IQAC S.K. Somaiya College of Arts, Science & Commerce, Vidyavihar

Financial Literacy series

Hello all,

We have initiated a financial literacy drive in our college.

Under this initiative, we are acquainting ourselves with some basic terms in finance, principles & strategies in financial planning and management.

This is the third topic in this series.

3. **More about Components of Financial system**

We have learnt that financial system has four components: Financial institutions, financial markets, financial instruments & financial services. Let us now elaborate on the sub-types of these components

- Financial institutions are: Regulatory (RBI, SEBI, IRDA etc) and intermediaries (banks, mutual funds, brokers etc). Financial institutions can be also divided into Banking & non-banking.
- Financial markets are classified on the basis of duration into money market (for short term loanable funds) and capital market (for long term investments). Financial markets by objectives or purpose are derivative market (for risk management) and foreign exchange market (for payment & settlement of international transactions).
- Financial instruments are classified as per provider into banking (e.g. cheques, demand drafts) & non-banking (e.g. mutual fund units, insurance policies). Financial instruments dealt by money market include call loans, treasury bills, commercial bills, certificate of deposit and commercial papers. Shares, bonds, debentures are capital market instruments. Financial instruments are marketable (such as shares, mutual fund units) and non-marketable (bank deposits, post office saving schemes, insurance etc).
- Financial services are facilities provided by banking & non-banking institutions. Example: ATM, safety lockers by banks, internet banking services, other customer services. Also financial services may be classified as fee-based (e.g. services provided by credit rating institutions, banks etc) and fund-based services (e.g. underwriting, venture capital).