

FINANCIAL SERVICES IN INDIA: RECENT DEVELOPMENTS

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ABSTRACT

The financial system of a country has a great impact on the economy with financial services companies responsible for the robust economic growth. There has to be a direct link between the regulatory institutions and the intermediary institutions while determining the financial system of a country. Financial services provided by finance companies include insurance, housing financing, mutual funds, credit reporting, debt collection, stock broking, portfolio management, and investment advisory. 'Finance is the life blood of business' and 'Finance is the wheel of industry' - go the expression emphasizing the key role of finance. In fact, finance pervades into other areas of business like production and marketing - to keep the business going; such is the importance of finance. Amid this backdrop, the present paper brings to focus recent trends in financial services sector in India.

Key Words: Financial services, FII's, Developments, Banks.

INTRODUCTION

Financial services industry is the mainstay of any economy as it mirrors the financial health of the country. Indian financial markets are highly regulated with different authorities keeping an eye on every avenue of financial sub-segments viz. Stock markets, mutual funds, insurance and banking. Stock markets are regulated by Securities and Exchange Board of India (SEBI) while Insurance Regulatory and Development Authority (IRDA) keep an eye on the insurance industry. Similarly, Reserve Bank of India (RBI) keeps a check on the Indian banking sector and Association of Mutual Funds in India (AMFI) takes care of the mutual fund segment. India boasts of a Rs 23, 000 core (US\$ 4.44 billion) - financial services distribution and advice market. Recent developments, Government measures, key facts and figures pertaining to the same are discussed hereafter.

Insurance Sector

Even when the turbulent times are prevalent in the global financial markets, Indian consumers have not lost faith in their financial systems. This fact is majorly driving Indian insurance market. According to the data released by Life Insurance Council, total premium collected (including both new and renewal premiums) during April-September 2011 stood at Rs 1,22,661 core (US\$ 23.69 billion). In the same period, the renewal premium collection increased by 17 per cent to Rs 73,575 core (US\$ 14.21 billion), as against Rs 62,818 core (US\$ 12.13 billion) in the corresponding period in 2010.

Till September 30, 2013, promoters of life insurance companies had injected over Rs 32,720 core (US\$ 6.32 billion) as capital. Also, there was an investment of more than Rs 200,000 core (US\$ 38.62 billion) in infrastructure development in the sector. The council further predicts an upsurge in new premium collections during October 2012-March 2014.

Banking Services

Ratings agency Moody's believe that strong deposit base of Indian lenders and Government's persistent support to public sector and private banks would act as positive factors for the 64 trillion (US\$ 1.23 trillion) Indian banking industry amidst the negative global scenario.

- According to the RBI's 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks', March 2013, Nationalized Banks, as a group, accounted for 53.0 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 21.6 per cent. The share of new private sector banks, Old private sector banks, Foreign banks and Regional Rural banks in aggregate deposits was 13.4 per cent, 4.6 per cent, 4.4 per cent and 3 per cent respectively.
- With respect to gross bank credit also, nationalized banks hold the highest share of 52.8 per cent in the total bank credit, with SBI and its associates at 22.1 per cent and New Private sector banks at 13.2 per cent. Foreign banks, Old private sector banks and

Regional Rural banks held relatively lower shares in the total bank credit with 4.9 per cent, 4.6 per cent and 2.4 per cent respectively.

- Another statement from RBI has revealed that bank advances grew 17.08 per cent annually as on December 16, 2013 while bank deposits rose 18.03 per cent.

Mutual Funds Industry in India

Recent data released by AMFI stated that the cumulative average Asset Under Management (AUM) of all fund houses aggregated to about Rs 6,87,640 core (US\$ 132.77 billion) in the last quarter of 2013. Data compiled at the end of 2011 indicated that HDFC Mutual Fund maintained its top position with an average AUM of Rs 88,737.07 core (US\$ 17.13 billion) while fund houses namely Reliance, ICICI Pru, Birla Sun life and UTI followed. By the end of 2011, there were a total of 44 fund houses in the country as against 42 in the first quarter of the year.

Private Equity (PE), Mergers & Acquisitions (M&A) in India

Global consultancy firm Ernst & Young (E&Y) has stated that the value of M&A deals involving Indian companies aggregated to US\$ 34.4 billion in 2013 involving 806 transactions. There were 177 outbound deals with an aggregate disclosed value of US\$ 8.8 billion in 2011; forming 25.6 per cent of the total M&A pie.

Adani Enterprises' acquisition of Abbot Point Coal Terminal in Australia (US\$ 2 billion) and the GVK Group's purchase of Australia-based Hancock Coal's Queensland coal assets (US\$ 1.3 billion) were among the biggest outbound deals recorded in 2013.

According to data released by auditing and consultancy firm KPMG, India Inc witnessed a 31 per cent increment in PE investment to US\$ 7.89 billion during the first three quarters of 2011. PE firms like Blackstone India and Kohlberg Kravis Roberts & Co (KKR & Co) are betting high on Indian markets. The Blackstone India chief was reported to have said that he intends to close 5-6 deals a year in India whose financial valuations would revolve around roughly US\$ 100 million to US\$ 120 million each.

Oreign Institutional Investors (FIIs) in India

Overseas entities are among the important drivers for Indian stock markets. FII flows account for about 45 per cent of the market free-float, according to Jyotivardhan Jaipuria, Managing Director and Head of Research, DSP Merrill Lynch (India).

According to the data released by SEBI, FIIs purchased stocks worth Rs 600,000 core (US\$ 116 billion) during 2011. FIIs were also seen attracted to the debt market in 2011 wherein they infused Rs 42, 067 core (US\$ 8.12 billion). This intense interest in debt markets helped India get a net FII inflow of Rs 39, 353 core (US\$ 7.6 billion) (taking both- debt and stocks- into account) for the year. The number of FIIs registered with SEBI stood at 1, 749 as of October 2011, while the number of FII sub-accounts was 6, 058 during the month.

Furthermore, FIIs injected Rs 41,253 core (US\$ 8 billion) in Government securities (G-secs) and Rs 68,289 core (US\$ 13.18 billion) in corporate bonds, as on October 31, 2013.

Financial Services in India: Recent Developments

- India Infrastructure Finance Company Ltd (IIFCL) and IDBI Bank have inked a five-year memorandum of understanding (MoU) to launch infrastructure debt fund (IDF) schemes. The IDF, for which IDBI Bank and IIFCL would play strategic investors, is expected to get launched by the end of February 2014.
- With an intension to strengthen its hold in southern India, the Uco Bank is planning to add 11 more branches in Andhra Pradesh to its 66-branch-strong network in the state. The bank has made exemplary progress in recent past with 2004 branches in the country and four abroad.
- IRDA has recently launched a mobile application that enables comparison between various insurance products and premium rates. The application, compatible with Android, iPhone, Nokia and Blackberry platforms, has been developed to empower consumers/prospects to make informed decisions by comparing features of insurance products through mobiles.

- US-based financial services company Ameriprise Financial Inc has commenced its operations in India. It is the only international firm in India that would provide pure financial planning and wealth management services to the Indian consumers.

Financial Services: Government Initiatives

The Government's top priority seems to be the enhancement of investor base for the Indian markets. That is why the Ministry of Finance started 2012 with a happy announcement by allowing foreign nationals, trusts and pension funds to invest directly in the country's listed companies from mid-January 2012.

The Government of India has also decided to infuse Rs 6,000 core (US\$ 1.16 billion) in public sector banks during the remaining 2013-14 to ensure that the entities meet regulatory requirements. In 2012-13, the Government had provided Rs 20,157 core (US\$ 4 billion) as its capital support to public sector banks.

In order to prepare public sector banks for neck-to-neck competition ahead and improve their performance in future, the finance ministry has set new benchmarks for them to achieve. The new benchmarks, that would calculate their functional and financial capability to qualify for capital infusion, entail three performance indicators - savings and current deposit ratio, employee-branch ratio and profit per employee.

The financial system of a country has a great impact on the economy with financial services companies responsible for the robust economic growth. There has to be a direct link between the regulatory institutions and the intermediary institutions while determining the financial system of a country. Financial services provided by finance companies include insurance, housing financing, mutual funds, credit reporting, debt collection, stock broking, portfolio management, and investment advisory.

List of Top 10 Financial services companies in India

Find below a comprehensive list of top financial services companies in India.

SBI Capital Markets Limited:

This happens to be the oldest organizations in the sphere of capital markets in India. Established in 1986 in the form of an ancillary of SBI, they have ranked second in Asia's Project Advisory services. The company is a trailblazer in privatization and securitization. The subsidiaries of SBI Capital Markets are SBICAPs Ventures Ltd., SBICAP Trustee Co.Ltd. And many others.

Bajaj Capital Limited:

One of the major financial services companies in India, Bajaj Capital offers best investment advisory and financial planning services. The services are meted out to the institutional investors, NRIs, corporate houses, individual investors, high network clients as well.

DSP Merrill Lynch Limited:

A major player in the equity and debt market in India, DSP Merrill Lynch offers financial advises to varied corporations and institutions. With an array of wealth management and investor services, their services are customized in a manner that they meet every investor requirement.

Birla Global Finance Limited:

The subsidiary of Aditya Birla Nuvo Ltd., this company has operations in the corporate finance and capital market arena. An alliance with Sun Life Financial of Canada, they have given birth to Birla Sun Life Insurance Co Ltd., Birla Sun Life Distribution Co. and alike.

Housing Development Finance Corporation:

A best financial solution for home loans, NRI loans, HDFC is the one stop destination for personal finance. With overseas branches in Singapore, Kuwait, Qatar, Saudi Arabia and many others, HDFC has been going great guns every year.

PNB Housing Finance Limited:

This company offers premium solutions for relieving the borrower segment. The Home Loan Life Insurance Plan of this has come in conjunction with TATA AIG, with the lowest premium when compared to the peers.

ICICI Group:

Wide arena of financial products and services, ICICI Group has solutions like InstaBanking,

Online Trading, Insta Insure, ICICI Bank I mobile etc. Providing high class financial services in all segments of the society, ICICI Group deals with Mutual Fund, Private Equity, Securities, and Life Insurance etc.

LIC Finance Limited:

It is the biggest Housing Finance Company in India, providing finance to individuals for repair or construction or renovation of any old or new apartment or house.

L & T Finance Limited:

Established in 1994 by the Larsen and Turbo group, this has become a significant name in the financial sector. Funds for automobiles, Agricultural Instruments, secured loans; they have all types of loans for a long tenure.

Karvy Group:

With Mutual Funds Services, Depository Services, Debt Market Services, Investment Banking and many others, Karvy Group has spanned across the domestic financial sector as well as abroad.

CONCLUSION:

The major developments in the area of banking sector policy in 2012-13 and 2013-14, so far. These policy developments have been broadly in-sync with the major policy objectives of maintaining price stability, while supporting economic recovery, financial stability, financial inclusion and financial sector development. It is clear that many aspects of financial services industry in India have changed since the 1990's. With the reforms of financial services industry, the economy has been opened up and several significant developments have been taking place in all the segments of the financial services sector.

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