A STUDY ON FINANCIAL INTERMEADIARIES

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ABSTRACT

This paper donates to the works comparing the relative performance of financial intermediaries and markets by studying a situation between risk sharing and growth arises endogenously. Financial intermediaries provide insurance to households against a liquidity shock. In steadiness, the ability of intermediaries to share risk is forced by the market. Moreover, intermediaries invest less in the creative technology when they provide more risk-sharing. This creates a trade-off between risk-sharing and growth. We show the equilibrium of intermediaries and market that maximizes welfare depend on limit values.

Keywords: *Financial intermediaries; financial markets; Risk-sharing; Growth*

INTRODUCTION:

Many theoretical models show that financial agents may form financial intermediaries to mitigate the costs of acquiring information and conducting transactions. More specifically, financial intermediaries emerge to lower the costs of researching possible investments, exerting corporate control, managing risk, and mobilizing savings. It is safe to say that, by providing these services to the economy, financial intermediaries influence savings and allocation decisions in ways that may alter long-run growth rates. Thus, modern financial theory provides an intellectual framework or understanding how financial intermediaries that are better at acquiring information, exerting corporate control, handling risk, and mobilizing savings, would grow faster than countries with less developed financial systems. Further, these theories provide ample support for the formation of a system that operates on an equity basis instead of a resolute interest rate. In addition, financial intermediaries are able to greatly reduce the contact to potential risks by sharing the risks among various investors and consequently achieving important diversification due to the large and varied volume of resources they deal with. In this way, they virtually turn risky assets into safer ones for the benefit of investors and for theirs as well as they gain profits on the difference between the returns and the payments they make.

FINANCIAL INTERMEDIARIES:

Financial intermediaries serve as a middleman between investors and borrower. They form an integral part of the financial system of a country. There is a wide range of financial intermediaries in terms of size and scales. Commercial banks are the examples of typical financial intermediary but apart from them there are other intermediaries ranging from a small broker to giant self-regulatory associations.

Role of Financial Intermediaries

1. They act as an intermediary between savers and borrowers of funds in financial market.
2. They save efforts of searching of prospective lenders and borrowers.
3. They provide Investment Path for savers and source of funds for borrowers.
4. They insure liquidity and safety in capital and money market.
5. They help the growth and expansion of economy through smooth and easy working of financial markets.

Types of Financial Intermediaries

Investment bankers: They increase monetary funds of companies through stocks and bonds. An individual who works in a financial institution i.e. in the business primarily of raising capital for companies, governments and other entities, or who works in a large bank's division that is involved with these activities is called an investment banker. Investment bankers may also provide other services to their clients such as mergers and acquisition advice, or advice on specific transactions, such as a spin-off or reorganization.

Investment brokers: Brokers are usually licensed professionals in fields where specialized knowledge is required, such as finance. They transact the buying and sale of securities usually charging a commission. Discount brokers only carry out the transaction whereas there is another type called full time brokers who provide investment advices as well.

Mutual funds: These are organizations that facilitate investments through pooling resources from large number of similar investments and invest them in capital and money market securities. Investing in a mutual fund can be a lot easier than buying and selling individual stocks and bonds. Mutual funds include diversification by diversifying the portfolio across large number of securities so as to minimize risk and also provide professional money management. Mutual funds offer choice, liquidity, and convenience.

Underwriter: A company or other entity that administers the public issuance and distribution of securities from a corporation or other issuing body. An underwriter works closely with the issuing body to determine the offering price of the securities buys them from the issuer and sells them to investors at the Initial Public Offering (IPO). Underwriters generally receive underwriting fees from their issuing clients, but they also usually earn profits when selling the underwritten shares to investors. However, underwriters assume the responsibility of distributing securities issue to the public. If they can't sell all of the securities at the specified offering price, they may be forced to sell the securities for less than they paid for them, or retain the securities themselves. The underwriter buys the newly issued securities from the company and sells them to investors on the secondary market through a stock exchange.

Stock exchanges: Stock Exchange is a financial intermediary for the purchase and sale of securities in the secondary capital market. Stock exchange is an organization which facilitates this process of buying and selling existing securities by providing a medium for buyers and sellers to interact with each other. As there could be a large number of buyers and sellers who want to trade in a particular security, stock exchanges facilitates arriving at trading price based on supply and demand by providing a medium. They help both buyers and sellers arrive at a mutually satisfactory price. Some popular stock exchanges are NASDAQ (US), NSE, and BSE (INDIA) etc. Registrar, Depositors,

Portfolio Managers: They are the experts managing an individual's investments in the form of bonds, shares, cash, mutual funds etc. so that he earns the maximum profits with minimum risk within the stipulated time frame and invests on Behalf of the client. Portfolio manager's advices, counsels and present the best investment plan to the individuals as per their income, budget, age and ability to undertake risks. Portfolio managers provide customized investment solutions to clients as per their needs and requirements.

LITERATURE REVIEW

The concept of chit funds according to Simcox1 is originated more than 1000 years ago. And it is mentioned, Dravidian kuris is used for raising money for some special purposes. Subbaramaaiyar2 has described the working of 'changati kuri', where lot decides the person every month to whom the amount is to be paid. The chit fund offers money at a flexible interest rate and the interest rate depends on the demand of the money.

William Logan mentioned the presence of a flourishing Kuri or lottery system existing in the society. He also described the operation of kuri system among friends known as 'Changaathi Kuri'. V. Krishnan 6mentioned the growth, importance, types, features and malpractices of chit funds. The favoring circumstances that fostered the growth of the chit funds were the lack of organized credit facilities to permit of savings deposits, the accommodation of small capital and the availability of loans on easy terms. The dominant feature of the transaction is that it enables a large number to gradually lay by money to receive their savings in a lump sum, and the scheme in their case is an incentive to thrift.

The chit funds show a great deal of adaptability to the conditions that prevail in the area in which they have to operate. The indebted landlord, the needy trader, the improvident weavers and other artisans, the hard working daily laborers and factory workers and the helpless vegetable vendors all derive benefit from the transaction. There are importantly three types of chits, (1) The Thattu chit, (2) The Auction chit, (3) The Prize or the lottery chit. It is inevitable that there are a variety of malpractices in the system. If such malpractices are only lapses that are bound to exist in any institution then efforts should be taken to bring the working of such institution under rigid control to reduce malpractices to the minimum.

According to S.K.Basu7A Non-Banking Financial Company (NBFC) is a company incorporated under the companies Act, 1956, and conducting the financial business as its principal business. In India, the Non-Banking Financial sector comprises a multiplicity of institutions, which are defined under section 45 I(a) of the Reserve Bank of India Act, 1934.

C.D.Campbell and C.S. Ahn8 are documented the existence of keys in Korea. Korean ROSCA called the key. Keys gained popularity after the Korean War. According to Campbell and Ahn, in June 1959, out of 2,691 households sampled, 1,603 were liable for debts. Approximately 8 per cent of the borrowers obtained their loans from banks.

According to the information given by The Banking Commission13nine banks in Andhra Pradesh, Kerala, Mysore and Tamil Nadu were conducting chit funds in 1968.

Dr. C.P.S. Nayar14 had tried to place the role of Chit Funds in the proper financial perspective. The study emphasized the need to regulate the activities of Chit Funds, and at the same time, perceived their role as active mobilisers of savings of the community and as a useful complement to other financial institutions. The work was an attempt to study all the known types of chit funds, classifying, naming and defining them wherever necessary. The study also attempted to examine the economic aspects of chit funds on an empirical and analytical basis. The analysis covered all the patterns of business of chit funds working throughout the country.

CONCLUSION:

Hence this paper suggest to know about the financial intermediaries and roles of intermediaries for economic development and also discuss about the type of financial intermediaries to help the investors about risk sharing and growth.

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