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Role and challenges of the financial service sectors in economic development of India

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Abstract
The Financial Institutions and Banking system play an important role in the economy. First and foremost is in the form of catering to the requirement of credit for all the sections of society. The recent economies in the world have developed mostly by making best use of the credit availability in their systems. An efficient banking system must accommodate to the needs of high end investors by making available high amounts of capital for vast projects in the industrial, infrastructure & service sectors. At the same time, the medium and small projects must also have credit available to them for new investment and extension of the existing units. Rural sector in a country like India, and Pakistan can grow only if inexpensive credit is available to the farmers for their short and medium term needs. This expected potential help the investors for the introduction of more Financial Institutions in the country. Still, financial sector in India is mostly a banking sector with commercial banks accounting for more than 64% of the total assets held by the financial system. Fund raising from the equity market grew by 116% to Rs. 1.78 lakh crore in Initial public offering (IPOs), Offer for Sale (OFS) and other market issuances in 2020. In FY20, the number of listed companies on the NSE and the BSE were 1,795 and 5,377, respectively.
In this paper examines the growth and Role of financial service sectors in India, as well as the various Benefits, classification of service sectors, contribution, various challenges, key risk areas and strategies of financial service sector.

Keywords: financial services, RBI, SEBI, MURDA, MSMEs, NSE, BSE

Introduction
India has an expanded financial sector experiencing rapid growth, both in terms of strong growth of existing financial services firms and new entities entering the market. The financial sector includes commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial units. The banking regulator has allowed new individuals such as payment banks to be created recently, thereby adding to the type of entities operating in the sector. Still, financial sector in India is mostly a banking sector with commercial banks accounting for more than 64% of the total assets held by the financial system.
The Government of India has introduced several reforms to liberalize, 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 MSMEs, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by Government and private sector, India is undoubtedly one of the world's most vibrant capital markets.
As of March 2021, AUM managed by the mutual funds industry stood at to Rs. 3,142,764 crore (US$ 425.87 billion). Inflow in India's mutual fund schemes via systematic investment plan (SIP) were Rs. 96,080 crore (US$ 13.12 billion) in FY21. Equity mutual funds registered a net inflow of Rs. 8.04 trillion (US$ 114.06 billion) by end of December 2019.
Another essential component of India’s financial industry is the insurance industry. Insurance industry has been expanding at a fast pace. The total first year premium of life insurance companies reached Rs. 2.59 lakh crore (US$ 36.73 billion) in FY20. Furthermore, India’s leading bourse, Bombay Stock Exchange (BSE), will set up a joint venture with Ebix Inc to build a robust insurance distribution network in the country through a new distribution exchange platform.
Fund raising from the equity market grew by 116% to Rs. 1.78 lakh crore in Initial public offering (IPOs), Offer for Sale (OFS) and other market issuances in 2020. In FY20, the number of listed companies on the NSE and the BSE were 1,795 and 5,377, respectively.

Review of Literature
Reddy, (1998) [23] was conducted his study on 150 borrower farmers from small, medium and large group and reported that “almost all sample farmers (93%) from all groups told that their low income was the main reason for non-repayment of loan.” Thus according to author India is an agricultural country and many banks provide loans at lower interest rates to the farmers. But due to nonpayment of loans the efficiency of the banks affected adversely.
Siddiqi, Rao & Thakkar (1999) [25] surveyed on 17 commercial banks having top 800 NPAs and reported that the diversion of funds like diversification, promoting sister branches, modernization and expansion etc. was the main reason for the growth of NPAs in public sector banks and they concluded that “the higher NPAs in priority sector advances have pushed up the overall proportion of NPAs of these banks by about 3% to 4%”. Thus according to the study NPA is the result of diversification and expansion.
Nachane and Ghosh (2002) [16], did a study on determinants of Off-Balance Sheet Activities of Public Sector Banks in India. The study was conducted with the main objective, to identify the factors influencing off-balance sheet (OBS)

activities of public sector banks in India. For the purpose of the analysis, pooled data models were used for the period 1995-96 to 1999-2000. The results indicate that (i) OBS activities depend on the size and (ii) higher the capital and liquid assets, lower the incentive to engage in OBS activities. Saha (2002) [24] his study was conducted on credit cards as a product in growing stage. Objective was to compare the credit card customer benefits given by banks verses the profit earned by bank through credit card business. Conclusion of the study was that credit cards are in growing phase of the banking sector as India is considered, and so all foreign banks are eager to launch this product in the market at a fast pace to compete with public sector banks.

Bhattacharya and Das (2003) [5] conducted a analytical study which analyses the changes in market and Indian banking sector and their future prospects on pricing and output of banking. In the initial part of study author measures the market concentration in banking sector from 1989-2001 covering both static and dynamic measures of market concentration. There was a strong evidence of change in market concentration around 1990. But the author argues at reduction in the prices of banking services was due to favorable market structure in India.

Ranjan and Dhal (2003) [22] it is an empirical study on terms of credit and NPL non-performing loans, in Indian public sector banks. It evaluated NPL of public sector bank and its response to bank size, terms of credit and macroeconomic conditions. Author suggested on the basis of study that NPL are significantly affected by variables of terms of credit. Increase in NPL was due to higher interest rate expected on the cost of credit. The study was focused to reduce NPL by improving healthy credit culture, business conditions and macroeconomics and lower interest rates Maji and Dey (2003) [14] conducted a case study on management of NPA in two banks of west Bengal namely Khatra peoples cooperative bank (KPCB) and urban cooperative bank (UCB) in district of bankura. Study attempted to analyze the factors affecting the growth of NPA, by classifying NPA sector wise, loan head wise, age wise, and amount wise. It was found that the NPA of UCB was more than KPCB and during the study period was not improved significantly.

Misra, B.S. (2003) [15] did a field study to examine the allocative efficiency of Indian banking system after the financial sector reforms in 1990s.This study was done in 23 states of India over a period of 1993-2001 to get a comparative data. The study concludes that there is a noticeable improvement in the allocative efficiency of banks after the enactment of reforms in 1990s and was noticed more in service sector as compared to industry sector Gani and Bhat (2003) [6] conducted a comparative study on five branches of northern India which included private sector, public sector and foreign banks. Random sampling method was used over 800 customers of various demographic characteristics like age, income, education, geographic location of bank and profession. SERVQUAL model was used. The study concluded that service quality of foreign banks was much better than the Indian banks and it was suggested that tangibility dimension of Indian bank should improve the quality of service to customers.

Sudhir (2005) [26] conducted a study on growth of retail banking in India. It says that the existing potential of retail banking was unexplored in rural and semi-rural India and therefore unexplored clientage provide huge growth in this segment.

Objective of the Research

The main objective of this study is to identify big challenges in financial service sectors in India. The present study specific objectives are:

1. To understand the financial service sector in India.
2. To understand the controlling authority of Indian financial service sectors.
3. To study the Classification of financial Services sector.
4. To examine the Role and contribution of financial service sector in Indian economy.
5. To analyses the various challenges and key risk areas of Indian financial service sector.

Research Methodology

The study is completely based on secondary data. This study refers to the secondary data because the secondary data is descriptive in nature and it is the suitable ways to collect the data. This is a macro study; therefore the primary data was not possible to collect from all over India. It is also one of the biggest reasons to choose the secondary data. I have collected data from various sources like economy survey, Media Reports, Press Releases, IRDAI, General Insurance Council, Reserve Bank of India, Union Budget 2021- 22 as well as from various articles related to service marketing.

Meaning and Definition of Financial Services

In general, all types of activities which are of financial nature may be regarded as financial services. In a broad sense, the term financial services means mobilization and allocation of savings. Thus, it includes all activities involved in the transformation of savings into investment.

Financial services refer to services provided by the finance industry. The finance industry consists of a broad range of organizations that deal with the management of money. These organisations include banks, credit card companies, insurance companies, consumer finance companies, stock brokers, investment funds and some government sponsored enterprises.

Financial services may be defined as the products and services offered by financial institutions for the facilitation of various financial transactions and other related activities.

Financial services can also be called financial intermediation. Financial intermediation is a process by which funds are mobilised from a large number of savers and make them available to all those who are in need of it and particularly to corporate customers. There are various institutions which render financial services. Some of the institutions are banks, investment companies, accounting firms, financial institutions, merchant banks, leasing companies, venture capital companies, factoring companies, mutual funds etc. These institutions provide variety of services to corporate enterprises. Such services are called financial services. Thus, services rendered by financial service organisations to industrial enterprises and to ultimate consumer markets are called financial services. These are the services and facilities required for the smooth operation of the financial markets. In short, services provided by financial intermediaries are called financial services.

The financial sector is a segment of the economy composed of companies and institutions that provide commercial and retail customers with financial services. A large portion of this sector produces mortgage and loan income, which increases the value as interest rates decline. The economy's health is mainly dependent upon the efficiency of its

financial sector. The better the economy is, the safer it is for the country.

A system that aims at establishing and providing a regular, smooth, efficient and cost effective linkage between depositors and investors is known as financial system. The functions of financial system are to channelize the funds from the surplus units to the deficit units. An efficient financial system not only encourages savings and investments, it also efficiently allocates resources in different investment avenues and thus accelerates the rate of economic development. The financial system of a country plays a crucial role of allocating scare resources to productive uses. Its efficient functioning is of critical importance to the economy.

The economy runs on coordination among various sectors; one of which is the financial services sector. Financial services are those dealing with money as a commodity. The types of companies that comprise this sector are banks, insurance companies, non-banking financial companies, investment companies, credit and loan companies, brokers, etc.

Definition of Financial Service

Financial services can be defined as the products and services offered by institutions like banks of various kinds for the facilitation of various financial transactions and other related activities in the world of finance like loans, insurance, credit cards, investment opportunities and money management as well as providing information on the stock market and other issues like market trends.

According to H.R. Machiraju "It is a set of institutions instruments and markets which fosters saving and channels them to their most efficient use".

According to Van Horne, "financial system allocates savings efficiently in an economy to ultimate users either for investment in real assets or for consumption".

According to Prasanna Chandra, "financial system consists of a variety of institutions, markets and instruments related in a systematic manner and provide the principal means by which savings are transformed into investments".

Thus financial system is a set of complex and closely interlinked financial institutions, financial markets, financial instruments and services which facilitate the transfer of funds. Financial institutions mobilise funds from suppliers and provide these funds to those who demand them. Similarly, the financial markets are also required for movement of funds from savers to intermediaries and from intermediaries to investors. In short, financial system is a mechanism by which savings are transformed into investments.

Characteristics and Features of Financial Services

1. **Customer-Specific:** Financial services are usually customer focused. The firms providing these services, study the needs of their customers in detail before deciding their financial strategy, giving due regard to costs, liquidity and maturity considerations. Financial services firms continuously remain in touch with their customers, so that they can design products which can cater to the specific needs of their customers. The providers of financial services constantly carry out market surveys, so they can offer new products much ahead of need and impending legislation. Newer technologies are being used to introduce innovative, customer friendly products and services which clearly indicate that the concentration of the providers of financial services is on generating firm/customer specific services.
2. **Intangibility:** In a highly competitive global environment brand image is very crucial. Unless the financial institutions providing financial products and services have good image, enjoying the confidence of their clients, they may not be successful. Thus institutions have to focus on the quality and innovativeness of their services to build up their credibility.
3. **Concomitant:** Production of financial services and supply of these services have to be concomitant. Both these functions i.e. production of new and innovative financial services and supplying of these services are to be performed simultaneously.
4. **Tendency to Perish:** Unlike any other service, financial services do tend to perish and hence cannot be stored. They have to be supplied as required by the customers. Hence financial institutions have to ensure a proper synchronization of demand and supply.
5. **People Based Services:** Marketing of financial services has to be people intensive and hence it's subjected to variability of performance or quality of service. The personnel in financial services organisation need to be selected on the basis of their suitability and trained properly, so that they can perform their activities efficiently and effectively.
6. **Market Dynamics:** The market dynamics depends to a great extent, on socioeconomic changes such as disposable income, standard of living and educational changes related to the various classes of customers. Therefore financial services have to be constantly redefined and refined taking into consideration the market dynamics. The institutions providing financial services, while evolving new services could be proactive in visualizing in advance what the market wants, or being reactive to the needs and wants of their customers.

Classification of Financial Services Sector

Financial service institutions render a wide variety of services to meet the requirements of individual users. These services may be summarized as below:

Banks: (Commercial banks)

The institutions for opening accounts, accepting public deposits, lending credit in the form of loans are the main functions of a bank. Banks are the most stable financial services companies in a company. The key functions of a bank are mentioned as follows:

1. To provide interest on deposits, issue cheque books, credit cards, debit cards, keep safe the depositors' money and valuable items like gold.
2. To offer loans to individuals and companies like personal loans, commercial loans and mortgage loans.
3. To enable the transfer of funds between the same or different banks via electronic fund transfer, issue demand drafts, allow withdrawal of money by ATMs, etc.
4. To provide for safe internet banking facilities to make banking easily accessible at all times.

Investment Banking
Investment banks are special types of banks which work for the trading of stocks and bonds for companies. The important functions of these banks are:
1. To provide underwriting services to public and private funds, in which in case of any damage or financial loss to the company, the investment bank guarantees the financial payment.
2. To provide merger and acquisition services, in which the institute helps a company to join or purchase another company.
3. To help a company in its risk management area, like identifying and avoiding the risk or making plans to overcome it in economic, securities terms of a company.

Investment marketing plays a key role in the restructuring of companies, performing securities research, and management of investments of the companies.

Investment Services
These firms offer to hold and manage securities for investment for other companies. Their function is to manage accounts and funds for a company or individual or to advise them regarding the management of investments. These firms may look after private equity, family offices (investments for a wealthy family), or be venture capital, angel investors, etc. These come under Non-banking financial services.

Insurance Firms
These companies are a form of risk management companies which specialize in guaranteeing financial security in case of damage or loss to property. These companies are responsible for underwriting insurance and annuities for life, property, retirement, casualties, etc. They may also offer insurance brokerage, representing their clients and dealing with other companies. They may also work for Reinsurance, which is insurance that is sold to insurers for protecting their losses.

Stock Market Services
Stock market deals with the trade of shares of publicly held companies. Some private stock exchange advisory firms work professionally for managing the stock exchange services for individuals or companies. It is very popular among investors who look out for higher returns. These returns are based on the profit of the company.

Foreign Exchange Services
Foreign Exchange deals with money trade across two or more countries. These firms work for exchange of foreign currency with our nation's currency, send and receive money to and from foreign nations.

Mutual Funds
Nowadays, other than banks, many independent firms for managing and holding mutual funds for individuals have come up. Mutual funds are a part of the highly dynamic money market. These companies offer to buy and invest funds collected from investors into other stocks, bonds or securities. There are different types of mutual funds—equity funds, Money market, income, money market, balanced, index, globalized funds etc.

Auditing and Taxing Services
These companies offer paid services for auditing, managing and consulting for tax and related matters for individuals and companies. Such companies perform tax, stock, process and transaction, risk audits for companies. They also provide services like determine tax liabilities, file tax returns, advising over structuring and compliance of taxes for individuals and companies.
In addition to these major services, many other services like brokerage agencies. There are many companies which integrate all these services for their clients.

Role and Importance of Financial Services sector in an Economy development
We must understand that this sector leads, manages and controls the flow of money in an economy. Developed countries have always shown a strong financial services sector.

Help Businesses to Grow
Financial services help in the development of businesses by giving them the required financial assistance, guaranteeing losses, etc. The loans issued by companies are used for buying fixed assets and/or investing in other fundraising sources.

Capital Growth
Both working and fixed capital growth are led by financial services system in an economy by promoting the issue of debentures, shares, short-term loans, etc.

Promotes Entrepreneurship Growth
Financial services are also available for entrepreneurs looking for funding and investors for their business. Banks do not easily give loans to new entrepreneurs, but other players in the market specialize in this field. Angel investors, Venture capitals, loan services, counseling services, etc. assist play a key role in the growth of entrepreneurship in India.
Infrastructure Development
Investment in infrastructure companies will promote more involvement of private sector companies in this sector.

Healthy Competition
A vast and expanded financial service sector and market gives the choice of investing their money in the investors' hands. Better the services, more the customers for a service and the company. This ensures competition among the firms which benefits the investors—the public and businesses of a country.

Promote free and easy trade
Availability of choices to investors and the public ensures trade without barriers, mediation by trusted banks and companies. It also helps in the development of domestic and foreign trade of goods and services.

Networking of Finance
The financial service sector is not one single company or bank. Rather, it is a network of companies working together for different matters of money. Consider a person has surplus money. He saves some amount in a bank and invests the remaining in the stocks market. He gets high returns on the stocks and earns a profit. He now decides to buy a car and gets its insurance done.

Easy Credit and Loan availability

Credits and loans are also the wheels of this financial system. Borrowing and lending capital and repaying it with interest is an age-old method of capital trade. But due to problems in less income, high demand for money in the market, there is a huge imbalance between loans and their repayment. In India, many companies and individuals are unable to pay back the loans and outstanding credit dues. This causes the downfall of the economy and building up of leverages and debts. This sector has to be regulated with more attention to the type of buyer.

Job Creation

Another way the financial service sector plays an important role is in job creation. This sector needs different kinds of the workforce based on their skills—management, accounting, law, IT, and more. This sector indeed needs skilled personnel. A study of India's top 250 companies revealed that almost 28% of total jobs are in the financial services sector. This is important for both the workers and the community as it leads to more understanding of how the financial market works among the common people.

Balance in the Economy

The financial services system helps in diversification of capital market and removes its monopoly from the government and central authorities. It encourages more investment from private companies and an overall, innovative, facilitative growth of the market.

Political Stability

The political conditions in all the countries with a developed financial system will be stable. Unstable political environment will not only affect their financial system but also their economic development.

Uniform Interest Rates

The financial system is capable of bringing a uniform interest rate throughout the country by which there will be balanced movement of funds between centres which will ensure availability of capital for all kinds of industries.

Electronic Development

Due to the development of technology and the introduction of computers in the financial system, the transactions have increased manifold bringing in changes for the all-round development of the country. The promotion of World Trade Organization (WTO) has further improved international trade and the financial system in all its member countries.

This also saves the economy from shocks in case of any sudden losses. In this case, both the government and private financial service companies are responsible for the balance and smooth working of the economy

Regulatory Authority of Financial Services Sector in India

Financial institutions, financial markets, financial instruments and financial services are all regulated by regulators like Ministry of Finance, the Company Law Board, RBI, SEBI, IRDA, Dept. of Economic Affairs, Department of Company Affairs etc. The two major Regulatory and Promotional Institutions in India are Reserve Bank of India (RBI) and Securities Exchange Board of India (SEBI). Both RBI and SEBI administer, legislate, supervise, monitor, control and discipline the entire financial system. RBI is the apex of all financial institutions in India. All financial institutions are under the control of RBI. The financial markets are under the control of SEBI. Both RBI and SEBI have laid down several policies, procedures and guidelines. These policies, procedures and guidelines are changed from time to time so as to set the financial system in the right direction.

Two major authorities play the lion's share in regulating the financial service system in India—the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). Their roles have been briefly discussed below.

The Reserve Bank of India

It regulates the banking system and Non-banking Financial Companies (NBFC) system in India. Not only these two, but the RBI monitors almost every aspect of money in India. It regulates liquidity in the financial market by governing interest rates, credit system to banks, management of foreign exchanges, and many more such functions.

The Securities and Exchange Board of India (SEBI)

The SEBI, established in 1992, it governs the functioning of the stock market. It guides the investors to protect them from fraud in the capitals market. It also audits the capital marketing companies.

Insurance Regulatory and Development Authority of India (IRDAI)

The IRDAI regulates insurance market in India. It regulates insurance companies, their licensing, and policies of working, premium rates and terms of non-life insurance covers, ensuring the solvency of the companies, ensuring insurance covers for people in rural areas.

Association of Mutual Funds of India (AMFI)

It oversees the mutual funds regulation in India. The Income Tax Department of India covers many aspects of the taxation of individuals and companies.

Growth and Contribution in GDP by Financial Service Sectors

The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions As of November 2020, the total number of ATMs in India increased to 209,282. The total asset of public sector banks stood at Rs. 107.83 lakh crore (US$ 1.52 trillion) in FY20. During FY16-FY20, bank credit grew at a CAGR of 3.57%. As of FY20, total credit extended surged to US$ 1,698.97 billion. During FY16-FY20, deposits grew at a CAGR of 13.93% and reached US$ 1.93 trillion by FY20.

According to the RBI, bank credit and deposits stood at Rs. 108 trillion (US$ 1.5 trillion) and Rs. 149.6 trillion (US$ 2.1 trillion), respectively, as of March 12, 2021. Credit to non-food industries stood at Rs. 107.3 trillion (US$ 1.5 trillion), as of March 12, 2021. Non-food industries grew at 5.7% in January 2021 as against an increase of 8.5% in January 2020

The country's financial services sector consists of capital markets, insurance sector and non-banking financial companies (NBFCs). India's gross national savings (GDS) as a percentage of Gross Domestic Product (GDP) stood at

30.50% in 2019. In 2019, US$ 2.5 billion was raised across 17 initial public offerings (IPOs). The number of ultra-high net-worth individuals (UHNWIs), with wealth of US$ 30 million or more, is expected to rise 63% between 2020 and 2025 to 11,198; India has the second-fastest growth in the world.

Table 1: Growth of the economy

Parameter	Level (Rs. Trillion)		Change (Times)	Share in GDP(Percent)	
	2011-12	2016-17		2011-12	2016-17
GDP at market prices	87.4	152.5	1.7	100.0	100.0
Gross domestic saving	30.3	45.7	1.5	34.7	30.0
Household sector	20.7	24.8	1.2	23.7	16.3
Private	8.3	18.5	2.2	9.5	12.1
Public	2.9	3.6	1.2	3.4	2.4
Gross capital formation	32.1	44.5	1.4	36.7	29.2
Public	6.6	11.2	1.7	7.5	7.4
Private	11.6	19.3	1.7	13.3	12.7
Household	13.9	14.0	1.0	15.9	9.2
Central Government Debt-GDP	45.1	74.3	1.6	51.7	48.7

Source: National Accounts Statistics, various years

India's financial needs are growing. Table 1 shows the changing profile of the economy since 2011-12. Table: 1 show that the nominal GDP grew from Rs 87.4 trillion in 201112 to Rs 152.5 trillion in 2016-17. The scale of saving and investment has increased considerably. This points to the need for further financial sector reform

India has scored a perfect 10 in protecting shareholders' rights on the back of reforms implemented by Securities and Exchange Board of India (SEBI) in the World Bank's Ease of Doing Business 2020 report.

As of January 2021, AUM managed by the mutual funds industry stood at Rs. 32.29 lakh crore (US$ 438.27 billion). Inflow in India's mutual fund schemes via the Systematic Investment Plan (SIP) route reached Rs. 82,453 crore (US$ 11.70 billion) in 2019. Equity mutual funds registered a net inflow of Rs. 8.04 trillion (US$ 114.06 billion) by end of December 2019.

16% assets in the mutual fund industry were generated from B30 locations in December 2020. These assets increased by 3%, from Rs. 4.95 lakh crore (US$ 62.26 billion) in December 2020 to Rs. 5.13 lakh crore (US$ 70.75 billion) in January 2021.

The Government of India has taken various steps to deepen reforms in the capital market, including simplification of the IPO process, which allows qualified foreign investors (QFIs) to access the Indian bond market. In 2019, investment in Indian equities by foreign portfolio investors (FPIs) touched five-year high of Rs. 101,122 crore (US$ 14.47 billion). Investment by FPIs in India's capital market reached a net Rs. 12.52 lakh crore (US$ 177.73 billion) between FY02-21 (till August 10, 2020).

Indian stock markets—S&P Sensex and Nifty50—rose 15.75 and 14.90%, respectively, in 2020. For the decade ended 2020, the Sensex gained a whopping 173% and Nifty surged by 169%.In January 2021, the National Stock Exchange (NSE) launched derivate on the Nifty Financial Service Index. This service index is likely to provide institutions and retail investors more flexibility to manage their finances.

In January 2021, the Central Board of Direct Taxes launched an automated e-portal on the e-filing website of the department to process and receives complaints of tax evasion, foreign undisclosed assets and register complaints against 'Benami' properties.

Fund raising from the equity market grew by 116% to Rs. 1.78 lakh crore in Initial public offering (IPOs), Offer for Sale (OFS) and other market issuances in 2020.

In December 2020, a US$ 50-million policy-based loan to enhance financial management practices and operational efficiencies aimed at achieving greater fiscal savings, fostering informed decision-making and enhancing service delivery in West Bengal was signed by the Asian Development Bank (ADB) and the Government of India.

In December 2020, the Reserve Bank of India issued a draft circular on declaration of dividends by NBFCs, wherein it proposed that NBFCs should have at least 15% Capital to Risk Weighted Assets Ratio (CRAR) for the last 3 years, including the accounting year for which it proposes to declare a dividend.

The government has approved 100% FDI for insurance intermediaries and increased FDI limit in the insurance sector to 74% from 49% under the Union Budget 2021-22.

Challenges Faced by the Financial Service Sector

Financial service sector has to face lot of challenges in its way to fulfill the ever growing financial demand of the economy. Some of the important challenges faced by financial services sector are as follows:

1. **Lack of qualified personnel:** There is a dearth of qualified and trained personnel & it is an important impediment in the growth of financial service sector. A proper comprehensive training is needed to be given to various financial intermediaries.
2. **Lack of investor's awareness:** Many innovative

financial products/instruments are coming in market but the investors are not aware about their advantages. Hence, financial intermediaries need to educate investors about various products.

3. **Lack of specialization:** Each financial intermediary is dealing in different financial service lines without specializing in one or two areas as is the condition in foreign countries. Hence financial intermediaries have to go for such specialization.
4. **Lack of recent data:** Most of the intermediaries do not spend more time on research and lack adequate data base required for financial creativity.
5. **Lack of efficient risk Management system** – With the opening up of economy to Multinationals and exposure of Indian companies to international competition, much importance is given to foreign portfolio flows involving multi-currency transactions exposing the client to exchange rate risk, interest rate risk, economic and political risk. Hence it is essential that they should introduce futures, options, swaps and other derivative products which are necessary for an effective risk management system.

The above challenges are likely to increase in number with the growing requirements of the customers. However, the financial system in India at present is in a process of rapid transformation, particularly after the introduction of new economic reforms.

Key Risk Areas under Financial Services

Generally, following types of risks are faced by financial institutions while providing various financial activities.

1. **Credit Risk:** The risk of default by the borrowing firm. There can be a systematic credit risk which is associated with general economy-wide macro-economic conditions affecting all borrowers e.g. economic recession, downfall of capital market due to some internal reasons in the country.
2. **Liquidity risk:** It arises when all liability claim holders seek to withdraw funds which can lead to solvency problem for a financial institution.
3. **Interest rate risk:** This risk arises when a financial institution mismatches its assets and liabilities.
4. **Market risk:** This risk arises due to sudden changes in interest rates, exchange rates in the market.
5. **Off-balance risks:** Risk relating to contingent assets and liabilities e.g. risk in case of letter of credit issued but due to some problems, financing institutions is required to make payment.
6. **Foreign exchange risk:** This arises due to changes in exchange rates.
7. **Country or sovereign risk:** This arises by a sudden interference from foreign governments.
8. **Insolvency risk:** Due to continuation of one or more of above risk, such risk may arise in a financial institution.

All these risks are inter related and to minimize such risks, financial institutions have started recruiting Chief Risk Officers (CRO‟s) who can keep track on these risks.

Future of Financial Services Sector in India

The future of the financial services sector in India seems to be a rough road ahead. With rising liabilities, rising debts and unused assets in the country, it is difficult to chain in everything at a time. Different policies and plans that focus primarily on people are expected.

The financial service sector is mainly clustered in urban areas. If the role of financial services has to be improved in the economic development then there is a need for spreading out to the rural areas and explores the potential of rural markets.

India is predicted to become the 4th largest finance market by 2028. To achieve this goal, there is a need for proper financial planning for different sectors of the country. We need to address the problems of the moderate-income households – or what we call the middle class—which is growing financially, educationally and is a stable group of consumers for these financial services in India.

Conclusion

The variety of financial services those are available in the Indian environment. Be it banking sector, there is huge potential in the market where RBI has suddenly developed its keenness to allow foreign direct investment and the role of private players. Be it NBFC, it is one of the fast emerging market in India. Be it insurance sector, India is ranked as 5th largest market in Asia by premium following Japan, Korea, China and Taiwan. Similarly, there is huge potential lying untapped in other financial services sector including capital market, mutual funds, etc. All in all, financial sector in India provided it meeting the required attention of the policy makers will emerge into a strong market which will be able to bear any shock and take the country on the path of growth.

In the field of technology based banking, information technology and electronic funds transfer system have emerged as the twin pillars of modern banking development. Products offered by banks have moved way beyond conventional banking and access to these services have become round the clock. This, indeed, is a revolution in Indian banking but some systemic changes are urgently required. Cyber laws and other procedures which are commensurate with modern technology based banking have to be put in place immediately and sufficient regulatory mechanism has to be instituted so that the fast strides in banking automation does not go on undesirable lines.

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