

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

Financial Literacy series

Hello all,

Welcome to the 4th part of the financial literacy series. Today we are briefly acquainting ourselves with the functions performed by the financial system.

4. Functions of Financial system

- Financial system is the backbone of all economic activities taking place in the country. Financial System acts as a facilitator. It supports capital formation and contributes to economic development.
- Financial Sector is an interlink between household sector and firms. Surpluses generated in the household sector are transferred to the firms through financial institutions.
- Allocation of resources is done through lending activity of financial sector. The financial sector has to provide a variety of saving instruments to the household sector as savers differ in their saving goals, preferences, aptitude and risk behavior. Besides their choices may vary as the macro-economic conditions change. Some savers may have a 'high risk, high return' profile; while others may be risk averse.
- Financial sector is a base for major economic activities like production, consumption, and distribution. It provides payment and settlement system for these activities.
- Financial sector also acts as a promoter of balanced economic growth. It provides loans to priority sector and to weaker sections in the country. Regional and sectoral disparities are reduced. It promotes increase in income, output and employment.

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- It is a service provider. It innovates different types of products and services to satisfy the needs of customers.
- Financial sector is an educative agent. It provides information to both savers and investors. Guidance and advice is provided by merchant banks, insurance agents, etc. Stock Exchanges conduct training programs for investors and brokers.
- Balanced economic development is achieved through priority sector
- lending. Specialized financial institutions provide credit to specific weaker or backward sectors in the economy. Example: SIDBI provides credit to small scale industries, EXIM banks to foreign trade and RRBs provide rural finance.
- Financial sector also plays an important role in infrastructure development. Long term debt and government bonds are raised for infrastructure projects. Example: Transport and communication, irrigation, power generation, etc.