUT	2017	25036	25036.00	743884.01
17	FUTCOM	2018	229253822	141054361.50	636555347.69
18	OPTFUT	2018	1085808	565367.61	15144454.26
19	FUTCOM	2019	207403574	79414603.61	514952071.58
20	OPTFUT	2019	1520300	428931.92	12443009.81

Bullion Market

It is the market in which the metals like Gold and Silver and the associated derivatives are traded.

Bullion Market Size at MCX

S.No	Instrument Type	Year	Traded Contract(Lots)	Quantity (000's)	Total Value (Lacs)
1	FUTCOM	2003	3924	2195.56	13681.32
2	FUTCOM	2004	2307968	687468.34	8649916.39
3	FUTCOM	2005	9254830	2835004.64	38050457.39
4	FUTCOM	2006	24485747	10505282.33	145309128.51
5	FUTCOM	2007	25808354	8208138.57	132210618.45
6	FUTCOM	2008	49891138	15438188.20	268086441.82
7	FUTCOM	2009	58946792	14083681.50	310951039.30
8	FUTCOM	2010	69347700	14216616.36	442622395.10
9	FUTCOM	2011	197513181	16396220.90	950966765.17
10	FUTCOM	2012	180950448	13355218.92	805834577.28
11	FUTCOM	2013	113148590	11066366.59	543932802.18
12	FUTCOM	2014	48773849	4713907.21	225279112.34
13	FUTCOM	2015	43621037	4676277.13	203981403.28
14	FUTCOM	2016	41706752	4881614.09	229906109.71
15	FUTCOM	2017	27731112	2735758.12	137347284.90
16	OPTFUT	2017	25036	25036.00	743884.01
17	FUTCOM	2018	28301620	2693303.53	141486404.49
18	OPTFUT	2018	414844	373961.41	12032185.69
19	FUTCOM	2019	25897592	2991730.28	154528618.69
20	OPTFUT	2019	265662	184478.82	7257086.92

Depository Receipts

- Global Depository Receipts
- Foreign Currency Convertible Bonds
- Indian Depository Receipts

Global Depository Receipts

A global depository receipt (GDR and sometimes spelled *depositary*) is a general name for a depository receipt where a certificate issued by a depository bank, which purchases shares of foreign companies, creates a security on a local exchange backed by those shares. They are the global equivalent of the original American depositary receipts (ADR) on which they are based. GDRs represent ownership of an underlying number of shares of a foreign company and are commonly used to invest in companies from developing or emerging markets by investors in developed markets.

Prices of global depositary receipt are based on the values of related shares, but they are traded and settled independently of the underlying share. Typically, 1 GDR is equal to 10 underlying shares, but any ratio can be used. It is a negotiable instrument which is denominated in some freely convertible currency. GDRs enable a company, the issuer, to access investors in capital markets outside of its home country

Foreign Currency Convertible Bonds

A foreign currency convertible bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency. In other words, the money being raised by the issuing company is in the form of foreign currency. A convertible bond is a mix between a debt and equity instrument. It acts like a bond by making regular coupon and principal payments, but these bonds also give the bondholder the option to convert the bond into stock.

Indian Depository Receipts

Indian Depository Receipt (IDR) is a financial instrument denominated in Indian Rupees in the form of a depository receipt. The IDR is a specific Indian version of the similar global depository receipts.It is created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities Markets.[1] The foreign company IDRs will deposit shares to an Indian depository. The depository would issue receipts to Indian investors against these shares. The benefit of the underlying shares (like bonus, dividends etc.) would accrue to the depository receipt holders in India.

Mutual Funds

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities such as stocks, bonds, money market instruments, and other assets.

Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments.

Exchange Traded Funds

An exchange-traded fund (ETF) is a collection of securities—such as stocks—that tracks an underlying index. The best-known example is the SPDR S&P 500 ETF (SPY), which tracks the S&P 500 Index. ETFs can contain many types of investments, including stocks, commodities, bonds, or a mixture of investment types. An exchange-traded fund is a marketable security, meaning it has an associated price that allows it to be easily bought and sold.

An ETF is called an exchange-traded fund since it's traded on an exchange just like stocks. The price of an ETF’s shares will change throughout the trading day as the shares are bought and sold on the market. This is unlike mutual funds, which are not traded on an exchange, and trade only once per day after the markets close.

Regulation of Capital Market in India

It is very important for the economic growth of a nation to have a capital market which smoothly functions. Hence there should be proper regulations and norms in place to facilitate its smooth functioning. The following regulations governs the functioning of capital markets in India

- SECURITIES CONTRACTS ACT, 1956
- SEBI ACT, 1992
- DEPOSITORIES ACT ,1996
- COMPANIES ACT, 2013

Of all these acts SEBI ACT, 1992 is an important act regulating the capital market operations in India. As a part of this ACT, Securities and Exchange Board of India (SEBI) has been established with the following powers

- To promote the development of Capital Market
- To regulate the operations of the Capital Market
- To protect the interest of the investor community who participates in the capital market

SEBI has played a prominent role since its inception to boost the confidence of investor community by taking the following policy level initiatives

- Companies listed in the capital markets should compulsorily include the business responsibility report as a part of their annual report filings
- SEBI mandated to grade IPOs before they are floated by the companies. A credit rating agency should be approached by the company who wish to go for an IPO and get it graded.
- All security transactions held in the Indian capital markets should essentially bear the Permanent Account Number (PAN) of the entity engaging in the transaction
- SEBI setup the guidelines for the companies which are planning to raise capital through issue of Indian Depository Receipts
- It is on the recommendation of SEBI, Gold Exchange Traded Funds were launched in India.
- SEBI took numerous policy initiatives to revamp the Corporate Debt Market operations in India.
- SEBI actively participates in promoting awareness of capital markets among existing as well as new investors so that the participation in these markets increase
- SEBI lifted the ban on options trading in securities so that investors have more options to manage the risk associated with capital market instruments.
- SEBI regularly monitors and controls the way stock exchanges are operated in India.

MODULE IV

Financial Institutions - Fund Based

Mutual Funds

Mutual fund is a mechanism in which money is pooled in from various investors, who either lack expertise or interest in directly trading in equity and debt markets. Then the money that is pooled is invested in various stocks and debt instruments by a fund manager on behalf of the investors. Investors who purchased mutual funds will be allocated units. The value of the units is called as Net asset value (NAV) because the fund manager invests the funds in diversified holdings either of same sector or multiple sectors. Since the investments or funds are diversified the risk levels are reduced.

Mutual funds are one of the best possible options to the investors who are new or inexperienced in stock markets and at the same time have interest in putting their money in these markets. Fund managers who manage the mutual funds come with rich understanding and experience of stock markets and hence they are professionally managed. Otherwise if inexperienced investors enter the stock markets chances of them choosing the right stocks, making right purchase or sale decisions is very low and hence may end up with losses. Also an investment in stock markets requires constant attention and research to the changes that are happening within the company, industry and Economy as a whole, which becomes a full time job. Not every retail investor may have sufficient amount of time and knowledge to track and understand these changes. So for them, Mutual funds will be the Investment Avenue worth considering.

Before launching a mutual fund first it should get registered with SEBI. Only then it can start pooling funds from the investors. Savings forms an essential part of not only in the Gross Domestic Product (GDP) of an economy but also an essential source of capital to fuel growth and industrialization. When it comes to household savings, most of the savings are parked either in Fixed deposits or Insurance schemes. Hence the proportion of direct investments in capital markets is very less from the households because of the inherent risk these markets carry. The entry of mutual funds in the Indian capital markets post liberalization era paved way for the investors to park their money in capital markets albeit indirectly. Because of the increased household investments in mutual funds not only the investors but also the corporate world which got immensely benefitted as follows

- The corporate got access to access to cheapest source of capital to finance their growth plans

- The retail or household investors got an opportunity to leverage the potential high returns of the stock market with low or diversified levels of risk and the professional management of their funds at the same time

The evolution of mutual fund industry dates back to 1964 when Unit Trust of India (UTI) was established. UTI enjoyed a virtual monopoly in Indian Mutual fund Industry till 1987 when public sector banks and insurance companies started floating their own mutual funds. When the industry was made open to private sector participation in 1993, there was a huge participation from theprivate sector which gave wide variety of choices to the investors with increase in competition among the players.

As on date, the indicative list of operational mutual funds is given below

- ICICI Prudential Mutual Fund
- Birla Mutual Fund
- Reliance Mutual Fund
- Axis Mutual Fund
- HDFC Mutual Fund
- SBI Mutual Fund
- Sundaram Mutual Fund
- IDFC Mutual Fund
- Tata Mutual Fund
- UTI Mutual Fund
- L&T mutual fund
- Franklin Templeton Mutual Fund
- Kotak Mutual Fund
- Principal Mutual Fund
- Quantum Mutual Fund
- DSP Blackrock Mutual Fund
- IDBI Mutual Fund
- BNP Paribas Mutual Fund
- CanaraRobeco Mutual Fund
- HSBC Mutual Fund
- Baroda Pioneer Mutual Fund

- Taurus Mutual Fund
- MotilalOswal Mutual Fund
- BOI AXA Mutual Fund
- Escorts Mutual Fund

Classification of Mutual Funds

The investment need of the investors vary from person to person. So based upon the needs and operational issues mutual funds can be classified broadly based on the following criteria

1. Maturity Period
2. Investment Objective
3. Investment Strategies

Mutual Funds based on Maturity Period

Based on period of maturity mutual funds can be put into two categories. They are

- Open Ended Fund
- Close Ended Fund

Open Ended Fund

In an open ended mutual fund there is no limit on the number of outstanding units. Anyone can subscribe or redeem the subscribed units at any point of time as per the Net asset value of the unit prevailing on the date of the transaction. The important feature of open ended mutual funds is high liquidity. Generally the sale and purchase transactions of the units are done directly with the fund management company. There is no involvement of the exchange in these transactions.

Close Ended Fund

Closed ended mutual funds generally liquid in nature but don’t offer the liquidity that is offered by the open ended mutual fund. In this type of fund, no fresh units can be offered to the subscribers beyond the limit as the corpus amount to manage the fund is fixed. Buying and selling of the closed ended mutual funds happen on a stock exchange as they are supposed to be listed there. Generally there are two values exist for a closed ended mutual fund.

- Net asset value of all the investments made
- The ongoing trading price in the stock exchange where it has been listed

Mutual Funds based on Investment Objective

The investment needs change from investor to investor. Based on these needs mutual funds can be classified into the following categories.

- Income Fund
- Offshore Fund
- Growth Fund
- Tax saving Fund
- Hybrid Fund
- Special Fund
- High Growth Fund
- Real Estate Fund
- Capital Protection Fund
- Infrastructure Debt Fund
- Exchange Traded Fund
- Hedge Fund
- New Direction Fund
- Leverage Fund
- Money Market Fund
- Fund of Funds

Income Fund

These funds are aimed at the investors who are looking at fixed income from their investments. So the fund managers target the portfolio towards fixed income securities like bonds.

Offshore Fund

These funds target the investors who wish to invest in foreign capital markets. Fund houses with the permission from RBI invest in securities in Foreign Capital Markets

Growth Fund

These funds compose their portfolio with the stocks of those companies which are posting good profits and are in growth stage. Generally a company with good growth prospects posts high sales, profits and dividends. The risk associated with these funds is moderate. Investors who are looking for high growth in the net asset value opt for these growth funds

Tax saving Fund

These schemes are aimed at promoting investments in mutual funds from retail investors by offering tax incentives on these investments.

Hybrid Fund

These funds focus on maintaining the balance between income and growth. The portfolio of these mutual funds has a fair mix of investments both in fixed income securities and growth stocks. Since they strive to strike balance between income and growth they are also referred as balance funds

Special Fund

Special funds are those mutual funds which are designed based on a theme. The theme can be sector specific, capitalization specific or market specific. By investing based on a theme, all the changes related to them are reflected as it is in the mutual fund. For example, Index funds are special funds which are composed of Top 50 stocks in National Stock Exchange (NSE-Nifty) or Top 30 stocks in Bombay Stock Exchange (BSE-Sensex). Special Funds replicate the performance of the benchmark or theme that has been taken into consideration.

High Growth Fund

These funds target investors with high risk appetite. Generally the investments of this fund are made in those stocks which are highly volatile with respect to the changes in stock market. This volatility gives scope to high returns with high levels of risk. Investors who seek high returns at the cost of high risk are the target audience for these mutual funds

Real Estate Fund

The growth in an economy is directly reflected by the growth in its infrastructure sector. Hence the portfolio of these mutual funds is aimed at stocks in real estate sector.

Capital Protection Fund

It is known that mutual funds are subjected to market risks and the changes that happen in the market lead to increase in Net Asset Value (NAV) of the Fund. The investors are happy if the NAV of the fund increases but some conservative investors who are worried about their capital invested will not be happy if there is any decrease in value of the capital that has been initially invested by them. So Capital protection funds come with a guarantee of the initial capital invested by the investors

Infrastructure Debt Fund

Infrastructure companies have capital expenditure requirements and hence are in search of funds through various avenues to finance their project works. So these companies generally float debt instruments to procure capital from the markets. Mutual funds which is built on the debt instruments floated by the infrastructure companies is called as Infrastructure Debt Fund

Exchange Traded Fund

Mutual funds are traded only once a day after the markets is closed. But Exchange traded funds can be traded all through the day in the exchange trading hours. Exchange traded mutual fund is a combination of both mutual fund and Exchange traded fund.

New Direction Fund

These funds target investment in those companies which are focused on addressing latest challenges in the economy like companies which are focusing are reducing tobacco and liquor consumption, pollution etc Because the society at large is focused on controlling these menaces and any company which is coming out with products to tackle them has good market and are bound to grow really well.

Hedge Fund

The investment strategy of hedge funds is based on speculation. Fund managers invest in those stocks whose price is expected to rise and sell those stocks whose price is expected to decline.

Leverage Fund

Leverage funds operate on high risk investment strategies in order to maximize the returns to the investors. Generally the investors of leverage funds are very aggressive who are in search of high returns on their investments. Fund managers employ the strategies of Margin trading, options trading and Short selling to fetch maximum returns to the investors.

Money Market Fund

The investments of this mutual fund are generally made in short term debt securities like T-Bills, Commercial papers, Certificate of Deposits etc in Money markets. Hence it is called as Money Market Fund. Since the size of the investment made by these mutual funds in these securities is high they have the opportunity to choose instruments giving high returns and hence have a unique advantage over retail/individual investors who don't have that amount of funds to choose and generate high returns from these debt instruments

Fund of Funds

These funds are no longer in operation in India. They invest in mutual fund units of other funds instead of stock or debt instruments.

Mutual Funds based on Investment Strategies

Based on the investment strategy adopted mutual funds can be classified as

- Balanced Funds
- Money Market Funds
- Income Funds
- Sector Funds
- Equity Funds
- Top Down Investing
- Bottom Up Investing

Balanced Funds

They strike a balance between risky equity shares and income oriented debt market instruments by giving moderate returns to the investors who are seeking decent returns but not at the cost of high risk

Money Market Funds

Investors who are looking for high liquidity with respect to their investments are focal point for the fund managers of these mutual funds

Income Funds

Investors who wish to receive regular income at fixed intervals as they receive interest on their deposits and are not looking for long term returns are kept in mind while managing these mutual funds

Sector Funds

Not every industry does well as every industry passes through a growth life cycle. These mutual target those sectors which are in growth path and investments are made in those companies operating in this sector. The growth wave of sector is leveraged by these mutual funds

Equity Funds

Equity shares carry high risk but at the same time they have the high potential to earn better returns. Investors who are expecting high returns at the expense of high risk are targeted while managing these funds

Top Down Investing

This investment strategy first looks at the performance of the economy into consideration then the industry in which the company is operating is taken into consideration and based on these two performance the performance of the company is assessed and the investments are planned accordingly by the fund manager

Bottom Up Investing

In this investment strategy the fundamentals of the company are assessed then the industry performance is analyzed to see if the company's performance is exceeding or receding the industry's performance. Then Industry's performance is assessed by comparing it with the overall economy's performance. If the fundamentals at all three levels are satisfactory investments are planned by the fund manager accordingly.

Advantages of Investing in Mutual Funds

Though investments in mutual funds are subjected to market risks they carry the following advantages for the investors

- Investors can get access to the professional services and experience of the fund managers as the fund managers not only posses rich understanding of the markets but also backed by strong investment research teams who continuously track the changes that are happening in the market
- Since the investments are made across various sectors and different companies the mutual funds doesn't carry much risk

- If the investor needs to manage his portfolio of investments it not comes with not only lot time and attention but also lot of transaction costs. So mutual funds make the investment in stocks a convenient and cost effective process
- If invested for a long term mutual funds delivered higher returns when compared to available investment alternatives. So the chances of earning high returns on mutual funds are high
- Since the mutual funds are tightly monitored and controlled by SEBI, the investor can expect transparency in management of the funds.
- In case of open ended mutual funds the investor can liquidate his investments as and when he wants at the prevailing Net Asset value of the Mutual Fund Unit.

List of Top 50 Performing mutual funds as on 31st Aug 2019 (Ranked by Crisil)

Scheme Name	**Plan**	**Category Name**	**AuM (Cr)**	**1Y**	**2Y**	**3Y**	**5Y**
Axis Small Cap Fund - Direct Plan - GrowthSmall Cap Fund	Direct Plan	Small Cap Fund	517.06	5%	7%	10%	13%
Axis Bluechip Fund - Direct Plan - GrowthLarge Cap Fund	Direct Plan	Large Cap Fund	6,500.66	4%	11%	13%	11%
Axis Small Cap Fund - GrowthSmall Cap Fund	Regular	Small Cap Fund	517.06	4%	6%	9%	12%
Axis Bluechip Fund - GrowthLarge Cap Fund	Regular	Large Cap Fund	6,500.66	3%	10%	11%	10%
Mirae Asset Emerging Bluechip Fund - Direct Plan - GrowthLarge & Mid Cap Fund	Direct Plan	Large & Mid Cap Fund	7,498.56	0%	5%	12%	17%
Mirae Asset Tax Saver Fund - Direct Plan –	Direct Plan	ELSS	2,207.96	-1%	6%	14%	-

GrowthELSS							
Mirae Asset Emerging Bluechip Fund - GrowthLarge & Mid Cap Fund	Regular	Large & Mid Cap Fund	7,498.56	-1%	4%	11%	16%
SBI Focused Equity Fund - Direct Plan - GrowthFocused Fund	Direct Plan	Focused Fund	4,984.06	-1%	8%	10%	12%
Canara Robeco Bluechip Equity Fund - Direct Plan - GrowthLarge Cap Fund	Direct Plan	Large Cap Fund	211.70	-1%	6%	9%	9%
SBI Focused Equity Fund - Regular Plan - GrowthFocused Fund	Regular	Focused Fund	4,984.06	-2%	7%	9%	11%
Mirae Asset Tax Saver Fund - Regular Plan – GrowthELSS	Regular	ELSS	2,207.96	-2%	5%	12%	-
Canara Robeco Bluechip Equity Fund - Regular Plan - GrowthLarge Cap Fund	Regular	Large Cap Fund	211.70	-2%	5%	8%	8%
Kotak Standard Multicap Fund - Direct Plan - GrowthMulti Cap Fund	Direct Plan	Multi Cap Fund	24,959.68	-3%	4%	9%	12%
Axis Midcap Fund - Direct Plan - GrowthMid Cap Fund	Direct Plan	Mid Cap Fund	2,634.45	-3%	8%	11%	11%
HDFC Top 100 Fund - Direct Plan -	Direct Plan	Large Cap Fund	16,842.38	-3%	5%	8%	8%

GrowthLarge Cap Fund							
Canara Robeco Equity Diversified - Direct Plan - GrowthMulti Cap Fund	Direct Plan	Multi Cap Fund	1,292.36	-3%	5%	9%	8%
Kotak Standard Multicap Fund - GrowthMulti Cap Fund	Regular	Multi Cap Fund	24,959.68	-4%	3%	8%	11%
HDFC Top 100 Fund - GrowthLarge Cap Fund	Regular	Large Cap Fund	16,842.38	-4%	4%	8%	7%
HDFC Equity Fund - Direct Plan - GrowthMulti Cap Fund	Direct Plan	Multi Cap Fund	21,621.63	-4%	4%	8%	7%
Canara Robeco Equity Diversified - Regular Plan - GrowthMulti Cap Fund	Regular	Multi Cap Fund	1,292.36	-4%	4%	8%	7%
Axis Midcap Fund - GrowthMid Cap Fund	Regular	Mid Cap Fund	2,634.45	-4%	6%	10%	10%
Kotak India EQ Contra Fund - Direct Plan - GrowthContra Fund	Direct Plan	Contra Fund	811.32	-4%	6%	11%	10%
Tata Mid Cap Growth Fund - Direct Plan - GrowthMid Cap Fund	Direct Plan	Mid Cap Fund	673.58	-4%	-1%	6%	10%
HDFC Equity Fund - GrowthMulti Cap Fund	Regular	Multi Cap Fund	21,621.63	-5%	3%	7%	7%
Franklin Build India Fund - Direct - GrowthSectoral/Thematic	Direct Plan	Sectoral/Thematic	1,194.85	-5%	2%	7%	11%

Canara Robeco Equity Tax Saver - Direct Plan – GrowthELSS	Direct Plan	ELSS	912.32	-5%	6%	9%	8%
Kotak India EQ Contra Fund - GrowthContra Fund	Regular	Contra Fund	811.32	-6%	5%	9%	9%
Tata Mid Cap Growth Fund - Regular Plan - GrowthMid Cap Fund	Regular	Mid Cap Fund	673.58	-6%	-2%	5%	9%
Canara Robeco Equity Tax Saver - Regular Plan – GrowthELSS	Regular	ELSS	912.32	-6%	5%	8%	7%
Franklin Build India Fund - GrowthSectoral/Thematic	Regular	Sectoral/Thematic	1,194.85	-6%	0%	5%	10%
Sundaram Large and Mid Cap Fund - GrowthLarge & Mid Cap Fund	Regular	Large & Mid Cap Fund	694.86	-7%	4%	9%	10%
Sundaram Rural and Consumption Fund - Direct Plan - GrowthSectoral/Thematic	Direct Plan	Sectoral/Thematic	2,066.76	-10%	-3%	5%	11%
Sundaram Rural and Consumption Fund - GrowthSectoral/Thematic	Regular	Sectoral/Thematic	2,066.76	-11%	-4%	4%	11%
DSP Natural Resources and New Energy Fund - Direct Plan - GrowthSectoral/Thema	Direct Plan	Sectoral/Thematic	335.99	-16%	-8%	7%	10%

tic							
DSP Natural Resources and New Energy Fund - Regular Plan - GrowthSectoral/Thematic	Regular	Sectoral/Thematic	335.99	-16%	-9%	6%	10%
Tata Large & Mid Cap Fund - Direct Plan - AppreciationLarge & Mid Cap Fund	Direct Plan	Large & Mid Cap Fund	1,377.87	2%	4%	7%	10%
IIFL Focused Equity Fund - Direct Plan - GrowthFocused Fund	Direct Plan	Focused Fund	206.33	2%	6%	9%	-
Tata Large & Mid Cap Fund - Regular Plan - GrowthLarge & Mid Cap Fund	Regular	Large & Mid Cap Fund	1,377.87	1%	3%	6%	8%
IIFL Focused Equity Fund - GrowthFocused Fund	Regular	Focused Fund	206.33	1%	4%	7%	-
Aditya Birla Sun Life India GenNext Fund - Direct Plan - GrowthSectoral/Thematic	Direct Plan	Sectoral/Thematic	1,066.00	-1%	4%	9%	14%
DSP Equity Fund - Direct Plan - GrowthMulti Cap Fund	Direct Plan	Multi Cap Fund	2,540.14	-2%	4%	8%	9%
Mirae Asset Large Cap Fund - Direct Plan - GrowthLarge Cap Fund	Direct Plan	Large Cap Fund	13,491.69	-2%	5%	11%	12%
LIC MF Tax Plan 1997	Direct	ELSS	226.95	-2%	6%	9%	9%

- Direct Plan – GrowthELSS	Plan						
Aditya Birla Sun Life Digital India Fund - Regular Plan - GrowthSectoral/Thematic	Regular	Sectoral/Thematic	454.18	-2%	23%	17%	11%
Aditya Birla Sun Life India GenNext Fund - Regular Plan - GrowthSectoral/Thematic	Regular	Sectoral/Thematic	1,066.00	-2%	3%	8%	13%
JM Multicap Fund - (Direct) - GrowthMulti Cap Fund	Direct Plan	Multi Cap Fund	128.90	-2%	1%	9%	11%
SBI Magnum MultiCap Fund - Direct Plan - GrowthMulti Cap Fund	Direct Plan	Multi Cap Fund	7,465.19	-2%	3%	9%	12%
Axis Long Term Equity Fund - Direct Plan – GrowthELSS	Direct Plan	ELSS	19,236.11	-2%	7%	11%	12%
Sundaram Select Focus - Direct Plan - GrowthFocused Fund	Direct Plan	Focused Fund	975.66	-2%	7%	11%	8%

Mutual Funds returns by Sector

The returns given by mutual funds operating in each sector is given below

Category Name	1W (%)	1M (%)	6M(%)	1Y (%)	3Y (%)	YTD (%)
Commodities: Gold	-0.67	2.69	19.48	25.63	5.93	21.81
Debt: Long	0.11	-0.31	11.11	20.35	8.56	11.02

Duration						
Debt: Dynamic Bond	0.37	0.63	5.38	10.13	6.3	6.23
Debt: Floater	0.24	0.64	4.66	8.54	7.23	6.11
Debt: Money Market	0.29	0.66	4.22	7.76	7.16	5.72
Debt: Liquid	0.11	0.47	3.36	6.69	6.72	4.65
Debt: Ultra Short Duration	0.4	0.84	3.73	6.59	6.57	5.18
Debt: FMP	0.16	0.47	3.07	6.48	6.75	4.36
Hybrid: Arbitrage	0.07	0.38	3.34	5.99	5.86	4.35
Debt: Corporate Bond	0.33	0.84	2.17	5.95	5.43	3.46
Debt: Overnight	0.1	0.43	2.85	5.88	5.79	3.98
Debt: Medium Duration	0.36	0.57	2.41	5.65	6.14	3.19
Debt: Short Duration	0.33	0.33	1.86	5.62	5.8	3.18
Equity: International	1.4	2.55	8.11	3.9	7.54	16.96
Debt: Low Duration	0.08	0.34	-0.63	3.22	5.55	0.8
Hybrid: Conservative Hybrid	0.33	0.2	2.01	2.85	5.35	2.74
Debt: Credit Risk	0.35	0.24	-1.36	1.04	4.47	-0.53
Hybrid: Equity Savings	0.11	-0.04	1.65	0.69	5.09	2.28
Hybrid: Multi Asset Allocation	0.23	0.12	2.29	0.6	4.85	2.78
Hybrid: Dynamic Asset Allocation	0.03	-0.21	0.84	-0.47	5.15	1.36
Equity: Sectoral-	1.41	2.61	3.78	-1.55	16.05	10

Technology						
Debt: Gilt with 10 year Constant Duration	0.27	0.35	10.4	18.52	9.06	10.57
Debt: Gilt	0.28	0.35	8.97	15.49	7.38	9.69
Debt: Banking and PSU	0.36	0.87	5.99	10.73	7.61	7.54
Debt: Medium to Long Duration	0.35	0.61	5.84	10.54	6.01	6.62
Hybrid:Balanced Hybrid	0.15	-0.31	0.29	-2.78	4.57	0.28
Equity:Sectoral-Banking	-0.35	-3.35	-1.13	-4	6.68	-0.59
Hybrid:Aggressive Hybrid	0.13	-0.34	-0.26	-4.31	5.17	0.01
Equity:Large Cap	-0.19	-0.62	-0.19	-5.25	7.49	0.76
Equity:Multi Cap	0.21	-0.63	-0.92	-7.13	5.65	-0.5
Equity:ELSS	0.14	-0.65	-1.44	-7.92	5.52	-1.67
Equity:Large & MidCap	0.29	-0.34	-1.53	-8.43	5.2	-2.13
Equity:Thematic-Consumption	-0.34	-0.18	-2.28	-8.47	6.87	-4.09
Equity:Thematic-PSU	3.2	0.69	-1.93	-8.56	-0.45	-2
Equity:Thematic-MNC	1.02	1.5	-3.15	-9.31	4.35	-5.42
Equity:Thematic	0.47	0.04	-2.8	-10.19	3.69	-3.05
Equity:Sectoral-Infrastructure	1.14	-1.62	-4.24	-10.27	2.23	-4.61
Equity:Thematic-Dividend Yield	1.17	1.48	-2.7	-10.37	4.67	-2.65
Equity:Value Oriented	0.38	-0.59	-4.78	-11.61	3.9	-4.96

Equity:Mid Cap	0.51	-0.42	-5.3	-12.22	2.95	-6.24
Equity:Sectoral-Pharma	1.37	1.99	-1.37	-12.81	-4.49	-1.94
Equity:Thematic-Energy	1.7	2.42	-5.15	-13.44	3.8	-4.81
Equity:Small Cap	0.94	0.02	-8.31	-15.93	2.42	-8.41

Insurance Companies

Insurance sector in India is one of the important contributors to the capital markets. Individuals and entities view as a safeguard measure to address any untoward incidents like death, accidents, calamities etc. On account of it insurance companies receives huge amount of money in the form of premiums, which facilitates them to be capital providers to corporate mostly in the form of equity and thereby contribute to the economic wellbeing of the nation.

The insurance business in India largely operates under two segments i.e. Life and Non-life. As on date there are 24 companies operating in life insurance business with Life Insurance Corporation of India being the largest entity in this segment. When it comes to non-life insurance segment, there are 33 companies that are in operational state as on date.

Key players of Insurance Business in India

Apart from the insurers there are other players who support the functioning of this industry. They are

1. Insurance Agents (Corporate entities as well Individuals)
2. Insurance Brokers
3. Surveyors (For Property Valuation)
4. Third Party Administrators (TPAs), who process Health Insurance Claims

List of Life Insurance Companies

1. AEGON Life Insurance
2. Aviva Life Insurance
3. Bajaj Allianz Life Insurance
4. Bharti AXA Life Insurance
5. Birla Sun Life Insurance
6. Canara HSBC OBC Life Insurance

7. DHFL Pramerica Life Insurance
8. Edelweiss Tokio Life Insurance
9. Exide Life Insurance
10. Future Generali India Life Insurance
11. HDFC Standard Life Insurance
12. ICICI Prudential Life Insurance
13. IDBI Federal Life Insurance
14. IndiaFirst Life Insurance Company Ltd - India First
15. Kotak Life Insurance
16. Life Insurance Corporation of India
17. Max Newyork Life Insurance
18. PNB MetLife Insurance
19. Reliance Life Insurance
20. Sahara Life Insurance
21. SBI Life Insurance
22. Shriram Life Insurance
23. Star Union Dai-ichi Life Insurance
24. Tata AIA Life Insurance

List of non-Life Insurance Companies

1. Acko General Insurance Ltd.
2. Aditya Birla Health Insurance Co. Ltd.
3. Agriculture Insurance Company of India Ltd.
4. Apollo Munich Health Insurance Co. Ltd
5. Bajaj Allianz General Insurance Co. Ltd
6. Bharti AXA General Insurance Co. Ltd.
7. Cholamandalam MS General Insurance Co. Ltd.
8. CIGNA TTK Health Insurance Co. Ltd.
9. DHFL General Insurance Ltd.
10. Edelweiss General Insurance Co. Ltd.
11. Future Generali India Insurance Co. Ltd.
12. Go Digit General Insurance Ltd
13. HDFC ERGO General Insurance Co.Ltd.
14. ICICI LOMBARD General Insurance Co. Ltd.

15. IFFCO TOKIO General Insurance Co. Ltd.
16. Kotak Mahindra General Insurance Co. Ltd.
17. Liberty General Insurance Ltd.
18. Magma HDI General Insurance Co. Ltd.
19. Max Bupa Health Insurance Co. Ltd
20. National Insurance Co. Ltd.
21. Raheja QBE General Insurance Co. Ltd.
22. Reliance General Insurance Co.Ltd
23. Reliance Health Insurance Ltd.
24. Religare Health Insurance Co. Ltd
25. Royal Sundaram General Insurance Co. Ltd.
26. SBI General Insurance Co. Ltd.
27. Shriram General Insurance Co. Ltd.
28. Star Health & Allied Insurance Co.Ltd.
29. Tata AIG General Insurance Co. Ltd.
30. The New India Assurance Co. Ltd
31. The Oriental Insurance Co. Ltd.
32. United India Insurance Co. Ltd.
33. Universal Sompo General Insurance Co. Ltd.
34. ECGC Ltd.

ECGC Ltd

The ECGC Limited (Formerly Export Credit Guarantee Corporation of India Ltd) is a company wholly owned by the Government of India based in Mumbai, Maharashtra.It provides export credit insurance support to Indian exporters and is controlled by the Ministry of Commerce. Government of India had initially set up Export Risks Insurance Corporation (ERIC) in July 1957. It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee Corporation of India in 1983.

ECGC Ltd, was established in July, 1957 to strengthen the export promotion by covering the risk of exporting on credit. It functions under the administrative control of the Ministry of Commerce & Industry, Department of Commerce, Government of India. It is managed by an Asset Management Company comprising representatives of the Government, Reserve Bank of India, banking, and insurance and exporting community.

Name of the company has been changed from EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LIMITED to ECGC Limited with effect from 8 August 2014 as per certificate issued by Deputy Registrar of Companies, Registrar of Companies, Mumbai.

ECGC Ltd is the seventh largest credit insurer of the world in terms of coverage of national exports. The present paid-up capital of the company is Rs. 1200 crores and authorized capital Rs.5000 crores

Functions of ECGC

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services as well.
- Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan and advances...

Facilities provided by ECGC

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities
- Makes available information on different countries with its own credit ratings
- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debt
- Provides information on credit-worthiness of overseas buyers

Pension Funds

Investments in pension funds have become a necessity for every individual considering the growing inflation levels, standard of living and life expectancy rate. So post retirement the income from salary stops and the entitlement to pension is no longer available. The individual has to spend an average duration of 10-15 years post retirement without salary. Coupled with expenses on medical treatment the living expenses on account of inflation necessitate a stable income post retirement. This is where the role of Pension Funds started evolving in India to provide stable pension income to the individuals.

The working mechanism of pension funds happens in two phases.

- Accumulation Phase
- Vesting Phase

In accumulation phase the investor contributes and builds the corpus. Once the pension plan is matured the vesting phase starts where he starts receiving the payment either at one go or in the form of stable monthly income.

To promote investments in pension funds the amount contributed to the corpus is exempted from tax under Sec 80C of the income tax act with a maximum limit of INR 1.5 lakh per annum. An additional amount of INR 50000 is exempted from tax under Sec 80CCD of income tax if the contribution is towards National Pension System/Scheme (NPS). On maturity, the withdrawals of NPS and the returns are completely exempted from tax but returns and pension received on all other pension funds are subjected to income tax.

The investments in the pension plans are dependent on the risk appetite of the individual. Pension plans in India come with investments in

1. Government Debt
2. Private Debt
3. Combination of Debt and Equity

The investments can be made by the investor based on his expected rate of returns and the amount he wishes to contribute.

- If the investor is very conservative he can choose only those pension fund which invests in government debt
- If the investor is moderately conservative and needs slightly better returns his choice of pension funds can be the ones investing in private debt.
- If the investor is willing to take risk he can consider a combination of both equity and debt.

Types of Pension Plans

Depending on the needs of the investors pension plans are classified into the following categories

1. National Pension System/Scheme
2. Deferred Annuity
3. Immediate Annuity

4. Annuity Certain
5. With Cover Pension Plan
6. Life Annuity
7. Pension Funds
8. Guaranteed Period Annuity Plan

1.. National Pension Scheme

The Government of India introduced a new Pension Scheme for people who wanted to build up their pension amount. With the scheme, your savings will be invested in debt and equity market, based on your preference. It allows you to withdraw 60 percent of the funds at the time of retirement and the remaining 40 percent is used for the purchase of the annuity. The maturity amount is tax-free.

A. Pension Funds (PFs) for Government Sector

1. LIC Pension Fund Ltd.
2. SBI Pension Funds Pvt. Ltd.
3. UTI Retirement Solutions Ltd.

B. Pension Funds (PFs) for Private Sector

1. HDFC Pension Management Co. Ltd.
2. ICICI Prudential Pension Fund Management Co. Ltd.
3. Kotak Mahindra Pension Fund Ltd.
4. LIC Pension Fund Ltd.
5. Reliance Capital Pension Fund Ltd.
6. SBI Pension Funds Pvt. Ltd.
7. UTI Retirement Solutions Ltd.
8. Birla Sunlife Pension Management Ltd

Investments in NPS comes with two options

1. Active Choice
2. Auto Option

Active Choice

In Active choice, an investor can choose the proportion of amount he can invest in the following asset classes

- Equity and related instruments- Asset class E
- Corporate debt and related instruments- Asset class C
- Government Bonds and related instruments - Asset class G
- Alternative Investment Funds including instruments like CMBS,
- MBS, REITS, AIFs, Invlts etc.- Asset class A

In active choice, the allocation in equity is restricted based on the age of the investor and the proportion is given below

Equity Allocation Matrix for active Choice

S.No	Age (in Years)	Maximum Equity Allocation
1	Upto 50	75%
2	51	72.50%
3	52	70%
4	53	67.50%
5	54	65%
6	55	62.50%
7	56	60%
8	57	57.50%
9	58	55%
10	59	52.50%
11	60 & above	50%

Auto option

Auto option comes up with the following three options. This option targets those investors who are not clear of managing the proportion of their investments in various asset classes. They are

1. LC75 - Aggressive Life Cycle Fund:
2. LC50 - Moderate Life Cycle Fund:

3. LC25 - Conservative Life Cycle Fund

The composition of various asset classes in each of these options is given below

LC75 - Aggressive Life Cycle Fund: Composition of Asset classes

S.No	Age (in Years)	Asset Class E	Asset Class C	Asset Class G
1	Upto 35	75	10	15
2	36	71	11	18
3	37	67	12	21
4	38	63	13	24
5	39	59	14	27
6	40	55	15	30
7	41	51	16	33
8	42	47	17	36
9	43	43	18	39
10	44	39	19	42
11	45	35	20	45
12	46	32	20	48
13	47	29	20	51
14	48	26	20	54
15	49	23	20	57
16	50	20	20	60
17	51	19	18	63
18	52	18	16	66
19	53	17	14	69
20	54	16	12	72
21	55 & above	15	10	75

LC50 - Moderate Life Cycle Fund: Composition of Asset classes

S.No	Age (in Years)	Asset Class E	Asset Class C	Asset Class G
1	Upto 35	50	30	20
2	36	48	29	23
3	37	46	28	26
4	38	44	27	29
5	39	42	26	32
6	40	40	25	35
7	41	38	24	38
8	42	36	23	41
9	43	34	22	44
10	44	32	21	47
11	45	30	20	50
12	46	28	19	53
13	47	26	18	56
14	48	24	17	59
15	49	22	16	62
16	50	20	15	65
17	51	18	14	68
18	52	16	13	71
19	53	14	12	74
20	54	12	11	77
21	55 & above	10	10	80

LC25 - Conservative Life Cycle Fund: Composition of Asset classes

S.No	Age (in Years)	Asset Class E	Asset Class C	Asset Class G
1	Upto 35	25	45	30
2	36	24	43	33
3	37	23	41	36
4	38	22	39	39
5	39	21	37	42

6	40	20	35	45
7	41	19	33	48
8	42	18	31	51
9	43	17	29	54
10	44	16	27	57
11	45	15	25	60
12	46	14	23	63
13	47	13	21	66
14	48	12	19	69
15	49	11	17	72
16	50	10	15	75
17	51	9	13	78
18	52	8	11	81
19	53	7	9	84
20	54	6	7	87
21	55 & above	5	5	90

Returns of NPS Scheme

NPS has the following schemes.

1. Scheme-E-Tier-I
2. Scheme-C-Tier-I
3. Scheme-G-Tier-I
4. Scheme-A-Tier-I
5. Scheme-E-Tier-II
6. Scheme-C-Tier-II
7. Scheme-G-Tier-II
8. Scheme-CG
9. Scheme-SG
10. Scheme-Corporate-CG
11. Scheme-NPSLITE
12. Scheme-APY

Returns of each of the schemes is given below

Scheme-E-Tier-I

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-E-TIER-I	Birla Sun Life Pension Management Ltd.	9-May-17	49.26	10,165	11.7702	-6.70%	NA	NA	NA	NA	7.31%
	HDFC Pension Management Co. Ltd.	1-Aug-13	2,422.75	410,576	21.2195	-6.25%	8.79%	8.08%	NA	NA	13.17%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	18-May-09	1,421.94	183,770	28.2932	-6.64%	7.26%	7.15%	11.95%	9.79%	10.64%
	Kotak Mahindra Pension Fund Ltd.	21-May-09	290.37	38,318	26.1802	-4.58%	7.62%	7.40%	11.93%	9.79%	9.80%
	LIC Pension Fund Ltd.	23-Jul-13	654.72	123,762	18.1809	-7.65%	6.07%	6.15%	NA	NA	10.28%
	SBI Pension Funds Pvt. Ltd	15-May-09	2,536.86	505,401	24.2852	-6.53%	7.59%	7.41%	12.18%	9.45%	9.00%
	UTI Retirement Solutions Ltd.	15-May-09	390.88	66,612	28.1250	-7.68%	7.24%	10.44%	10.18%	10.79%	10.58%

Scheme-C-Tier-I

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-C-TIER-I	Birla Sun Life Pension Management Ltd.	9-May-17	26.17	10,050	12.5168	13.97%	NA	NA	NA	NA	10.21%
	HDFC Pension Management Co. Ltd.	1-Aug-13	1474.95	407,510	18.3905	13.98%	8.54%	10.42%	NA	NA	10.54%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	18-May-09	938.06	183,191	28.3869	14.08%	8.66%	10.71%	10.39%	10.84%	10.67%
	Kotak Mahindra Pension Fund Ltd.	21-May-09	194.29	38,043	27.6216	11.61%	7.91%	10.04%	9.89%	10.59%	10.37%
	LIC Pension Fund Ltd.	23-Jul-13	456.13	123,945	18.2613	13.95%	8.08%	10.17%	NA	NA	10.36%
	SBI Pension Funds Pvt. Ltd	15-May-09	1773.67	504,466	28.3190	13.74%	8.47%	10.29%	9.99%	10.71%	10.64%
	UTI Retirement Solutions Ltd.	15-May-09	243.11	66,122	25.0971	11.64%	7.61%	9.71%	9.63%	9.64%	9.36%

Scheme-G-Tier-I

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-G-TIER-I	Birla Sun Life Pension Management Ltd.	9-May-17	33.41	9,716	12.3800	19.14%	NA	NA	NA	NA	9.68%
	HDFC Pension Management Co. Ltd.	1-Aug-13	2209.35	401,168	18.4671	19.40%	8.40%	11.08%	NA	NA	10.61%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	18-May-09	1274.30	178,726	24.9164	19.04%	8.40%	11.15%	10.24%	9.46%	9.28%
	Kotak Mahindra Pension Fund Ltd.	21-May-09	283.19	37,485	24.7908	19.71%	8.42%	11.17%	10.08%	9.40%	9.22%
	LIC Pension Fund Ltd.	23-Jul-13	778.41	126,115	19.9749	22.15%	10.22%	12.14%	NA	NA	12.00%
	SBI Pension Funds Pvt. Ltd	15-May-09	3368.33	504,608	26.8632	19.22%	8.58%	11.32%	10.07%	10.11%	10.07%
	UTI Retirement Solutions Ltd.	15-May-09	384.75	63,246	24.1068	18.84%	8.00%	10.73%	9.80%	9.20%	8.93%

Scheme-A-Tier-I

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-A-TIER-I	Birla Sun Life Pension Management Ltd.	15-May-17	0.62	1,216	11.7143	7.42%	NA	NA	NA	NA	7.14%
	HDFC Pension Management Co. Ltd.	10-Oct-16	11.12	22,607	12.7060	10.15%	NA	NA	NA	NA	8.65%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	21-Nov-16	4.00	10,050	12.5114	11.60%	NA	NA	NA	NA	8.42%
	Kotak Mahindra Pension Fund Ltd.	14-Oct-16	1.32	6,722	12.4211	10.38%	NA	NA	NA	NA	7.83%
	LIC Pension Fund Ltd.	13-Oct-16	1.56	4,481	12.5319	10.92%	NA	NA	NA	NA	8.15%
	SBI Pension Funds Pvt. Ltd	13-Oct-16	5.60	16,428	12.5267	9.68%	NA	NA	NA	NA	8.14%
	UTI Retirement Solutions Ltd.	14-Oct-16	1.42	3,189	12.1569	7.42%	NA	NA	NA	NA	7.03%

Scheme-E-Tier-II

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-E-TIER-II	Birla Sun Life Pension Management Ltd.	9-May-17	4.99	4,313	11.6857	-7.21%	NA	NA	NA	NA	6.98%
	HDFC Pension Management Co. Ltd.	1-Aug-13	92.50	49,211	18.3456	-6.33%	8.82%	8.26%	NA	NA	10.49%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	21-Dec-09	83.51	38,356	22.3416	-6.48%	7.34%	7.19%	11.93%	NA	8.64%
	Kotak Mahindra Pension Fund Ltd.	14-Dec-09	20.41	10,551	23.1988	-4.39%	7.65%	7.42%	11.88%	NA	9.05%
	LIC Pension Fund Ltd.	12-Aug-13	21.78	23,499	15.2176	-7.42%	6.08%	5.94%	NA	NA	7.18%
	SBI Pension Funds Pvt. Ltd	14-Dec-09	109.10	73,783	22.3921	-6.58%	7.58%	7.42%	12.18%	NA	8.65%
	UTI Retirement Solutions Ltd.	14-Dec-09	24.69	11,928	22.9938	-7.25%	7.97%	7.91%	12.36%	NA	8.95%

Scheme-C-Tier-II

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-C-TIER-II	Birla Sun Life Pension Management Ltd.	9-May-17	3.37	4,309	12.1414	13.55%	NA	NA	NA	NA	8.76%
	HDFC Pension Management Co. Ltd.	1-Aug-13	53.10	48,878	17.3293	13.76%	8.59%	9.51%	NA	NA	9.46%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	21-Dec-09	67.44	38,607	26.3169	13.61%	8.48%	10.55%	10.21%	NA	10.49%
	Kotak Mahindra Pension Fund Ltd.	14-Dec-09	12.89	10,558	23.9266	12.76%	8.13%	9.93%	9.77%	NA	9.40%
	LIC Pension Fund Ltd.	12-Aug-13	15.54	23,595	16.9835	13.15%	7.61%	9.38%	NA	NA	9.15%
	SBI Pension Funds Pvt. Ltd	14-Dec-09	77.52	73,911	25.6841	12.73%	8.16%	10.08%	9.57%	NA	10.20%
	UTI Retirement Solutions Ltd.	14-Dec-09	14.58	11,873	24.1131	12.10%	7.78%	9.76%	9.58%	NA	9.48%

Scheme-G-Tier-II

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-G-TIER-II	Birla Sun Life Pension Management Ltd.	9-May-17	3.37	4,309	12.1414	13.55%	NA	NA	NA	NA	8.76%
	HDFC Pension Management Co. Ltd.	1-Aug-13	53.10	48,878	17.3293	13.76%	8.59%	9.51%	NA	NA	9.46%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	21-Dec-09	67.44	38,607	26.3169	13.61%	8.48%	10.55%	10.21%	NA	10.49%
	Kotak Mahindra Pension Fund Ltd.	14-Dec-09	12.89	10,558	23.9266	12.76%	8.13%	9.93%	9.77%	NA	9.40%
	LIC Pension Fund Ltd.	12-Aug-13	15.54	23,595	16.9835	13.15%	7.61%	9.38%	NA	NA	9.15%
	SBI Pension Funds Pvt. Ltd	14-Dec-09	77.52	73,911	25.6841	12.73%	8.16%	10.08%	9.57%	NA	10.20%
	UTI Retirement Solutions Ltd.	14-Dec-09	14.58	11,873	24.1131	12.10%	7.78%	9.76%	9.58%	NA	9.48%

Scheme-A-Tier-II

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-A-TIER-II	Birla Sun Life Pension Management Ltd.	9-May-17	4.03	4,214	11.9497	19.22%	NA	NA	NA	NA	8.02%
	HDFC Pension Management Co. Ltd.	1-Aug-13	70.36	48,081	18.8437	19.40%	8.33%	10.96%	NA	NA	10.98%
	ICICI Pru. Pension Fund Mgmt Co. Ltd.	21-Dec-09	76.64	37,616	23.8323	18.80%	8.31%	11.10%	10.16%	NA	9.40%
	Kotak Mahindra Pension Fund Ltd.	14-Dec-09	18.91	10,347	23.0346	18.37%	8.17%	10.94%	9.90%	NA	8.97%
	LIC Pension Fund Ltd.	12-Aug-13	36.95	23,980	20.2709	23.42%	10.69%	12.23%	NA	NA	12.38%
	SBI Pension Funds Pvt. Ltd	14-Dec-09	116.41	73,556	25.5493	18.62%	8.38%	11.18%	10.00%	NA	10.14%
	UTI Retirement Solutions Ltd.	14-Dec-09	20.58	11,686	24.7876	19.13%	8.17%	10.90%	9.89%	NA	9.79%

Scheme-CG

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-CG	LIC Pension Fund Ltd.	1-Apr-08	38,412.11	2,015,325	29.0492	12.52%	8.01%	10.00%	10.06%	9.60%	9.79%
	SBI Pension Funds Pvt. Ltd	1-Apr-08	43,286.12	2,015,326	29.9973	13.15%	8.22%	10.41%	10.08%	9.41%	10.10%
	UTI Retirement Solutions Ltd.	1-Apr-08	40,999.23	2,015,325	28.8839	12.04%	8.08%	10.12%	10.03%	9.34%	9.73%

Scheme-SG

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-SG	LIC Pension Fund Ltd.	25-Jun-09	59,877.89	4,523,211	25.9523	12.67%	7.99%	10.10%	10.17%	10.01%	9.81%
	SBI Pension Funds Pvt. Ltd	25-Jun-09	62,364.19	4,523,211	25.8182	13.53%	8.22%	10.53%	10.18%	9.95%	9.76%
	UTI Retirement Solutions Ltd.	25-Jun-09	60,777.97	4,523,211	25.7384	12.16%	7.99%	10.16%	10.06%	9.92%	9.73%

Scheme-Corporate- CG

SCHEME-CORPORATE-CG	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
	LIC Pension Fund Ltd.	5-Nov-12	2,233.90	47,383	19.2774	14.06 %	8.14 %	10.35 %	NA	NA	10.10%
	SBI Pension Funds Pvt. Ltd	1-Nov-12	21,347.88	455,986	19.1631	13.49 %	8.32 %	10.59 %	NA	NA	9.99%

Scheme-NPSLITE

SCHEME-NPSLITE	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
	Kotak Mahindra Pension Fund Ltd.	30-Jan-12	55.61	26,521	20.8752	11.38 %	7.72 %	9.83%	9.96%	NA	10.19%
	LIC Pension Fund Ltd.	4-Oct-10	1,045.29	3,367,383	24.0916	13.28 %	8.39 %	10.24 %	10.27 %	NA	10.37%
	SBI Pension Funds Pvt. Ltd	16-Sep-10	1,494.47	4,313,830	24.2626	12.65 %	8.18 %	10.37 %	10.13 %	NA	10.40%
	UTI Retirement Solutions Ltd.	4-Oct-10	1,021.66	3,367,770	25.7384	11.91 %	8.04 %	10.12 %	10.09 %	NA	10.31%

Scheme-APY

	Pension Fund	Inception Date	AUM (Rs Crs)	Subscribers	NAV	Returns					
						1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
SCHEME-APY	LIC Pension Fund Ltd.	4-Jun-15	2,788.88	17,193,168	14.8008	13.66 %	8.11 %	NA	NA	NA	9.69%
	SBI Pension Funds Pvt. Ltd	4-Jun-15	2,893.30	17,193,168	14.5746	14.04 %	8.75 %	NA	NA	NA	9.29%
	UTI Retirement Solutions Ltd.	4-Jun-15	2,781.84	17,193,168	14.8219	12.70 %	8.03 %	NA	NA	NA	9.72%

2.Deferred Annuity

With the deferred annuity plan, you can accumulate a corpus through a single premium or regular premiums over the term of the policy. The pension begins once the policy term gets over. This deferred annuity plan has tax benefits wherein no tax is charged on the money invested until you plan to withdraw it. This scheme can be bought by either making regular contributions, or by a one-time payment. This way it works for you whether you want to invest the entire amount at one time or want to invest systematically.

3. Pension Funds

The government body, Pension Fund Regulatory and Development Authority (PFRDA), has authorized six companies to operate as fund managers. These plans offer comparatively better returns at the time of maturity and remain in force for a substantial amount of time.

4. Immediate Annuity

In this type of scheme, the pension begins right away. As soon as you deposit a lump-sum amount, your pension starts. This is based on the amount the policyholder invests. You can choose from a range of annuity options. In accordance with the Income Tax Act of 1961, the premiums of the immediate annuity plans are tax exempt. Post the death of the policyholder, it is the nominee who is entitled to the money.

5. Guaranteed Period Annuity

Regardless of whether the holder survives the duration, this annuity option is given for periods like 5 years to 10, 15 or 20 years.

6. Pension Plans with and without cover

Pension plans with cover include life cover which means that at the death of the policyholder, the family members are paid a lump sum amount. This amount may not be a very large amount. The without-cover plan as the name suggests, does not have life cover. If the policyholder passes away, the nominee gets the corpus. At present, the immediate annuity plans are without cover, while the deferred plans are with cover.

7. Annuity certain

In this scheme, the annuitant is paid the annuity for a certain number of years. This period can be picked by the annuitant and in case of their death, the beneficiary receives the annuity.

8. Life Annuity

The life annuity scheme pays the annuity amount to the annuitant until the time of death. If the annuitant dies and they had chosen the option "with spouse", the spouse receives the pension amount.

Advantages of Investing in Pension Funds

Some of the advantages of investing in Pension Plans are listed below:

a. Option in Investment

Pension funds give investors the option to invest in either the safe government securities or take some risk and invest in debt and equity investments depending on their risk profile. The risk is balanced by the prospect of higher returns that are generated by the investment.

b. Long-term savings

These plans serve as a long-term savings scheme regardless of whether you opt for a lump sum payments or multiple payments of small amounts, the savings is assured. Pension plans create an annuity which can be invested further and give rise to a steady flow of cash post your retirement.

c. Choose how you want to get paid

Depending on what your age or what your plans are, you can either invest a lump sum amount and get annuity payments right away or you may choose a deferred annuity plan which will let your corpus earn more interest until the payouts begin.

d. Works as a life insurance cover

There are pension plans that give the investor the lump sum amount when they retire or in the case of the death of the individual, whichever scenario occurs earlier. This means that your pension policy also serves as a life insurance cover.

e. Negates the effect of Inflation

It is a good way of negating the effects of inflation, by investing in pension plans. These plans pay a lump sum amount during your retirement which amounts to a maximum of ⅓ of the corpus that is accumulated and the remaining ⅔ of the corpus is used in generating a steady cash flow.

f. Access a lump sum amount during an emergency

You may make adjustments to your pension policy to access the lump sum payout in case of an emergency. This can be done to cover one’s long-term health care as well.

Limitations of Pension Funds in India

Pension is not received by every employee post retirement. If this is the case with the employees the case of unemployed, individuals engaged in other professions and businesses is even difficult to manage if they don’t have any stable sources of income. This is where pension plans can help these individuals in build a corpus so that they can have stable income in the form of pension, post maturity of the plan. But these pension funds come with their own disadvantages. They are

- Contribution to the corpus of these pension funds are non taxable only to the tune of INR 1.5 Lakh under Section 80C of the income tax act. An additional INR 50,000 can be contributed to National Pension system (NPS) and can claim tax rebate.
- Except withdrawals ofNPS on maturity, pension paid or proceedings received on maturity of pension funds is subject to tax
- If the corpus accumulated is high at the time of maturity of the pension fund, the investor can get high amount as pension. So if the investor starts at an early age he can get high

pension but if he starts late, either he should contribute in large amounts to the corpus or end up with low pension payments after the plan matures

- The amount of pension received is dependent on the investments made by the pension plan and the returns it receives. If the investors expect high returns then he should choose those pension funds which park the investments in high risk instruments like equity shares.

Provident Funds

Provident fund is a retirement scheme in India managed by the government. An equal contribution from employee and employer from an employee's salary is deposited in the provident fund account of the employee. Simple annual interest is paid on the corpus every year, which is directly deposited into the provident fund account of the subscriber. If a person is not employed with any establishment he can still contribute to provident fund but they are offered in the form of Public Provident fund.

Since provident fund gives a huge corpus at the time of retirement or maturity at low risk with an option of tax savings, it is one of the sought after investment for employees as well individuals. There are various types of provident funds that are in operational state in India. They are

- Public Provident Fund
- Recognized Provident Fund
- Unrecognized Provident Fund
- Statutory Provident Fund

Public Provident Fund (PPF)

Public provident fund (PPF) can be opened in any bank in India. Contributions to PPF are exempted from income tax under Section 80 C of Income tax act. Any person either employed or unemployed or doing business or a professional can open and operate a PPF account on his name.

There is no need for the contributor to contribute a fixed amount in his PPF account. The contributions per year can be as low as INR 500 per annum to as high as INR 1.5 Lakh per annum. The duration of a PPF account is 15 years and the maturity proceedings are paid after that.

PPF also offers additional tax advantages apart from contributions. The interest earned on the contributions and withdrawals made are also exempted from tax. Hence PPF is an attractive investment options for the people who are not employed anywhere but at the same time who wish to build a corpus for his various needs.

Recognized Provident Fund (RPF)

Recognized Provident Fund (RPF) is most popular provident fund among the employees. It comes with lot of tax benefits and hence the subscriptions to this fund are high.

Recognized Provident Fund can be joined by any business entity which employs more than 20 employees. Entities with employee count less than 20 can also joinRPF but the decision to join rests with employees and employer.

Employee and employer can contribute upto 12% of the salary of the employee. An employee can voluntarily contribute over and above this 12% contribution from his salary. If the employer contributes above 12% of the employee's salary it is treated as employee's salary and is subject to tax. All the contributions made by the employer and employee within the limits and the interest earned on the contributions is exempted from tax at the time of maturity. Redemptions made after 5 years of service are also non-taxable.

An organization can manage the scheme in two ways upon receiving approval from the Department of Income tax

- Set up a PF trust and manage the scheme
- Join a scheme of the government which is managed Provident Fund Commissioner.

Unrecognized Provident Fund (UPF)

As the name itself suggest this provident fund is not recognized by the department of Income Tax. Hence the employee working in an organization which is operating Unrecognized Provident fund can still contribute to this fund but he will not receive any tax benefits under any section of income tax act either at the time of contribution, withdrawal or maturity. There are only two advantages to the contributor in this provident fund

- The employee's contribution minus interest received at the time of maturity and redemption is exempted from tax
- For the contribution made by the employee there will be contribution from employer side as well.

Otherwise PPF fares better than UPF.

Statutory Provident Fund

Statutory provident fund is maintained by government and government entities like

1) Public sector Undertakings
2) Public Universities
3) Quasi-Government entities
4) Public transportation entities run by government
5) Others

Contributions made by the employer are exempted from income tax and the contributions made by the employee too are exempted from Income tax under Section 80 C of income tax act. The interest rate on these contributions is decided by the government time to time. The corpus is paid to the employee at the time of his retirement or his resignation/termination. The corpus received is exempted from income tax.

Banking and NBFCs

Banking

Banking forms an important segment of the Indian financial system. It plays a key role in handling both cash and credit finances in the economy. The primary role of banks is to collect deposits from the fund givers and channelize them in the form of credit to fund seekers thus fuelling the economic activity in the country. Considering their importance in financing the growth of the economy, banking activities are strictly monitored by the government. Reserve Bank of India, which is the central bank of India, supervises and regulates the banking operations with strict rules and regulations.

Based on the nature of operations Banks can be classified as follows

- Commercial Banks
    - Public Sector Banks
    - Private Sector Banks
    - Foreign Banks
    - Regional Rural Banks
- Development Banks
- Cooperative Banks
    - Urban Co-operative Banks
    - State Co-operative Banks

- District Co-operative Banks

Commercial Banks

Commercial banks collect deposits from the investors and issue loans to the borrowers. As the name itself says commercial banks model of business involves profit making. The functions of the commercial banks are listed below

- Collection of Deposits
- Advancing of Loans
- Creation of Credit
- Payments through Cheque

Collection of Deposits

This function targets mobilization of domestic household savings in the form of one of the following deposits

- Fixed Deposit Account
- Recurring Deposit Account
- Savings Bank Account
- Current Account
- Flexible Account

Advancing of loans

The deposits collected from the investors are given as loans to the borrowers. Banks lend loans to the borrowers in various ways like

- Term Loans
- Bill Discounting
- Overdraft
- Cash Credit
- Money at Call
- Credit to Government

Term Loans

Any lump sum loan issued to the borrower with a fixed term of more than one year is called as term loan. Generally term loans satiate the medium to long-term financial needs of the borrowers. These loans are usually secured in nature. The borrower should pay interest on the outstanding principal amount. Depending on his cash position he can clear the loan at one go or in part payments.

Bill Discounting

In a business transaction seller of goods and services extend credit facility to their buyers through a negotiable instrument called bill of exchange. The seller can get it discounted with a bank and the bank will pay money to the seller by taking its margin and transaction expenses. At the time of maturity the buyer will pay the bank the amount of transaction as per the bill of exchange.

Overdraft

Overdraft is a temporary credit facility that is given to the businesses who are maintaining a current account with the bank. The customer can withdraw an amount over and above the balance he is carrying in his account. The amount of overdraft is specified and the bank charges interest on this overdraft amount only. The bank may or may not ask for a security depending on the creditworthiness of the customer. The overdraft facility helps the borrower to meet the capital requirements which may come all of a sudden with or without notice. Overdraft scores over term and other credit formats in terms of the availability at any point of time with no further documentations and procedures.

Cash Credit

Cash credit is a medium to long-term finance that is rendered to the borrowers by banks. It is issued by hypothecating the fixed assets or current assets or Accounts receivable of the borrower.

Money at Call

The borrower avails this facility to meet his short term finances usually for 1 day to 2 weeks period. These transactions are usually inter-bank transactions which help in meeting their liquidity requirements. Interest and payment terms and conditions are dependent on the prevailing conditions in the money market.

Credit to Government

Banks are obligated to maintain a portion of their reserves in liquid instruments to meet the Statutory Liquid Ratio requirements. As part of it they have to buy securities in money market, which in a way is providing indirect finance to government

Creation of Credit

It is not obligatory on the part of banks to keep their entire deposits in cash. Because they are mandated to repay all the deposits in the form of cash and hence only a portion of the deposits are maintained in the cash form. By doing so a bank can create more money i.e. credit than the deposits it is keeping.

Payments through Cheque

Cheques are negotiable instruments which can be used for transfer for funds. Only Banks have authority to issue cheques and clear the payment made through them with the help of clearing houses.

Classification of Commercial Banks

As mentioned above, commercial banks in India are classified into the banks.

Public sector Banks

These are the banks where government of India is the major shareholder. The Indian government entered the banking space post independence in 1955 by taking over Imperial Bank of India and renamed it as State Bank of India. After the recent merger of its subsidiaries, state bank of India emerged as not only the largest bank of India but also as one of the top 50 banks of the world.

Later in 1969, 14 large banks were nationalized and in 1980 6 more banks were nationalized. Almost 75% of the banking operations in India are managed by public sector banks. The list of public sector banks operating in India is given below.

List of Public Sector Banks in India

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank

7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. Indian Bank
11. Indian Overseas Bank
12. Oriental Bank of Commerce
13. Punjab & Sind Bank
14. Punjab National Bank
15. State Bank of India
16. Syndicate Bank
17. UCO Bank
18. Union Bank of India
19. United Bank of India
20. Vijaya Bank

Private Sector Banks

These banks are established by private entities who are the major shareholders. Apart from the nature of ownership, the banking operations, compliance to norms are same as that of public sector banks.

The motive behind giving permissions to start private banks is to induce competition in the banking sector and spur the growth of economy. The advent of private sector banks brought a sea change in the banking operations in the country. They were quick to adopt technology and provide great customer service with high levels of customer satisfaction. They not only facilitated quick growth but also helped in spreading the banking operations very fast by bringing in more people to the ambit of banking system.

List of Private Sector Banks in India

1. Axis Bank Ltd.
2. Bandhan Bank Ltd.
3. Catholic Syrian Bank Ltd.
4. City Union Bank Ltd.
5. DCB Bank Ltd.
6. Dhanlaxmi Bank Ltd.
7. Federal Bank Ltd.
8. HDFC Bank Ltd
9. ICICI Bank Ltd.
10. IndusInd Bank Ltd
11. IDFC Bank Ltd.
12. Jammu & Kashmir Bank Ltd.
13. Karnataka Bank Ltd.
14. KarurVysya Bank Ltd.

15. Kotak Mahindra Bank Ltd
16. Lakshmi Vilas Bank Ltd.
17. Nainital bank Ltd.
18. RBL Bank Ltd.
19. South Indian Bank Ltd.
20. Tamilnad Mercantile Bank Ltd.
21. YES Bank Ltd.
22. IDBI Bank Limited

Foreign Banks

These banks are not native to Indian economy and are registered outside India but have their branches operating in India. These banks help in connecting Indian corporate and the Foreign institutional investors. Since the businesses are going global and India becoming an attractive market for foreign companies, these banks expanded their operations in India to mainly target and extend their banking services to their clientele abroad who came forward to invest in India.

List of Foreign Banks

1. Australia and New Zealand Banking Group Ltd.
2. National Australia Bank
3. Westpac Banking Corporation
4. Bank of Bahrain & Kuwait BSC
5. AB Bank Ltd.
6. Sonali Bank Ltd.
7. Bank of Nova Scotia
8. Industrial & Commercial Bank of China Ltd.
9. BNP Paribas
10. Credit Agricole Corporate & Investment Bank
11. SocieteGenerale
12. Deutsche Bank
13. HSBC Ltd
14. PT Bank Maybank Indonesia TBK
15. Mizuho Bank Ltd.
16. Sumitomo Mitsui Banking Corporation
17. The Bank of Tokyo- Mitsubishi UFJ, Ltd.
18. CooperatieveRabobank U.A.
19. Doha Bank
20. Qatar National Bank SAQ
21. JSC VTB Bank
22. Sberbank
23. DBS Bank Ltd.
24. United Overseas Bank Ltd.

25. FirstRand Bank Ltd.
26. Shinhan Bank
27. Woori Bank
28. KEB Hana Bank
29. Industrial Bank of Korea
30. Bank of Ceylon
31. Credit Suisse A.G
32. CTBC Bank Co., Ltd.
33. Krung Thai Bank Public Co. Ltd.
34. Abu Dhabi Commercial Bank Ltd.
35. Mashreq Bank PSC
36. First Abu Dhabi Bank PJSC
37. Emirates NBD Bank PJSC
38. Barclays Bank Plc.
39. Standard Chartered Bank
40. The Royal Bank of Scotland plc
41. American Express Banking Corp.
42. Bank of America
43. Citibank N.A.
44. J.P. Morgan Chase Bank N.A.

Regional Rural Banks

Regional Rural Banks are also public sector banks which were started in 1975. The primary aim of these banks is to facilitate credit and finance for agriculture and allied activities in rural areas. Even other product activities that are taken up in rural areas are financed by these banks. The capital structure of these is provided as follows

- 15% by the concerned state government
- 35% by sponsoring public sector bank
- 50% by Central Government

The list of regional rural banks operating in India is given below.

1. Andhra Pradesh GrameenaVikas Bank
2. Andhra PragathiGrameena Bank
3. Chaitanya Godavari Grameena Bank
4. TelenganaGrameena Bank
5. SaptagiriGrameena Bank
6. Arunachal Pradesh Rural Bank
7. Assam GraminVikash Bank
8. LangpiDehangi Rural Bank

9. Bihar Gramin Bank
10. Madhya Bihar Gramin Bank
11. Uttar Bihar Gramin Bank
12. ChattisgarhRajyaGramin Bank
13. Baroda Gujarat Gramin Bank
14. Dena Gujarat Gramin Bank
15. SaurashtraGramin Bank
16. Sarva Haryana Gramin Bank
17. Himachal Pradesh Gramin Bank
18. EllaquaiDehati Bank
19. Jammu & Kashmir Grameen Bank
20. Jharkhand Gramin Bank
21. VananchalGramin Bank
22. KaveriGrameena Bank
23. Karnataka VikasGrameena Bank
24. Pragathi Krishna Gramin Bank
25. MadhyanchalGramin Bank
26. Narmada JhabuaGramin Bank
27. Central Madhya Pradesh Gramin Bank
28. VidharbhaKonkanGramin Bank
29. Maharashtra Gramin Bank
30. Manipur Rural Bank
31. Meghalaya Rural Bank
32. Mizoram Rural Bank
33. Nagaland Rural Bank ^
34. UtkalGrameen bank
35. OdishaGramya Bank
36. PuduvaiBharathiarGrama Bank
37. MalwaGramin Bank
38. Punjab Gramin Bank
39. Sutlej Gramin Bank
40. Baroda Rajasthan KshetriyaGramin Bank
41. Rajasthan MarudharaGramin Bank
42. PallavanGrama Bank
43. PandyanGrama Bank
44. Tripura Gramin Bank
45. Allahabad UP Gramin Bank
46. Gramin Bank of Aryavart
47. Baroda UP Gramin Bank
48. KashiGomtiSamyutGramin Bank
49. Prathama Bank
50. Purvanchal Bank
51. Sarva UP Gramin Bank
52. UttarakhandGramin Bank

53. BangiyaGraminVikas Bank
54. PaschimBangaGramin Bank
55. UttarbangaKshetriyaGramin Bank
56. Kerala Gramin Bank

Development Banks

A development bank is a financial institution which is involved in the sectoral development and promotion in India. Unlike commercial bank, a development bank doesn't accept deposits from the general public. The important features of a development bank are highlighted below

- Besides the existing financial institutions who has wide focus on economic activities, these banks exclusively focus on a sector and fills the financing gaps that are missed addressing by the other financial entities
- The financial assistance given by the development banks is applicable to both private as well public sectors
- The financing offered by these banks is generally medium to long term in nature.
- The role of these banks just doesn't end by providing financial assistance to the borrowers but helps them in their business promotion from strategic level to operational level.
- They play a key role in the fuelling the growth rate of sectors they are dealing with

Some of the key development banks that are operating in India are as follows

1. Small Scale Industrial Development Bank of India (SIDBI)
2. National Bank for Agriculture and Rural Development (NABARD)
3. National Housing Bank (NHB)
4. Export Import Bank of India (EXIM Bank)
5. Infrastructure Development Finance Company (IDFC)
6. Industrial Finance Corporation of India (IFCI)

Cooperative Banks

Cooperative Banks differ from commercial banks in terms of the business model. Cooperative banks operate on no profit no loss business model which are operated by and elected committee. Depending on their presence they plan and manage their activities. If they are operating in urban areas, their focus shall be on financing the needs of

- Self-Employment

- Entrepreneurs
- Small businesses and Industries

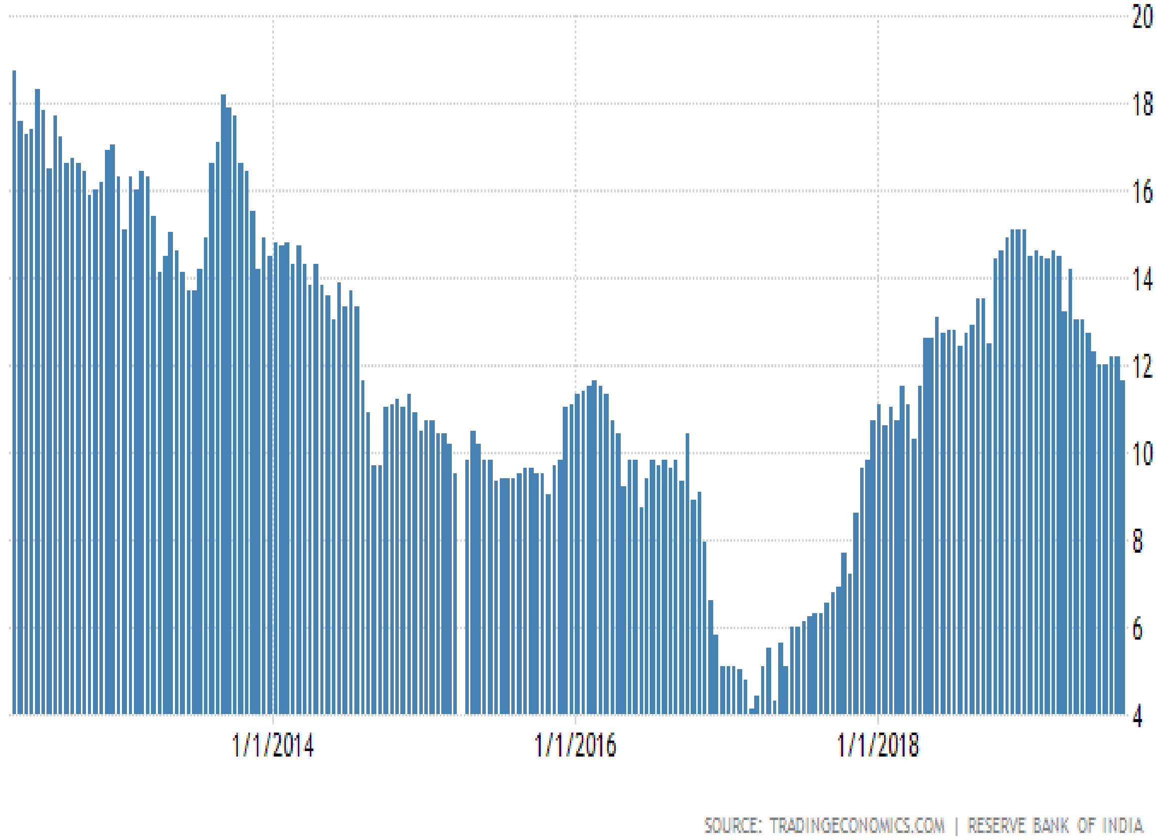
If they are operating in rural areas, their focus shall be on financing agriculture and allied activities like farming, livestock management, fisheries etc.

List of State Co-operative Banks

1. The Andaman and Nicobar State Co-operative Bank Ltd.
2. The Andhra Pradesh State Co-operative Bank Ltd.
3. The Arunachal Pradesh State co-operative Apex Bank Ltd.
4. The Assam Co-operative Apex Bank Ltd.
5. The Bihar State Co-operative Bank Ltd.
6. The Chandigarh State Co-operative Bank Ltd.
7. The Chhattisgarh RajyaSahakari Bank Maryadit
8. The Delhi State Co-operative Bank Ltd.
9. The Goa State Co-operative Bank Ltd.
10. Gujarat State Co-operative Bank Ltd.
11. The Haryana State Co-operative Apex Bank Ltd.
12. The Himachal Pradesh State Co-operative Bank Ltd.
13. The Jammu and Kashmir State Co-operative Bank Ltd.
14. Jharkhand State Co-operative Bank Ltd.
15. The Karnataka State Co-operative Apex Bank Ltd.
16. The Kerala State Co-operative Bank Ltd.
17. The Madhya Pradesh RajyaSahakari Bank Maryadit
18. The Maharashtra State Co-operative Bank Ltd.
19. The Manipur State Co-operative Bank Ltd.
20. The Meghalaya Co-operative Apex Bank Ltd.
21. The Mizoram Co-operative Apex Bank Ltd.
22. The Nagaland State Co-operative Bank Ltd.
23. The Odisha State Co-operative Bank Ltd.
24. The Puducherry State Co-operative Bank Ltd.
25. The Punjab State Co-operative Bank Ltd.
26. The Rajasthan State Co-operative Bank Ltd.
27. The Sikkim State Co-operative Bank Ltd.
28. The Tamil Nadu State Apex Co-operative Bank Ltd.
29. The Telangana State Cooperative Apex Bank Ltd.
30. Tripura State Co-operative Bank Ltd.
31. The Uttar Pradesh Co-operative Bank Ltd.
32. The Uttarakhand State Co-operative Bank Ltd.
33. West Bengal State Co-operative Bank Ltd.

Bank Loan Growth rate in India

The bank loan growth rate in India has experienced a steady fall since 2014 and in 2017 it reached a very low growth rate as low as 4.10%. In 2018 there was a good growth but in 2019 the growth rate started falling, which shows the signs of looming recession



NBFCs

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

Though the activities of NBFCs are very much similar to banks i.e. making investments and lending loans to the fund seekers, they differ from banks on account of the following reasons.

- Banks can give access to deposit insurance facility to its depositors whereas depositors of NBFCs don’t have this option. The deposit insurance facility referred is of Deposit Insurance and Credit Guarantee Corporation.
- Demand deposits cannot be accepted by NBFCs.
- As far as payment and settlement system is concerned NBFCs are not a party to it and hence they are restricted from issuingcheques drawn on them

NBFCs are categorized

- in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs,
- non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and
- by the kind of activity they conduct.

Based on the above categorization, the following classification can be made with respect to NBFCs in India.

1. Asset Finance Company (AFC) : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.
2. Investment Company (IC) : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,

3. Loan Company (LC): LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

4. Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs 300 crore, c) has a minimum credit rating of ‘A ‘or equivalent d) and a CRAR of 15%.

5. Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

6. Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

7. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

    - a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs 1,00,000 or urban and semi-urban household income not exceeding Rs 1,60,000;
    - loan amount does not exceed Rs 50,000 in the first cycle and Rs 1,00,000 in subsequent cycles;
    - total indebtedness of the borrower does not exceed Rs 1,00,000;
    - tenure of the loan not to be less than 24 months for loan amount in excess of Rs 15,000 with prepayment without penalty;
    - loan to be extended without collateral;
    - aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;

- loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

8. Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

9. Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs 100 crore.

10. NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

It is illegal for any financial entity or unincorporated body to make a false claim of being regulated by the Reserve Bank to mislead the public to collect deposits and is liable for penal action under the Indian Penal Code. Information in this regard may be forwarded to the nearest office of the Reserve Bank and the Police.

A depositor wanting to place deposit with an NBFC must take the following precautions before placing deposits:

1. That the NBFC is registered with RBI and specifically authorized by the RBI to accept deposits. A list of deposit taking NBFCs entitled to accept deposits is available at www.rbi.org.in. The depositor should check the list of NBFCs permitted to accept public deposits and also check that it is not appearing in the list of companies prohibited from accepting deposits.

2. NBFCs have to prominently display the Certificate of Registration (CoR) issued by the Reserve Bank on its site. This certificate should also reflect that the NBFC has been specifically authorized by RBI to accept deposits. Depositors must scrutinize the certificate to ensure that the NBFC is authorized to accept deposits.

3. The maximum interest rate that an NBFC can pay to a depositor should not exceed 12.5%. The Reserve Bank keeps altering the interest rates depending on the macro-economic environment. The Reserve Bank publishes the change in the interest rates on their website

4. The depositor must insist on a proper receipt for every amount of deposit placed with the company. The receipt should be duly signed by an officer authorized by the company and should state the date of the deposit, the name of the depositor, the amount in words and figures, rate of interest payable, maturity date and amount.

5. In the case of brokers/agents etc collecting public deposits on behalf of NBFCs, the depositors should satisfy themselves that the brokers/agents are duly authorized by the NBFC.The depositor must bear in mind that public deposits are unsecured and Deposit Insurance facility is not available to depositors of NBFCs.The Reserve Bank of India does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company.

List of top NBFCs in India

1. Power Finance Corporation Limited
2. Shriram Transport Finance company Limited
3. Bajaj Finance Limited
4. Mahindra & Mahindra Financial Services Limited
5. Muthoot Finance Limited
6. HDB Finance Services
7. Cholamandalam Investment and Finance Company Limited
8. Tata Capital Financial Services Limited
9. L&T Finance Limited
10. Aditya Birla Finance Limited

MODULE-V

Financial Institutions – Services

Credit Rating Business and its regulations

Whenever a financial institution is approached by a corporate entity or an individual to finance their needs it is imperative for the financial institution to consider the creditworthiness of the corporate entity or the individual before approving their financing request. This is where the financial institutions rely on credit rating agencies whose primary job is to assess the ability of an entity to pay the interests on principal amount and the principal itself on time. These agencies also assess the probability of default by the entity.

Apart from equity, companies and other entities like government raise capital by means of debt from investors. The investors evince interest if they are confident enough of receiving returns as committed by the issuer of debt. The investor confidence is exhibited based on the debt issuer's ability to pay the interest as well as the principal amount or face value of the debt. The issuer of debt should seek the help of Credit rating agencies in getting their debt quality rated before it is issued to the investors. The rating of debt quality is assessed by these agencies only for the debt issued by the entities but not individuals. The entities issuing debt can be corporate companies, government entities like Countries, State and Local self governments and others.

List of Credit Rating Companies in India

1. Credit Rating Information Services of India Limited (CRISIL)
2. ICRA Limited
3. Brickwork Ratings (BWR)
4. Credit Analysis and Research limited (CARE)
5. India Rating and Research Pvt. Ltd.
6. Small and Medium Enterprises Rating Agency of India (SMERA)

Credit Rating Information Services of India Limited (CRISIL)

CRISIL was found in the year 1987. It is considered as one of the oldest credit rating agencies in India. The company is famous for its ratings of Mutual funds and Unit Linked Insurance Plans. The latest addition in its portfolio of ratings is Infrastructure rating. The company has its headquarters in

Mumbai and has been a public limited company since 1993. CRISIL also holds non-controlling stake in another rating agency called CARE, which it acquired in 2017.

ICRA Limited

ICRA was established as Investment Information and Credit Rating Agency of India Limited in 1991 at Gurgaon (Now Gurugram), Haryana. At the time of its establishment, it was formed as a joint venture between Moody's and few Indian banking and financial institutions. Moody's is reputed US based credit rating agency. Later the company went public in the year 2007. Apart from credit rating business, the company also provides Data and Knowledge process Outsourcing services, Consulting Services and Analytics related services. The company also has its operations in NEPAL and Srilanka, which are operated as subsidiaries.

Moody's still remains the Single largest shareholder of ICRA. This association with Moody's helped ICRA's credit rating business to span across the following segments

- Structured Finance
- Insurance
- Market Linked Debentures
- Mutual funds
- SMEs
- Project Finance
- Corporate Debt
- Public finance
- Infrastructure
- Financial Ratings

Brickwork Ratings (BWR)

Brickwork ratings (BWR), a Bengaluru based Credit rating agency was established in the year 2007. Canara Bank happens to be the promoter of this credit rating agency. RBI recognized this agency as External Credit Assessment Agency for carrying out credit rating operations in India. Though a late entrant in the Indian credit rating Market, it has interesting portfolio which covers the rating of the following entitiesand segments

- SMEs
- Municipal Corporations

- Financial Institutions
- Bank loans
- Capital Market Products
- Corporate Governance

BWR also offers grading services. So far it graded the following entities and products

- Educational Institutions
- Hospitals
- NGOs
- Micro Finance Institutions
- Real Estate Investments and others

Credit Analysis and Research limited (CARE)

CARE was established in the year 1993 with headquarters in Mumbai. Apart from rating CARE is also into Valuation Services. The portfolio of its valuation services consists of valuation of the following products

- Debt
- Equity
- Market Linked Debentures

CARE is known for rating of bank loans. It segments the loans into long-term debt and short-term debt and rates accordingly. The portfolio of CARE's rating business is huge and covers the following segments and Entities

- Segments
    - Debt
    - IPOs
    - Corporate Governance
    - Infrastructure
    - Recovery
- Entities
    - Energy Service Companies (Renewable and Non-Renewable)
    - Educational Institutions
    - Ship Yards

  - Real Estate
  - Financial Institutions
  - Issuer

The company is also into sovereign ratings of the countries. These services are offered by its international credit rating arm “ARC Ratings”

India Rating and Research Pvt. Ltd.

Fitch Ratings, one of the US based largest credit rating agencies of the world owns India Rating and Research Pvt. Ltd.as a wholly owned Subsidiary. It is one of the rating firms which is approved by all three entities RBI, SEBI and National Housing Bank. This rating form has some interesting portfolio of rating the following entities and products

- Issuers
- Banks
- Insurance Companies
- Municipal Corporations
- Financial Institutions

Small and Medium Enterprises Rating Agency of India (SMERA)

SMERA was established in the year 2005 as a joint venture of Dun & Bradstreet India, Small Scale Industries Development Bank of India (SIDBI) and few other Indian Banks. As the name itself suggests it is primarily into rating of Small and Medium Enterprises and helps these SMEs to get access to capital after they are rated.

Investment Banking

Investment banking is a segment of banking which involves in the capital raising process for entities like corporate companies, government and others. They also assist these entities in providing Mergers and Acquisitions and advisory services. They play the role of intermediary by bringing together the entities that possess capital to invest and the entities that are in need of capital to finance not only their day-to-day operations but also the growth plans.

An Investment bank can operate as a full-service investment bank or as a division of a bank with multiple banking divisions. The difference is simple. Investment bank as a division of a bank largely assists the entities in capital raising process and advisory services related to Mergers and Acquisitions whereas a full-service investment bank is engages itself into the following basket of services

- Capital Raising services
- Advisory services related to Mergers and Acquisitions (M&A)
- Sales and Trading
- Equity Research and Analysis

Each of these services is discussed in brief.

Capital raising services: An Investment bank assists the companies in raising the capital from Primary markets by acting as an intermediary between investors and companies. The capital can be raised either in the form of Initial Public Offer (IPO) or Follow-on Public Offer.

M&AAdvisory:Whenever a company is planning to go for an acquisition or a merger the first step is to estimate the fair value of the target company. Since Investment banks are continuously assisting various entities on Mergers and Acquisitions, companies unlike these Investment banks are not as professional as them in the company valuation process. So these companies take the help of these investment banks in estimating the fair value of the target company. Some companies take the help of these investment banks in completing the end-to-end acquisition process. In an M&A transaction the seller and buyer can associate with two different investment banks or a single investment bank to save the transaction costs.

At times Investment banks themselves reach out to companies who are actively seeking expansion opportunities through M&A route.

Sales & Trading: These services address the needs of the investors who are interested in investments in secondary markets. The investment banks either advises their clients on the possible companies to invest in or sell the shares in those companies where the investments were already made based on thorough research and understanding of the market and the concerned company's performance. The investment banks either act as an agent in executing the transactions on behalf of its clients or completely manage the capital of the client with predefined investment objectives.

Equity Research services – These services are targeted at the investors who possess capital to invest, want to keep to total control of their investment activity but at the same time don't have any understanding of the market conditions and the performance of the company. Investment banks do a complete research of the equities the client wants to invest and comes out a recommendation of Buy, Sell or Hold.

Personal Financial Planning Services

Personal financial planning services offer financial advisory services to individuals or entities. The focus of personal financial planning is to provide a secured and manageable financial future. Personal financial planning process is long-term in nature as it is planned based on the goals and needs of the individual at different timelines in his life.

Individuals are often flooded with various investment alternatives from Insurance companies, Banks, Agents and mutual fund companies. He is also exposed to the lure of high returns in equity markets. But not every individual has an understanding of each of these products. His choice of investments in this case may be based on either experiment, reference from family, friends or colleagues. This type of investment behavior may or may not fetch desired results to the individual which necessitates the need for professional management of his financial plans. Personal financial planners or firms, who are experienced in financial planning process comes in handy for the naïve and inexperienced individuals.

Following are the services offered by the personal financial planners

- To understand and prioritize the financial targets at different timelines in an individual's life
- To highlight the concept of time value of money and plan for increase in expenses in future
- To plan for uncertainties like loss of job, death etc where the income sources suddenly stop
- Planning for health and living expenses post retirement
- To plan and assist for transfer of property to children or legal heirs

Some of the reputed firms in India offering personal financial planning services include

- Karvy
- Kotak Mahindra
- MotilalOswal
- Way2Wealth Advisors
- Arthayantra

Wealth Management Services

Wealth management refers to the managing the wealth of an individual or an entity. The target audiences for these services are people owning huge wealth like rich businessmen and High Networth Individuals. Wealth management firms assist these individuals in preserving and increasing the wealth by identifying avenues for making profits. Their role is not just limited to identification of profit making avenues but also assess the risk associated with them, possible capital income and capital gains and the underlying tax implications.

Difference between Personal Financial management and Wealth Management

There is a thin line of difference between wealth management and personal financial management though both look inherently similar.

- Irrespective of the wealth status of the individual or an entity financial planning process is a must for everyone
- In order to go for wealth management services one should have enough of wealth either in the form of fixed or current assets.
- One need not have assets to start financial planning but should some established sources of income.
- Financial planning process eventually leads to creation of wealth and wealth management can be planned thereafter.
- In financial planning process active participation from an individual is not necessary whereas in wealth management, for both preservation and accumulation of wealth, active participation of the individual is very much needed.

Key phases of Financial Planning and Wealth management processes

Now that there's a fair understanding of financial planning and wealth management processes it is pertinent to note that both the processes are interrelated and there is precedence in adopting these two, which can be put into three important phases. They are

- Learning Phase
- Accumulation Phase
- Retirement Phase

Learning Phase: This is beginning phase where an individual starts financial planning process.He gets exposed to planning of his expenses, investments, savings and provisions for creation of asset classes. There is no wealth management process involved here but the seeds of wealth management are sown in this phase

Accumulation Phase: In this phase the individual is about to reap the investment strategies he adopted in the learning phase. As a part of it he starts amassing the assets and is about to create his own wealth. There is no active wealth management involved here as the wealth is about to be created. His focus shall remain on preserving the wealth.

Retirement Phase: Now that the wealth has been created and preserved it should be actively managed not only to create additional wealth but also to safeguard it from losses. In this phase the main focus is on wealth management process.