

## Financial Services in India: The Road Ahead

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### ABSTRACT:

*The country's financial services sector consists of the capital markets, insurance sector and non-banking financial companies (NBFCs). India's gross domestic savings (GDS) as a percentage of Gross Domestic Product (GDP) has remained above 30 per cent since 2004. It is projected that national savings in India will reach US\$ 1,272 billion by 2019. Over 95 per cent of household savings in India are invested in bank deposits and only 5 per cent in other financial asset classes. The asset management industry in India is among the fastest growing in the world. Corporate investors accounted for around 46.26 per cent of total AUM in India, while High Net worth Individuals (HNWI) and retail investors account for 28.01 per cent and 22.96 per cent, respectively. In the Asia-Pacific, India is among the top five countries in terms of HNWIs. RBI has allowed 100 per cent foreign investment under the automatic route in 'other financial services'. The Government of India has launched the 'Bharat 22' exchange traded fund (ETF), which will be managed by ICICI Prudential Mutual Fund, and is looking to raise Rs 8,000 crore (US\$ 1.22 billion) initially. India's equity market turnover has increased significantly in recent years. The annual turnover value in the National Stock Exchange (NSE) witnessed a CAGR of 19.13 per cent between FY 96 and FY 17 to reach US\$ 790 billion. During the month of November 2017, equity mutual funds have registered a record net inflow of Rs 19,508 crore (US\$ 3.03 billion). The present paper focuses on the growth and prospects of financial services sector in India.*

**Keywords:** Financial services, gross domestic savings, Asset Management Companies, Government of India, RBI, NSE, Corporate sector.

### 1. INTRODUCTION:

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system.

The Government of India has introduced several reforms to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for Micro and Small Enterprises, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by both government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

### Market Size

Total Merger and Acquisition (M&A) activity rose 23 per cent to US\$ 15.8 billion in value terms during January-March 2017.

Total value of Private Equity (PE)/venture capital (VC) investments crossed US\$ 2 billion with a 29 per cent

year-on-year increase in the number of deals in April 2017.

Total number of mutual fund schemes in India with Assets Under Management (AUM) of over Rs 10,000 crore (US\$ 1.55 billion) have doubled to 12 in the past one year, according to data from Value Research and funds factsheets.

Domestic mutual fund (MF) industry's Assets Under Management (AUM) touched a record high of Rs 20.06 lakh crore (US\$ 313.06 billion), nearly a fifth of the banking system deposits, in August 2017.

Driven by strong participation from retail investors and creation of awareness by Securities and Exchange Board of India (SEBI), equity mutual funds have registered a record net inflow of Rs 20,362 crore (US\$ 3.18 billion), which is a record seventeenth month of net inflows into equity schemes, thereby increasing their asset base to Rs 6.44 lakh crore (US\$ 100.8 billion) in August 2017.

The number of new fund offer (NFO) schemes in the equity mutual fund segment have increased to 29 during 2016-17, out of which 25 funds were launched during the September-March period with assets worth Rs 4,220 crore (US\$ 655.23 million).

The revenues of the brokerage industry in India are estimated to grow by 15-20 per cent to reach Rs 18,000-19,000 crore (US\$ 2.80-2.96 billion) in FY2017-18, backed by healthy volumes and a rise in the share of the cash segment.

Edelweiss Asset Reconstruction Company Limited (EARC), which has assets under management (AUM) worth Rs 41,680 crore (US\$ 6.53 billion), plans to raise Rs 500 crore (US\$ 78.39 million) through debentures.

According to Mr Mark Mobius, executive chairman of Templeton Emerging Markets Group, the Indian financial market's benchmark index Nifty could double from its current level of 10,000 within next three to four years on the back of high economic growth and rational interest rates.

Equity mutual funds recorded the 16th straight month of record inflows of Rs 12,727 crore (US\$ 2 billion) on account of rally in stock markets and rate cut expectations by the Reserve Bank.

The Indian life insurance industry has begun to recover and is likely to report 12-15 per cent growth in FY 2016-17.

In 2016, 2.4 million new demat accounts were opened by Indians, the highest number of account openings since 2008, led by higher number of initial public offerings (IPOs) and greater interest in mutual fund investments. SBI, the second largest issuer of credit cards in India, has reported issuance of 115,000 new cards in December 2016, post demonetisation, taking its total card issuance to 4.75 million.

Prime Minister of India, Mr Narendra Modi has stated that the BHIM (Bharat Interface for Money) mobile application reached the mark of 10 million downloads indicating the widespread acceptance of the app. [1]

#### **Investments/ Developments**

- Blue Lotus Capital, an asset management company concentrating on private investments in public enterprises (PIPE) strategy, has raised US\$ 15 million for its second fund, the Blue Lotus Capital Multibagger Fund.
- Private equity (PE) investments in India rose 48 per cent year-on-year in value to reach US\$ 1.22 billion with 59 deals in July 2017 backed by big ticket investments.
- International Finance Corp, (IFC), a member of the World Bank Group, has invested Rs 130 crore (US\$ 20 million) in, Avas Financiers Ltd, which will provide housing loans to low-income consumers in rural and semi-urban areas of India.
- Equity mutual funds in India witnessed record net investor inflows worth Rs 20,000 crore (US\$ 3.11 billion) in August 2017 and also crossed Rs 20 lakh crore (US\$ 311.45 billion) in assets under management (AUM).
- JM Financial Ltd is planning to set up an affordable housing finance company to provide home loans to low and mid-income range customers. The company has applied for a license for JM Financial Home Loans Ltd to the National Housing Bank (NHB) Paytm's

valuation post-money climbs to US\$ 7 billion as it raises US\$ 1.4 billion from SoftBank Group Corp. Post this funding, SofBank's total stake will rise to 20 per cent.

- Amazon India receives approval from Reserve Bank of India (RBI) for launching their own digital payment wallet in India, thereby tapping into India's fastest-growing digital payments business.
- Facebook Inc owned instant messaging application, WhatsApp, is planning to enter the digital payment services segment in India by working towards launching person-to-person payments within the next six months.
- Samsung has launched its mobile payment service, Samsung Pay, which enables consumers to pay for products and services at various retail locations using their Samsung smartphone.
- The Taiwan Futures Exchange (TAIFEX) has launched the TAIFEX Nifty 50, a new Taiwan dollar denominated futures contract that will track the National Stock Exchange's (NSE) Nifty 50 index, thereby providing international investors with more efficient access to the Indian capital market.
- Warburg Pincus LLC, the US-based private equity firm, plans to invest around US\$ 75 million in series C round of funding to buy a significant stake in Capital Float, an online credit platform.
- Asset management company Rising Straits Capital plans to raise US\$ 100 million to capitalise its real estate-focused non-banking financial company (NBFC) named Rising Straits Finance Co. Pvt. Ltd, which is expected to start lending from 2017 to regular residential and office projects, and also to logistics, hospitality and healthcare sectors.
- US-based private equity (PE) firm Advent International has acquired a minority stake of 40 per cent in ASK Group, a leading investment and wealth management company, in a deal worth US\$ 130 million.
- Avendus Capital plans to start its structured finance business with a dedicated fund of size Rs 500 crore (US\$ 73 million), which will be primarily raised from domestic investors, and will aim for investments in growth companies, mid-market companies and opportunities to provide structured debt or private financing.
- Baring Private Equity Asia (BPEA) is raising a new India-dedicated credit fund of Rs 500 crore (US\$ 75 million) with an option of retaining extra money collected than initially planned up to Rs 250 crore (US\$ 37.5 million). BPEA also plans to raise a US\$ 500 million new offshore credit fund.
- Fino Paytech, a technology solution provider, plans to launch its payment bank operations soon to provide basic banking services through 400 branches across 30 cities located in Maharashtra, Madhya Pradesh, Uttar Pradesh and Bihar.
- Payism Technologies India Pvt. Ltd, a cash and cashless transactions facilitator, plans to raise approximately US\$ 25 million in growth equity capital for expansion purpose.
- True North, a private equity firm, plans to acquire a majority stake in Home First Finance Co. India Pvt. Ltd (HFFC), a private housing finance company, for US\$ 100 million, which will be utilised for geographic expansion and customer acquisition in affordable housing segment.
- Institute for Financial Management and Research (IFMR) Investment Managers Pvt. Ltd has launched two credit funds named IFMR FImpact Long Term Credit Fund and IFMR FImpact Medium Term Opportunities Fund, which focuses on investing in the financial inclusion space by aiming to raise Rs 850 crore (US\$ 127.50 million) through these funds. [1]

### Government Initiatives

- In the Union Budget 2017-18, the Government of India has announced a few key reforms like

abolishment of Foreign Investment Promotion Board in 2017-18, Introduce bill for curbing illicit deposit schemes, Establish a Computer Emergency Response Team for financial sector (CERT-Fin) and set aside Rs 10,000 crore (US\$ 1.5 billion) towards recapitalisation of banks.

- The subscriber base under the Atal Pension Yojana (APY) scheme reached 5.3 million. Of the total subscribers, 97.5 per cent are contributing to the scheme every month, 0.8 per cent every quarter and 1.7 per cent every six months.
- Mr Arun Jaitley, Union Minister of Finance, Government of India has launched the Operation Clean Money Portal, in an attempt to create a tax compliant society as well as a transparent tax administration.
- The Government of India is likely to allow 100 per cent foreign direct investment (FDI) in cash and ATM management companies, since they are not required to comply with the Private Securities Agencies Regulations Act (PSARA).
- Securities Exchange Board of India (SEBI) has permitted the security exchanges to launch options contracts in the commodity market, which would provide a new cost effective hedging tool to the farmers and others market participants.
- SEBI expects to reduce the minimum investment by accredited investors in alternative investment funds (AIFs) to Rs 25 lakh (US\$ 38,816.68) from Rs 1 crore (US\$ 155,266.72) currently, to boost investments.
- SEBI plans to tighten the norms governing various market participants in order to strengthen scrutiny, improve transparency and mitigate liquidity risks from algorithmic trading.
- SEBI has relaxed norms for registered foreign portfolio investors (FPIs) in India, allowing them to operate through the International Financial Services Centre (IFSC) without undergoing any additional documentation or prior approval process.
- The Reserve Bank of India (RBI) has extended the access of its Unified Payment Interface (UPI) platform to digital wallets like Paytm and Mobikwik, as a move towards India's digitisation campaign.
- The RBI has introduced trading in interest rate options (IRO), effective from January 31, 2017, which will provide another avenue to market participants to hedge and speculate on interest rate risk.
- SEBI plans to allow investors to make mutual funds transactions worth up to Rs 50,000 (US\$ 750) a month through digital wallets, as part of its efforts to digitise the distribution processes for all financial products. It also plans to allow immediate credit to customer's bank accounts on liquid mutual funds redemption to attract retail customers as well as boost inflows.
- Mr Ravi Shankar Prasad, Union Minister of Law & Justice and Information Technology, has launched a free Doordarshan DTH channel called DigiShala, which will help people understand the use of unified payments interface (UPI), USSD, aadhaar-enabled payments system, electronic wallets, debit and credit cards, thereby promoting various modes of digital payments.
- The Government of India has relaxed norms for small merchants with a turnover of up to Rs 2 crore (US\$ 300,000), allowing them to pay 6 per cent of deemed profit in tax instead of 8 per cent of total turnover or gross receipts received through banking channels or digital means for FY 2016-17, in a bid to encourage cashless transactions in the country.
- The lending target has been fixed at Rs 244,000 crore (US\$ 36.46 billion) for 2017-18.[2]

#### Road Ahead

- India is today one of the most vibrant global economies, on the back of robust banking and insurance sectors. The relaxation of foreign investment rules has received a positive

response from the insurance sector, with many companies announcing plans to increase their stakes in joint ventures with Indian companies. Over the coming quarters there could be a series of joint venture deals between global insurance giants and local players.

- The Association of Mutual Funds in India (AMFI) is targeting nearly five fold growth in assets under management (AUM) to Rs 95 lakh crore (US\$ 1.47 trillion) and a more than three times growth in investor accounts to 130 million by 2025
- Mobile wallet transactions to touch Rs 32 trillion (USD \$ 492.6 billion) by 2022
- Exchange Rate Used: INR 1 = US\$ 0.015 as of October 06, 2017. [4]

## CONCLUSION:

Indian financial system has seen considerable changes in the recent past when compared to the previous decade. This is because of a number of financial innovations taking place in the sector and also across sectors. India is considered to be an epicenter of growth and have a strong regulation the evidence is the economy resilience of India during the 2008 economic crisis. And the present scenario in India propelling the growth story at a faster rate earlier the growth became stagnant as the opportunities were very minimal.

Post liberalization of Indian economy, the banking system development took a steady pace so as the population. With the growth in the population, the requirements and challenges also increased so as the developments in the banking and payment system. To tackle the problem Indian government designed so many strategies to bring mass population of India (accounting to about 1.3 Billion, second most populous country behind China). The government of India started financial inclusion program to have a sustainable growth through which the social issues like removing poverty, education for all, well balanced society through which the financial system can be much more strengthened. But the results were minimal and still a large part of population are not

having any bank accounts and cash transactions are done leading to leakages in the system and resulting scams.

But the present scenario is fruitful to India as India possesses the advantage of demographic advantage, technological advancement, and financial literacy, increased penetration of Internet technology and much more increased penetration of mobile technology because of smart phones. The demographic dividend playing a crucial role clubbed together with almost 850 Million mobile subscriptions (4 times of Internet penetration which is standing at about 205 Million).

This scenario much lead to the further changes in banking and payment system in Indian Financial system with development in the necessary infrastructure. This further lead to the development of payment systems outside of the banking institutions propelling a stiffer competition and banks also looking to exploit and provide better service through innovations, re-organizing, re-thinking apart from the conventional banking methodology.[3]

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