UNIT 1 : NATURE AND ROLE OF FINANCIAL SYSTEM

UNIT STRUCTURE

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1.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- define the term finance
- identify the role of finance in an economy
- describe various kinds of finance
- explain the financial system and its components
- discuss the different financial intermediaries
- describe various functions of financial market and instruments
- outline the services of electronic banking and ATM.

1.2 INTRODUCTION

Economic development of a nation, inter alia, depends on the rate of increase in savings and investment. When there is an increase in income, a part of it is saved and in course of time this savings is used in productive activities. In the accomplishment of this networking a well organized financial system is indispensable. The advent of liberalisation in 1990-91 integrated the different components of financial system and facilitated various new developments and role of finance become more and more important for economy. This unit highlights role of finance, classification of finance, financial system and its components, financial intermediaries, financial markets and their functions. It also presets an overview of electronic banking and ATM services of modern banks.

1.3 CONCEPT of FINANCE

Can you imagine a human being without blood? The simple answer is 'No'. In the same way there cannot be an economic entity without finance. Finance is the lifeblood of all economic activity. In the modern money-oriented economy, finance is one of the basic foundations of all kinds of economic activity. It is the master key which provides access to all the sources for being employed in manufacturing and merchandising activities. Without finance neither a business can be started nor its development is possible. The success of business depends upon sufficient finance and its effective management. Finance is how people study and figure out how people, businesses and groups make and use money. It can mean:

- Thinking about money and other monetary assets,
- The management and control of those assets
- Thinking about how to control money to make profit,
- Studying how to take chances in projects that make money,
- As a verb, "to finance" is to make money for business. .

According to Horward and Upton, "Finance is that administered area or set of administrative functions in an organization which relate with the arrangement of cash and credit, so that the organization may have the means

to carry out its objectives as satisfactory as possible". Therefore, it is rightly termed as science of money.

1.4 FEATURES OF FINANCE

After conceptualising the meaning of 'Finance', let us explain its features

- Finance studies and addresses the ways in which individuals, business, and organizations raise, allocate, and use monetary resources over time, taking into account the risks entailed in their projects.
- The activity of finance is the application of a set of techniques that individuals and organizations (entities) use to manage their money, particularly the differences between income and expenditure and the risks of their investments.
- Finance is used by individuals (personal finance), by governments (public finance), by businesses (corporate finance), as well as by a wide variety of organizations including schools and non-profit organizations. In general, the goals of each of the above activities are achieved through the use of appropriate financial instruments, with consideration to their institutional setting.
- Finance is one of the most important aspects of business management. Without proper financial planning a new enterprise is unlikely to be successful. Managing money (a liquid asset) is essential to ensure a secure future, both for the individual and an organization.
- The process of finance is learning how people and groups act in managing their money, and most of all how they manage making money, and making a profit, with spending money, and making a loss.

1.5 ROLE OF FINANCE IN AN ECONOMY

Finance plays an important role in an economy. Following points explain some of the pivotal role of finance in an economy:-

a) One of the important functions of finance is to link the savers and investors and thereby help in mobilizing and allocating the savings

efficiently and effectively,

b) It also permits continuous upgradation of technologies for promoting growth on a sustainable basis,

c) It not only helps in selecting projects to be funded but also inspires the operators to monitor the performance of the investors,

d) It provides payment mechanism for the exchanges of goods and services and transfer economic resources through time and across geographic regions and industries,

e) One of the most important roles of finance is to achieve optimum allocation of risk bearing. It limits, pools and trades the risk involved in mobilizing savings and allocating credit,

f) It also makes available price-related information which is a valuable assistance to those who need to take economic and financial decisions,

g) It provides financial services such as insurance and pension and offers portfolio adjustments facilities,

h) It helps in the creation of a financial structure that lowers the cost of transactions. It has a beneficial influence on the rate of return to savers. It also reduces the cost of borrowings.

i) It also helps in promoting the process of financial deepening and broadening. Financial deepening refers to an increase of financial assets as a percentage of the Gross Domestic Product (GDP). Financial broadening refers to building an increasing number and a variety of participants and instruments.

Thus, Finance helps in production, capital accumulation and growth. It does this through - encouraging savings, mobilizing savings and allocation of funds among alternative uses and users.



CHECK YOUR PROGRESS

Q 1: State two important features of finance.

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1.6 CLASSIFICATION OF FINANCE

The subject of finance has been traditionally divided into two classes - Public Finance and Private Finance.

Public Finance

Public finance means the state finance. The study of public finance is done to analyse how the different public authorities arrange their finance. The different public authorities include the Central Government, State Government and Local Public authorities like Municipal Corporation etc. It is seen in public finance that how the government obtain the income and how it spends the income in public interest. The public finance includes the public debt also.

Private Finance

Private finance means the finance of a person and/or private institutions. Under this we study how different persons and private institutions obtain their income/funds and how they spend the income for the fulfillment of their objectives. Private Finance is divided into three sub-types -

i) **Personal Finance** - This is finance for people. It is about:
   - how much money will be needed by a person, now and when they get old?
   - where from will this money come (e.g. savings or borrowing)?
   - how can people protect themselves against problems with money in their lives?
   - how can family money be given to children and grandchildren?
   - how do taxes affect money choices?

ii) **Business Finance** Business finance is about finding money for the companies' activities. It studies trying to make more profit than loss, and taking good risks for the chance to make more money. It also study the principles, practices, procedures and problems concerning financial management of profit making organisation engaged in the field of industry, trade and commerce.

iii) **Finance of Non-Profit Organisation** is concerned with the principles, procedures and problems involved in financial management of

charitable, religious, educational, social and other similar organisations.

1.7 FINANCIAL SYSTEM AND ITS COMPONENTS

By now, you know the meaning, features and role of finance. You also get an idea of various classes of finance. Now let us describe the financial system and its components. First we will explain 'Financial System'. Then we will elaborate four components of the system: Intermediaries, markets, instruments and services. The term "Financial System" is comprised of two words- Finance and System. Finance means monetary resources comprising ownership funds and debts. System indicates a set of interrelated parts working together to achieve some purpose. An economy's financial system exists to organize the settlement of payments, to raise and allocate finance, and to manage the risks associated with financing and exchange. A developed financial system is one that has a secure and efficient payment system, security markets and financial intermediaries that arrange financing, and derivative markets and financial institutions that provide access to risk management instruments.

The financing system has two general roles — to mobilize surplus funds from people and organizations, and to allocate them among deficit people and organizations. An investor is an example of a surplus unit, whereas a borrower is an example of a deficit unit. Mobilizing funds generates returns for surplus units, which generally enhances their wealth and economic well-being. It also allows deficit units to enhance their productive and purchasing capacities, and thus improves an economy's production and consumption potential. Funds are mobilized either as debt or equity. Debt funds are supplied as a loan and generally the repayments are scheduled, whereas equity funds acquire part ownership of a business and their returns depend on the future profitability of the business.

The global financial system (GFS) is a financial system consisting of institutions and regulations that act on the international level, as opposed to those that act on a national or regional level. The main players are the global institutions, such as International Monetary Fund and Bank for International

Settlements, national agencies and government departments, e.g., central banks and finance ministries, and private institutions acting on the global scale, e.g., banks and hedge funds.

Indian Financial System (IFS) refers to a set of institutional arrangement through which financial surplus of our economy are mobilised from surplus units and transferred to the deficit units. This institutional arrangements includes -

i) The conditions and mechanisms governing the production, distribution, exchange and holding of financial assets or instruments,

ii) Working of financial markets, and

iii) Organisation and operation of financial institutions.

Components of Financial System: There are four main components of the financial system, they are –

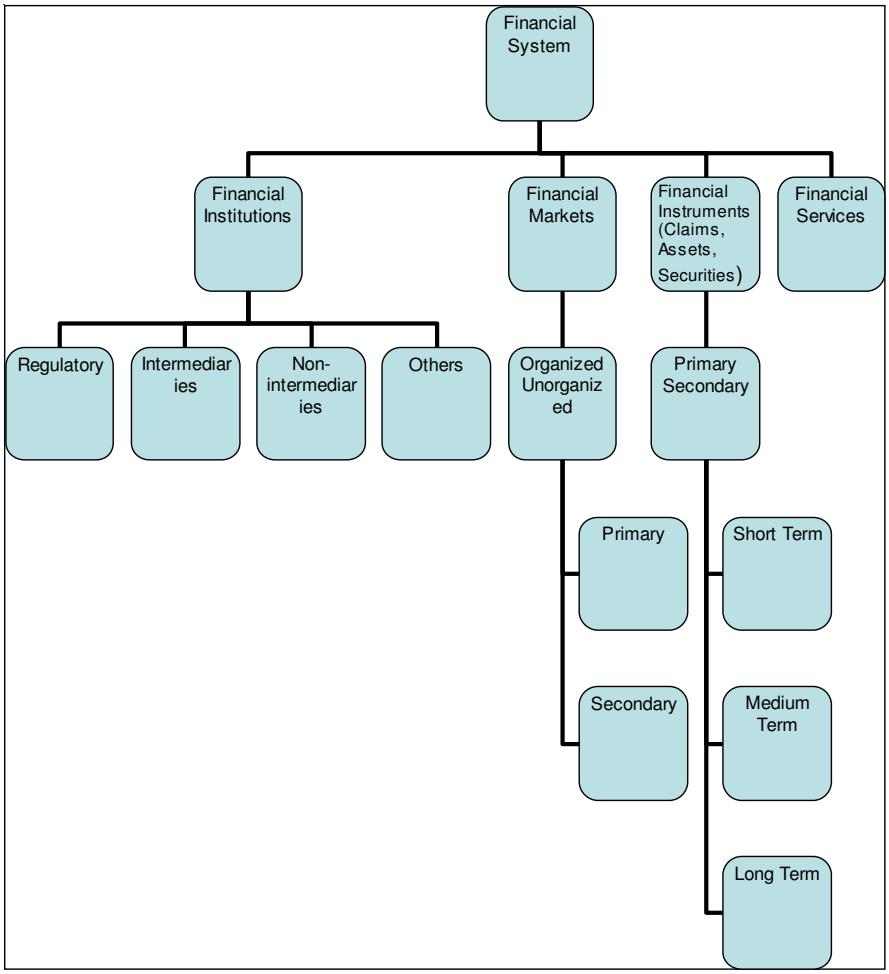


Fig: Financial System

Hedge Funds: A private investment fund like, mutual fund

1.7.1 Financial Intermediaries or Institutions

The term financial intermediary may refer to an institution, firm or individual who performs intermediation between two or more parties in a financial context. Typically the first party is a provider of a product or service and the second party is a consumer or customer. A financial intermediary is typically an institution that facilitates the channeling of funds between lenders and borrowers indirectly. That is, savers (lenders) give funds to an intermediary institution (such as banks), and then that institution in turn gives those funds to spenders (borrowers). This may be in the form of loans or mortgages. Alternatively, they may lend the money directly via the financial markets which is known as financial disintermediation. In the indirect process, known also as financial intermediation, funds are raised by deposit-taking institutions and then lent to borrowers. The funds raised are generally in the form of deposits.



Demand Deposits: where customers can deposit or withdraw money any number of times subject to availability of funds

Financial institutions or financial intermediaries act as half-way houses between the primary lenders and the final borrowers. They borrow funds (or accept deposits) from those who are willing to give up their current purchasing power and lend to (or buy securities from) those who require the funds for meeting the current expenditures. Financial institutions are generally divided into two categories - banks and non-bank financial institutions. The main difference is that the banks possess while the non-bank do not possess the demand deposits or credit creating power. Banking institutions can be divided into various categories according to their functions i.e. commercial banks, development banks, investment banks, cooperative banks and regional rural banks. On the other hand, non-banking finance companies can be categorized as loan and finance companies, leasing and hire-purchase companies, housing finance companies, insurance companies, chit funds and mutual benefit funds and other residual finance companies.

1.7.2 Financial Markets

Financial markets are markets which cater to the financial needs of individuals, firms and institutions required for short as well as for long period. Financial markets could also mean:

- The mechanism that facilitate the parking of surplus money of individuals, firms and investment bankers to earn return.
- Organizations that facilitate the trade in financial products i.e. Stock exchanges facilitate the trade in stocks, bonds and warrants.

Hence, financial market is a mechanism that allows people to easily buy and sell (trade) financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods), and other fungible items of value at low transaction costs and at prices that reflect the efficient market hypothesis. Financial markets facilitate:

- The raising of capital (in the capital markets);
- The transfer of risk (in the derivatives markets); and
- International trade (in the currency markets)..

Financial market include different sub- markets-

- Money markets, which provide short term debt financing and investment
- The capital markets consist of primary markets and secondary markets. Newly issued securities are bought or sold in primary markets. Secondary markets allow investors to sell securities that they hold or buy.
- Commodity markets, which facilitate the trading of commodities.
- Derivatives markets, which provide instruments for the management of financial risk.
- Futures markets, which provide standardized forward contracts for trading products at some future date.
- Insurance markets, which facilitate the redistribution of various

risks.

- Foreign exchange markets, which facilitate the trading of foreign currencies.

However, the financial markets are broadly and commonly divided into two types -

i) Money Market - The money market is the market which deals with short-term funds in the economy. It refers to the institutional arrangements facilitating borrowings and lending of short-term funds. It is the market in which financial institutions, mainly banks lend and borrow money or near money assets from each other, trade in securities, treasury bills and other financial instruments such as certificates of deposits or enter into agreements such as Repos and Reverse Repos. In a money market, funds can be borrowed for a short period varying from a day, a week, a month or 3 to 6 months, sometimes up to one year and against different types of instruments, such as, treasury bills, bill of exchange, bankers' acceptances, and bonds etc., called "near money".

The basic functions of money market are-

- To provide efficient mechanism for adjustment of liquidity positions of commercial banks, non-bank financial institutions, business firms and other investors.
- To provide a platform for the central bank of the country to control and manage the money supply and the liquidity in the economy.
- To bridge between short term surpluses and deficits.
- To provide a realistic price for short term money.

Participants who enters into the transactions in the money market are-

- Central Government
- State Government
- Public Sector Undertaking
- Scheduled Commercial Banks
- Private Sector Companies

- Provident Funds
- Life Insurance Companies
- General Insurance Companies
- Mutual Funds
- Non-banking Financial Companies
- Primary Dealers

ii) Capital Market - The term capital market refers to the institutional arrangements for facilitating the borrowing and lending of long-term funds. A capital market may be defined as an organised mechanism for effective and efficient transfer of money capital or financial resources from the investing parties, i.e. individuals or institutional savers to the entrepreneurs engaged in industry or commerce on the business would either be in the private or public sectors of an economy. All the long term capital needs are met by the capital market. Capital market is a central coordinating and directing mechanism for free and balanced flow of financial resources into the economic system operating in a country.

Functions of Capital market

- Provides a platform for raising long term funds
- Act as an intermediaries between buyers and sellers of securities
- Facilitate an organized trading mechanism for stock and securities.
- Provide a standard price for the securities.
- Nexus between savings and investment.

Classification of Capital market

Capital markets consist of:

a. Stock markets, which provide financing through the issuance of shares or common stock, and enable the subsequent trading thereof.

b. Bond markets, which provide financing through the issuance of Bonds, and enable the subsequent trading thereof.

c. Derivative market where derivative products like stock futures,

index futures and options are traded. Financial derivative is an agreement between two parties for buying or selling an underlying asset (Stock or index) whose value is derived from the underlying financial assets or claim.



CHECK YOUR PROGRESS

Q 2: Which of the following is not a money market participant?

(a) State Government (b) Public Sector Undertaking

(c) Scheduled Commercial Banks (d) Stock Exchange

Q 3: Which of the following is a capital market instrument?

(a) Certificates of Deposits (b) Equity Share

(c) Commercial Paper (d) Treasury Bills

In terms of the access, the financial market can be classified as primary market and secondary market.

a. Primary market is the market where initial issues are sold and bought. When a company issues shares for the first time, it is trade through primary market .This market is also known as new issue market (NIM). The primary market is facilitated by the intermediaries like issue managers, issuing banks, registrars, book-runners etc. who intermediate between investors and issuers.

b. The secondary market consists of stock exchanges and over the counter exchanges. In the secondary market the secondhand issues are sold and bought and securities change hands from one investor to another. Stock brokers play an important role as the intermediaries between stock exchanges and the investors. Functioning of the capital market is regulated by the Securities and Exchange Board of India (SEBI).



ACTIVITY 1.1

Visit a stock broking firm and observe the functions performed by it. On return list them out.

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1.7.3 Financial Instruments

The financial instruments are the claims to money and perform some functions of money. Financial instruments denote any form of funding medium - mostly those used for borrowing and investing in financial markets, e. g. bills of exchange, bonds, etc. They have high degree of liquidity but are not as liquid as money.

From the intermediary point of view, financial instruments can be categorized into two types -

i) **Primary or Direct instruments -** They are the financial claims against real-sector units created by real-sector units as ultimate borrowers for raising funds to finance their deficit spending, they are the obligation of ultimate borrowers. The examples are bills, bonds, equities, book debts etc.

ii) **Secondary or Indirect Instruments -** they are financial claims issued by financial institutions against themselves to raise funds from the public. These assets are the obligations of the financial institutions. The examples are bank deposits, life insurance policies, units of Unit Trust of India etc.



LET US KNOW

Financial instruments can also be categorized by form depending on whether they are cash instruments or derivative instruments:

- Cash instruments are financial instruments whose value is

determined directly by markets. They can be divided into securities, which are readily transferable, and other *cash* instruments such as loans and deposits, where both borrower and lender have to agree on a transfer.

- Derivative instruments are financial instruments which derive their value from some other financial instrument or variable. They can be divided into exchange-traded derivatives and over-the-counter (OTC) derivatives.

Alternatively, financial instruments can be categorized by "asset class". They are -

- Equity based (reflecting ownership of the issuing entity) or
- Debt based (reflecting a loan the investor has made to the issuing entity). If it is debt, it can be further categorized into short term (less than one year) or long term.

Foreign Exchange instruments and transactions are neither debt nor equity based and belong in their own category.

Further, instruments can be categorized into two types by its "market class". They are-

a) **Money Market Instruments**-instruments traded in the money market. Important instruments in this market are-

- **Call money /Notice money**-call money or call deposits are those moneys which are lent on condition to repay on call. Notice money refers to the money lent and repaid on a certain day's notice from the lenders. The period of these transactions varies between overnight and to a maximum of fourteen days.
- **Term money**-Transactions between inter-bank participants for a period of more then 14 days are called term money.
- **Certificates of Deposits**- Certificate of deposit is a money market instrument issued in dematerialized form or as a usance promissory note, against funds deposited at a bank or other eligible financial institution for a specified period. These are issued by scheduled commercial banks (excluding regional rural banks and local area banks) and all India financial

institutions that have been permitted by RBI. The maturity period of certificates of deposits issued by the banks should not be less than 7 days and more then one year while for certificates of deposits issued by the financial institutions is not less then one year and more than three years.

- **Commercial Paper-** Commercial paper (CP) is an instrument issued by corporates, primary dealers and all India financial institutions to raise short-term resources .CPs are issued in the form of promissory note for maturities between minimum of 7days and a maximum up to one year from the date of issue. These can also be issued in dematerialized form through any of the depositories approved by and registered with SEBI. Issuer of the CPs has to obtain prior permission from the RBI for the issue. CP may be issued to individuals, banks, other corporate bodies, Non-resident Indians and foreign institutional Investors. CPs are issued at a discount to the face value as determined by the issuer.
- **Bill Re-discounting Schemes (BRDS) -** This is a money market scheme where by banks may raise funds by issue of Usance promissory notes in convenient lots and maturities matching the genuine trade bills discounted by them. This instrument promotes liquidity in the money market. BRDS transaction can be done for a minimum period of 15 days and maximum period of 90days. The bank borrowing under this scheme issues a Usance promissory note to the lender as well as a certificate to the effect that the bank holds genuine bills equal to the amount of the transactions on its book.
- **Inter-Bank Participation Certificates (IBPCs)-** IBPCs are instruments issued by scheduled commercial banks only to raise funds or to deploy short –term surplus. IBPCs are of two types- with risk sharing and without risk sharing. The minimum period shall be 91days and maximum period 180 days in case of IBPCs on risk sharing basis and in the case of IBPCs under

non-risk sharing basis the total period is limited to 90 days. IBPCs are not transferable and cannot be redeemed before due date. Interest rates are determined between the issuing bank and participatory bank.

- **Collateralized Borrowing and Lending (CBLO) -** CBLO is a discounted instrument available in electronic book entry form for the maturity period ranging from one day to 90 days against securities which are placed with the Clearing Corporation of India either as margin or otherwise.. This is an instrument for those entities who have either been phased out from inter-bank call money market or have been given restricted participation in terms of ceiling on call borrowing and lending transactions and who do not have access to the call money. Banks, financial institutions, NBFCs (Non- Bank Financial Corpotrations), insurance companies, mutual funds, primary dealers, non-government provident funds, corporates etc. are eligible to deal in CBLO.
- **Treasury Bills** (T-bills) - Treasury bill is a very common short term money market instrument issued by the Government of India through the RBI. T-bill is issued at a maturity period of 14 days, 28 days, 91 days, 182 days and 364 days. It is issued at a discount to its face value which is usually Rs.100/-.The discount rate is determined by the RBI on the basis of the bid submitted by the participants in the auction. Auctions are normally conducted every week. T-bills are used by the RBI as credit control tool.

b) Capital market Instruments- Instrument issued to raise long term funds is called capital market instruments. They are-

Bonds- Bonds are debt instruments issued by corporate bodies, governments or development financial institutions to raise long term finance. These are fixed interest bearing instruments. They can be issued with or without security. Bonds are negotiable instruments governed by the law of contract and are generally transferable by

endorsement.

Debentures- A debenture is also a debt instrument issued by a company for raising funds from the public and institutions and offers to pay interest on the funds borrowed by the company. The maturity of these instruments ranges between one to ten years. Debentures are governed by provisions of the company law and are transferable only by registration. On the basis of security, debentures can classified as secured (secured by a charge on the fixed assets of the company) and Unsecured (not secured by any charge on assets). On the basis of convertibility, they can be classified as Non-convertible, Partly convertible, Fully Convertible, and Optionally Convertible.

Equity Shares- According to the Companies Act, 1956, equity share is a part of the total capital of the company. Equity shareholders entitled for a share of profit (Dividend) of the company and the voting right. However, they also bear the risk of corporate performance. Shares are ownership instruments but transferable. Shares are issued by the companies to raise funds required for long term in the primary capital market while the secondhand shares are traded in the secondary market through stock exchanges.

Preference Shares- Preference shares are the shareholders who assume only limited risks and entitled to a predetermined dividend .They have no voting rights. Holders of preference shares enjoy the preference to receive their capital over the equity shareholders. These instruments are issued when there is a need for long term funds and at the same time shareholders do not want to dilute the ownership in the company. Though these types of shares are marketable, they are not widely traded on account of a fixed dividend.

Global Depository Receipts (GDR) - Global Depository Receipts, also known as GDRs, are internationally traded equity instruments issued against equity shares .They represent a fixed ratio of Indian shares quoted on BSE (Bombay Stock Exchange). GDRs are issued by international depository and denominated in US Dollars. They

are negotiable certificates and they are freely traded in the overseas financial markets including Europe and USA.

American Depository Receipts (ADR)-American Depository Receipts, popularly called ADRs are similar kind of instrument like GDR. However, ADRs are traded in US markets mostly. They are denominated in US Dollars. These instruments are issued in accordance with the scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 and guidelines issued by the Central Government there under from time to time.

1.7.4 Financial Services

The industry that has grown up to encourage people to put their money into investment and which provides the facilities for doing so is called the “Finacial Services Sector”. Simply put, all types of activities involved in the transformation of surplus in to investments, transfer of financial resources, financial innovation are called financial services. The scope of the financial services is very wide, unlimited and dynamic. However, banking services are not covered under financial services because of their independent legal interpretation. The main distinction between banking and financial services is bank offers current account, cheque facility and credit creation which can not be offered other than a banking company. Financial Services may be divided into two groups - Fund based activities and Non-fund-based activities.

Fund-based activities

- Leasing
- Hire Purchase
- Venture Capital
- Consumer Financing
- Underwriting or investment in securities
- Dealing in money market
- Dealing in Forex market

- Real Estate Financing
- Housing finance
- Insurance
- Mutual funds etc.

Non-fund based activities

These financial services do not directly involve funds –

- Merchant banking(issue management, placement of securities)
- Portfolio Management
- Industrial investment Consultancy and Project Advisory Services
- Broking and Portfolio Investment Services
- Risk management
- Bill Discounting,
- Factoring
- Depository and Custodian services
- Credit rating etc.



CHECK YOUR PROGRESS

Q 4: State whether following statements are true or false-

a) Treasury Bills are issued by corporate bodies.

b) The market where the first issue of a company is sold is called primary market.

c) GDRs are denominated in US Dollars.



LET US KNOW

The basic elements of Indian Financial System were laid down during British rule. After independence, the government adapted the banking system for the economic development of the country. Moreover, the government formed a number of specialized institutions to meet the credit needs of industry, agriculture, small business etc. The government nationalised fourteen major commercial banks in 1969 and six more in 1980 with the objective of providing credit to the weaker section of the society.

1.8 ELECTRONIC BANKING – MEANING AND FEATURES

This section highlights modern technology in banks. With the advent of technology in the banking sector and introduction of computers in Indian banks, services are provided to the customers across the country giving ease the difficulties for example, going to the bank branch, sticking to the time and working days etc. Now a days customers need not necessarily visit the bank to do banking transaction because the transactions can be done through phone, internet etc. Doing banking transaction through electronic mode is called electronic banking, popularly known as E-banking. E-banking is a recent concept and is gaining popularity among the individual as well as corporate customers. Many new concepts like anywhere banking, anytime banking, online banking, phone banking, tele-banking, personal banking, internet banking, mobile banking etc have been emerging with the use of technology and electronic programmes in the banking sector. Many financial products have also launched by the banks like ATMs, Debit cards, Credit cards, multiple pins, electronic cheques, electronic cash etc which bringing great advantages to the customers.

FEATURES OF E-BANKING

- On line bill payments.
- Transfer of funds between account within community bank.
- Transfer funds to account at other financial institution.
- Make loan payment.
- 24 hours service.
- View and print loan account histayes.
- Real times account access.
- Time saving.

1.9 AUTOMATIC TELLER MACHINE (ATM)

An Automated Teller Machine (ATM) is a computerized telecommunications device that provides the customers of a financial institution with access to financial transactions in a public space without the need for a human clerk or bank teller. On most modern ATMs, the customer is identified by inserting a plastic ATM card with a magnetic stripe or a plastic smartcard with a chip that contains a unique card number and some security information, such as an expiration date or CVC (CVV). Security is provided by the customer entering a personal identification number (PIN). By using an ATM, customers can access their bank accounts in order to make cash withdrawals (or credit card cash advances) and check their account balances. ATMs are known by various casual terms including *automated banking machine*, *money machine*, *cash machine*, *hole-in-the-wall*, *cashpoint* or *Bancomat* (in Europe and Russia).

The ATM was invented by Scot John Shepherd-Barron. The world's first ATM was installed in a branch of Barclays in the northern London borough of Enfield, Middlesex, in 1967. Inspiration had struck Mr Shepherd-Barron while he was in the bath.

ATMs are placed not only near or inside the premises of banks, but also in locations such as shopping centers/malls, airports, grocery stores, petrol/gas stations, restaurants, or any place large numbers of people may gather. These represent two types of ATM installations: on and off premise. On premise ATMs are typically more advanced, multi-function machines that complement an actual bank branch's capabilities and thus more expensive. Off premise machines are deployed by financial institutions and also ISOs (or Independent Sales Organizations) where there is usually just a straight need for cash, so they typically are the cheaper mono-function devices. An ATM is typically made up of the following devices:

- CPU (to control the user interface and transaction devices)
- Magnetic and/or Chip card reader (to identify the customer)
- PIN Pad (similar in layout to a Touch tone or Calculator keypad), often manufactured as part of a secure enclosure.

- Secure cryptoprocessor, generally within a secure enclosure.
- Display (used by the customer for performing the transaction)
- Function key buttons (usually close to the display) or a Touchscreen (used to select the various aspects of the transaction)
- Record Printer (to provide the customer with a record of their transaction)
- Vault (to store the parts of the machinery requiring restricted access)
- Housing (for aesthetics and to attach signage to)

Recently, due to heavier computing demands and the falling price of computer-like architectures, ATMs have moved away from custom hardware architectures using microcontrollers and/or application-specific integrated circuits to adopting a hardware architecture that is very similar to a personal computer. Many ATMs are now able to use operating systems such as Microsoft Windows and Linux. Although it is undoubtedly cheaper to use commercial off-the-shelf hardware, it does make ATMs vulnerable to the same sort of problems exhibited by conventional computers.



CHECK YOUR PROGRESS

Q 5: Choose the correct answer from the following alternatives-

ATM means-

(a) Any Time Machine (b) Automated Teller Machine

(c) Any Where Machine (d) Any Time Machine

Q 6: State two features of E- banking.



ACTIVITY 1.2

Go to a leading bank and collect the booklets of their services and products and find out the electronic services it offers and list them below

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1.10 LET US SUM UP

In this unit we have discussed the following points:-

- Finance is the life-blood for every economic activity. It has the equal significance both at the micro level and the macro level of an economy.
- Finance consists of money and the near money financial assets.
- Financial system through its components provides the solutions for each need and requirements of the surplus holders and the ultimate users.
- The financing process allows prospective users of funds to compete for them and creates the incentive for funds to be supplied.
- The globalization process and the technology upgradation has given the dynamism to the financial system due to which many new financial services, financial products and financial solutions have made their place in the financial system in recent decades.



1.11 FURTHER READINGS

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1.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (i) Finance is an important aspect of business management.

(ii) Finance is used by individuals, governments, businesses as well as by non-profit organizations

Ans to Q No 2: (d) Stock Exchange

Ans to Q No 3: (b) Equity Share

Ans to Q No 4: (a) False (b) True (c) True

Ans to Q No 5: (b) Automated Teller Machine

Ans to Q No 6: 1. Electronic bill presentment and payment

2. Investment purchase or sale



1.13 MODEL QUESTIONS

Q 1: What do mean by financial system? Briefly discuss the component of Indian financial system.

Q 2: Point out the advantages of E-banking.

Q 3: What are the instruments traded in the money market?

Q 4: Distinguish between money market and capital market.

Q 5: State the salient features of money market instruments.

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