

CHAPTER 4
FINANCIAL SERVICE INDUSTRY IN INDIA

- 4.1 Introduction
- 4.2 Service Industry in India
- 4.3 Financial Service Industry in India
- 4.4. Financial Institutions in India
- 4.5 Role of Financial Institutions in India
- 4.6 Current Investment Scenario in India
- 4.7 The Indian Economic Indicators
- 4.8 Future of Financial Service Industry

CHAPTER 4

FINANCIAL SERVICE INDUSTRY IN INDIA

4.1. Introduction

Economic reform of 1991 had a great impact on redefining the financial system of India leading to overall economic development of the country. Today, India's financial system is considered to be sound and stable as compared to many other Asian countries where the financial market is facing many crises. India is now being ranked as one of the fastest growing economy of the world.

In the past, traditional financial products were offered in India through government initiatives by Public Sector Banks (PSBs) (deposit account, credit account), Life Insurance Corporation (LIC), and postal department (Recurring Deposit, National Saving Certificate, Kisan Vikas Patra). However, in recent years with the advent of liberalization of financial services industry, diverse financial products have been introduced through participation of private and foreign entities in addition to the public sector enterprises. These include products such as debit and credit cards by banks, open-end and closed-end mutual fund schemes (Exchange Traded Funds (ETFs), Index Funds, Systematic Investment Plans (SIP), Sector Funds, etc.), life and non-life insurance schemes (Unit Linked Investment Plans (ULIPs), pension plans, children education plans, etc.). It further includes shares and debt securities offered by various entities, investments which are mainly facilitated by the brokerage houses. This has led to rising competition through introduction of innovative and attractive products, regulatory initiatives and growth in the investor base along with increased marketing activities in the financial sector.

4.2. Service Industry in India

Service sector is the lifeline for the social economic growth of a country. Service Sector in India today accounts for more than half of India's GDP. According to data for the financial year 2006-2007, the share of services, industry, and agriculture in India's GDP is 55.1 per cent, 26.4 per cent, and 18.5 per cent respectively.⁹ The fact

⁹ iloveindia.com, 06/11/2009, 19.32 hrs.

that the service sector now accounts for more than half the GDP marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.

While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. Entire service sectors participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector.

4.3. Financial Service Industry in India

Reforms of the financial sector constitute the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter India. Deregulation in the form of elimination of exchange controls and interest rate ceilings have made the market more competitive. Innovation has become a must for survival. The financial services industry is comprised of a variety of businesses providing services broadly related to insurance, accounting, banking, brokerage, real estate, risk analysis, asset management, and investment. Insurance firms either provide insurance themselves as insurance carriers or sell the services of others as insurance brokers. Banks can be commercial or private, on the global, national, regional, or community level, and offer the safekeeping and lending of money as their base services. Brokerage firms act as intermediaries between buyers and sellers for a variety of things, such as securities and other commodities. Real estate firms provide services such as buying, selling, developing, operating, and otherwise managing real estate. A variety of different financial institutions may provide asset management and investment services.

The convergence of companies offering financial services has blurred the conventional boundaries that once separated banks, brokerages, and insurance companies. This trend has now become global. As a result, the convergence of financial services has created a new class of financial provider. These financial services conglomerates strive to provide customers with a vast portfolio of integrated financial services.

The Financial Services is changing at a fast pace. As the eleventh five-year plan has already in progress, India is targeting a GDP growth rate of around 9%. The savings of the country is now around 29%. Foreign investors are finding Indian market with high potential. India's forex reserve is around \$185 billion. Inflation is around 7% which is considered good for a developing economy. Sensex is more than 16 000 points in Bombay Stock Exchange. Some experts have opined that the share of the US in world GDP is expected to fall (from 21 per cent to 18 per cent) and that of India to rise (from 6 per cent to 11 per cent) by 2025, and India will emerge as the third pole in the global economy after the US and China.¹⁰

These changes are throwing up fresh challenges like managing complex technological divergence in a converging market. Banks strive to constantly offer more to the existing customer base. To achieve this, they emphasize on more targeted technology investments and high-quality service. To remain competitive, financial institutions will have to renew their commitment to investing in new technology strategically to reduce costs, improve efficiencies, and boost revenue-generating initiatives.

4.4 Financial Institutions in India

The Financial Institutions in India mainly comprises of the Central Bank which is better known as the Reserve Bank of India, the commercial banks, the credit rating agencies, the securities and exchange board of India, insurance companies and the specialized financial institutions in India.

4.4.1 Reserve Bank of India

The Reserve Bank of India was established in the year 1935 with a view to organize the financial frame work and facilitate fiscal stability in India. The bank acts as the regulatory authority with regard to the functioning of the various commercial bank and the other financial institutions in India. The bank formulates different rates and policies for the overall improvement of the banking sector. It issue currency notes and offers aids to the central and institutions governments.

Objectives of Reserve Bank of India

Following are the main Objectives of Reserve Bank of India

¹⁰ www.ibef.org 06/11/2009, 19.45 hrs.

1. To maintain Price Stability and ensure adequate flow of credit to productive sectors.
2. To Regulate and supervise the financial system •i.e. to prescribe broad parameters of banking operations within which the country's banking and financial system functions.
3. To maintain public confidence in the banking system
4. To protect depositors' interest and provide cost-effective banking services to the public.
5. To facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.
6. To Issue of currency.
7. To give the public adequate supply of currency of good quality and to provide loans to commercial bank to maintain or improve the GDP (Gross Domestic Product).
8. To issue bank notes.
9. To maintain the currency and credit system of the country to utilize it in its best advantage.
10. Price stability as well as economic development to achieve economic growth of the country.

These are the main objectives of Reserve Bank of India.

Functions of Reserve Bank of India:

Following are the main functions of Reserve Bank of India

1. **Monetary Authority:** To Formulate, implement and monitor the monetary policy.
2. **Regulator and Supervisor of the Financial System:** Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
3. **Manager Of Foreign Exchange:** Manages the Foreign Exchange Management Act, 1999.
4. **Issuer of Currency:** Issues and exchanges or destroys currency and coins not fit for circulation.
5. **Developmental Role:** Performs a wide range of promotional functions to support national objectives.

6. **Banker to the Government:** performs merchant banking function for the central and the state governments; also acts as their banker.

7. **Banker to Banks:** maintains banking accounts of all scheduled banks.

These are the main functions of Reserve Bank of India.

4.4.2 Commercial Banks In India:

The commercial banks in India are categorized into foreign banks, private banks and the public sector banks. The commercial banks indulge in varied activities such as acceptance of deposits, acting as trustees, offering loans for the different purposes and are even allowed to collect taxes on behalf of the institutions and central government.

Functions of Commercial Banks:

Functions of Commercial banks can be categorized into two types.

1. Primary or Principal Function

2. Secondary or Ancillary function

1. Primary or Principal Function:

Primary or principal functions of a commercial bank are three types

a. Acceptance of Deposit

An important function of commercial banks is to attract deposit from the public. Those people who have cash account and want their safety; they deposit that amount of banks. Commercial banks accept deposits every class and source and take responsibility to repay the deposit in the same currency whenever they are demanded by depositors

b. Lending

Another function of commercial banks is to make loans and advance out of the deposit receive in various forms. Bank Apply the accumulated public deposits to productive uses by way of loans and advances, overdraft and cash credits against approved securities

c. Investment:

Now a days commercial banks are also involved in Investment. Generally investment means long term and medium term investments.

2. Secondary or Ancillary Function:

Secondary or Ancillary functions of Commercial Banks are two types:

A. Agency Services

Following are the Agency Services provided by the Commercial Banks.

- a. Collection and Payment of Cheques
- b. Standing Instruction
- c. Acting as correspondence
- d. Collecting of bills- electricity, gas, WASA, telephone etc.
- e. Purchase and Sales of stocks/ share-act as a banker to issue

B. Miscellaneous Or General Services:

Following are the Agency Services provided by the Commercial Banks.

- a. Safe Custody- bailee.
- b. Lockers-trustee
- c. Remittance facilities –DD, TT, MT and PO
- d. Provide Advisory services
- e. Provide Credit reports
- f. Opening L/C
- g. Demand in ForEx/ Travers Cheque only Authorized Dealer branches.
- h. Complete service in Foreign Trade
- i. Other Services: Debit Card, Credit Card, On-line banking SMS banking.

4.4.3 Co-Operative Banks

Co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts...). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body. Even if their organizational rules can vary according to their respective national legislations, co-operative banks share common features:

1. Customer-Owned Entities:

In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the first aim of a co-operative bank is not to maximize profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

2. Democratic Member Control:

Co-operative banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of "one person, one vote".

3. Profit Allocation :

In a co-operative bank, a significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves. A part of this profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases. Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operative's products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

These are the main features of the Cooperative Banks in India.

4.4.4 Scheduled Banks

Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act. As on 30th June, 1999, there were 300 scheduled banks in India having a total network of 64,918 branches. The scheduled commercial banks in India comprise of State bank of India and its associates (8), Nationalized banks (19), Foreign banks (45), Private sector banks (32), Co-operative banks and Regional rural banks.

The banks included in this schedule list should fulfill two conditions.

1. The paid capital and collected funds of bank should not be less than Rs. 5 lac.
2. Any activity of the bank will not adversely affect the interests of depositors.

Every Scheduled bank enjoys the following facilities

1. Such bank becomes eligible for debts/loans on bank rate from the RBI
2. Such bank automatically acquires the membership of clearing house.

4.4.5 Insurance Regulatory and Development Authority

The Insurance Regulatory and Development Authority was established in the year 1999 by the Indian Government, for two significant reasons- One is to safeguard the interest of the policy holders and second is for the up gradation of entire insurance sector right from the approach adopted by existing insurance companies towards their shareholders to the eradication of the shortcomings of Insurance industry. The organization was set up under the guidelines of the Insurance Regulatory and Development Authority Act, 1999.

a. Mission of IRDA

Mission of IRDA as stated in the act is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto."

b. Function of Insurance Regulatory and Development Authority:

As mentioned earlier that the Insurance Regulatory and Development Authority was established to safeguard the interests of the policyholders. The Insurance Regulatory and Development Authority ensure it through various ways such as:

1. Nomination by Policyholders.
2. Settlement of insurance claim.
3. Practical training for Insurance agents and other intermediaries.
4. Insurable Interest.
5. Surrender value of Policyholders.
6. Code of conduct of Insurance intermediaries.
7. Assistance in gaining correct information about policies.
8. Creation of management information system.
9. Promotion of Self regulation within the insurance sector.

4.4.6 Securities and Exchange Board of India (SEBI)

In 1988 the Securities and Exchange Board of India (SEBI) was established by the Government of India through an executive resolution, and was subsequently upgraded as a fully autonomous body (a statutory Board) in the year 1992 with the passing of

the Securities and Exchange Board of India Act (SEBI Act) on 30th January 1992. In place of Government Control, a statutory and autonomous regulatory board with defined responsibilities, to cover both development and regulation of the market, and independent powers has been set up. Paradoxically this is a positive outcome of the Securities Scam of 1990-91.

a. Objectives of SEBI

Following are the basic objectives of SEBI:

1. To Protect the Interests of Investors in Securities.
2. To Promote the Development of Securities Market.
3. To Regulate the Securities Market And
4. For Matters Connected Therewith or Incidental Thereto.

Since its inception SEBI has been working targeting the securities and is attending to the fulfillment of its objectives with commendable zeal and dexterity. The improvements in the securities markets like capitalization requirements, margining, establishment of clearing corporations etc. reduced the risk of credit and also reduced the market.

SEBI has introduced the comprehensive regulatory measures, prescribed registration norms, the eligibility criteria, the code of obligations and the code of conduct for different intermediaries like, bankers to issue, merchant bankers, brokers and sub-brokers, registrars, portfolio managers, credit rating agencies, underwriters and others. It has framed bye-laws, risk identification and risk management systems for Clearing houses of stock exchanges, surveillance system etc. which has made dealing in securities both safe and transparent to the end investor.

b Functions of SEBI:

Following are SEBI's important functions:

1. Regulates Capital Market and Checks Trading of securities.
2. Checks the malpractices in securities market.
3. It enhances investor's knowledge on market by providing education.
4. It regulates the stockbrokers and sub-brokers.
5. To promote Research and Investigation

4.4.7 Specialized Financial Institutions in India

There are a number of specialized financial institutions in India that have been incorporated for a definite purpose. These institutions include the insurance companies, the housing finance companies, mutual funds, merchant banks, credit reporting and debt collection companies and many more. Some of the specialized financial institutions in India are as follows:

4.4.7.1 Unit Trust of India (UTI)

Unit Trust of India was created by the UTI Act passed by the Parliament in 1963. For more than two decades it remained the sole vehicle for investment in the capital market by the Indian citizens. In mid- 1980s public sector banks were allowed to open mutual funds. The real vibrancy and competition in the MF industry came with the setting up of the Regulator SEBI and its laying down the MF Regulations in 1993. UTI maintained its pre-eminent place till 2001, when a massive decline in the market indices and negative investor sentiments after Ketan Parekh scam created doubts about the capacity of UTI to meet its obligations to the investors. This was further compounded by two factors; namely, its flagship and largest scheme US 64 was sold and repurchased not at intrinsic NAV but at artificial price and its Assured Return Schemes had promised returns as high as 18% over a period going up to two decades.

4.4.7.2 Securities Trading Corporation of India Ltd. (STCI)

As a Primary Dealer, the Company undertook trading in GOI securities, Public Sector bonds, Non-SLR instruments and money market instruments. The Company also carried out proprietary equity trading. Other lines of activities included trading in Interest Rate Swaps- both for hedging and market making. Securities Trading Corporation of India Limited (STCI) was set up as a subsidiary of Reserve Bank of India in May 1994 with the objective of fostering an active secondary market in Government of India Securities and Public Sector bonds. The Company had a subscribed and paid up capital of Rs 500 crores with RBI owning the majority stake to the tune of 50.18%. In

1996, STCI was authorized by RBI as one of the first Primary Dealers in India.

4.4.7.3 Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India Limited, popularly known as IDBI Bank is one of the leading public sector banks in India. Categorized as "other public sector bank" by Reserve Bank of India (RBI), IDBI Bank is also the 4th largest Indian bank

IDBI Bank was founded on July 1, 1964 under an Act of Parliament. It was established as a wholly owned subsidiary of RBI (Reserve Bank of India).

It worked as the main financial institution, whose main goal was to coordinate with other institutions associated with financing, developing and promoting the industry. With the public issue of IDBI Bank released in July 1995, the share holding of the Government came down below 100%. However, the majority of the share was still owned by the government, which is currently 52.3%. IDBI Bank started offering a wide array of products and services to its customers, which covered entire range of industrial activities including services and manufacturing. For different customer groups and needs, there are different types of products and services including Personal Banking, Corporate Banking, SME Finance and Agri Business etc.

4.4.7.4 Industrial Reconstruction Bank of India (IRBI)

The industrial investment bank of India is one of oldest banks in India. The Industrial Reconstruction Corporation of India Ltd., set up in 1971 for rehabilitation of sick industrial companies, was reconstituted as Industrial Reconstruction Bank of India in 1985 under the IRBI Act, 1984. With a view to converting the institution into a full-fledged development financial institution, IRBI was incorporated under the Companies Act, 1956, as Industrial Investment Bank of India Ltd. (IIBI) in March 1997. IIBI offers a wide range of products and services, including term loan assistance for project finance, short duration non-project asset-backed financing, working capital/ other short-term loans to companies, equity subscription, asset credit,

equipment finance as also investments in capital market and money market instruments.

4.4.7.5 Export - Import Bank of India (Exim Bank)

The Export-Import Bank of India ranks high among the specialized financial institutions in India. It was set up in the year 1981 to enhance International Trade in India with the aid of a two-way approach. It offers financial assistance to the exporters and importers and also by acting as a link between the various financial institutions to ensure overall development of the Indian financial market. The bank offers financial assistance to the various sectors like agriculture, export, import, and film industry. The funded capital scheme of the bank includes long-term working capital, cash flow financing, and the non funded capital scheme include letter of credit limits, guarantee limits. The bank is also engaged in offering specialized services such as Human Resource Management, Research and Planning, Internal Audit etc. The Export-Import Bank of India has set up offices through out India and in foreign countries as well. The head office is located at Mumbai

4.4.7.6 Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India also ranks high among the specialized financial institutions in India. It was founded in the year 1990 to develop the small-scale industry in India with the aid of advisory services. The bank offers financial assistance to the small and medium scale industries and coordinated the functioning of the other financial institutions that caters to the need of the agro-industries in India. The Small Industries Development Bank of India offers financial assistance for significant issues like infrastructure development, rehabilitation for sick industrial units. The investors can take the advantage of the unique fixed deposit scheme offered the bank. For the recently launched companies the bank provides composite loan, technology up gradation fund, direct credit scheme etc. The existing members are allowed direct credit scheme, credit linked capital subsidy etc. For the up gradation of the standard of Indian women and to help them achieve financial independence the bank offers two specialized financial program named as marketing fund for women and Mahila Udhya Nidhi.

4.4.7.7 National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India. It has been accredited with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India".

NABARD was established on the recommendations of Shivaraman Committee, by an act of Parliament on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premiere agencies to provide credit in rural areas.

Role of NABARD

Following points discuss role of NABARD.

1. To serve as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas
2. To take measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
3. To co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation
4. To undertake monitoring and evaluation of projects refinanced by it.

4.4.7.8 Life Insurance Corporation of India (LIC)

Life Insurance Corporation is the largest state-owned life insurance company in India, and also the country's largest investor. It is fully owned by the Government of India. It also funds close to 24.6% of the Indian Government's expenses. It has assets estimated of 9.31 trillion (US\$ 202.03 billion). It was founded in 1956.

Objectives of LIC of India

Following are the main objectives of Life Insurance Corporation of India.

1. To spread and provide life insurance to the masses at a reasonable cost.
2. To spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
3. To maximize mobilization of people's savings by making insurance-linked savings adequately attractive.
4. To conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.
5. To act as trustees of the insured public in their individual and collective capacities.
6. To meet the various life insurance needs of the community that would arise in the changing social and economic environment.
7. To involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.

To promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objectives.

4.4.7.9 National Housing Bank (NHB)

The National Housing Bank was established in the year 1988 as per the guidelines of the National Housing Bank Act, 1987 with a view to accelerate the growth of the Housing Financing Institutions by providing them with

financial and other required assistance. The company extends financial assistance for entire infrastructural development offers refinance to the existing housing finance companies etc. The bank has set up specialized divisions like Development and Risk Management, Project Finance, Refinancing Operations, Resource Mobilization and Management etc. The head office is located at New Delhi

Apart from these, there are several other financial institutions that are existing in the country. These are the stock brokers and sub-brokers, portfolio managers, investment advisors, underwriters, foreign institutional investors and many more.

4.5 Role of Financial Institution in India

Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. The financial institutions have traditionally been the major source of long-term funds for the economy. These institutions provide a variety of financial products and services to fulfil the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development.

The Government of India, in order to provide adequate supply of credit to various sectors of the economy, has evolved a well developed structure of financial institutions in the country. These financial institutions can be broadly categorised into All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rates of interest. They subscribe to the debenture issues of companies, underwrite public issue of shares, guarantee loans and deferred payments, etc. Though, the State level institutions are mainly concerned with the development of medium and small scale enterprises, but they provide the same type of financial assistance as the national level institutions.

Credit availability for infrastructure sector is also extremely important. The success of any financial system can be fathomed by finding out the availability of reliable and

adequate credit for infrastructure projects. Fortunately, during the past about one decade there has been increased participation of the private sector in infrastructure projects.

The banks and the financial institutions also cater to another important need of the society i.e. mopping up small savings at reasonable rates with several options. The common man has the option to park his savings under a few alternatives, including the small savings schemes introduced by the government from time to time and in bank deposits in the form of savings accounts, recurring deposits and time deposits. Another option is to invest in the stocks or mutual funds.

In addition to the above traditional role, the financial institutions also perform certain new-age functions which could not be thought of a couple of decades ago. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and the credit/debit cards has revolutionized the choices available with the customers. The banks also serve as alternative gateways for making payments on account of income tax and online payment of various bills like the telephone, electricity and tax. The bank customers can also invest their funds in various stocks or mutual funds straight from their bank accounts. In the modern day economy, where people have no time to make these payments by standing in queue, the service provided by the banks is commendable.

4.6 Current Investment Scenario in India

Globalization and Foreign Direct Investment form an integral part of all the developed as well as developing economies. In fact, the growth of the underdeveloped economies is also dependant on these key factors. These components equip any nation with new skills, new items and provide smooth access to markets and technology. Today, every nation across the globe is looking for foreign and overseas investors. Whether it's India or China, everyone wants foreign investments. According to recent trends, India is only second to China in the league of favorite investment destinations. In the report issued by Department of Industrial Policy and Promotion, the fund inflow to India reached US\$ 27.3 billion in the period 2008-09, considered from the month of April 2008 to the month of March 2009. Last quarter of 2008-09 alone witnessed an inflow of approx. US\$ 6.2 billion.

In the reports issued by Reserve Bank of India for outward investment from India, a growth of 29.6% to US\$17.4 billion has been seen in the period 2007-08. The figures do not include individuals and banks. India is considered the 2nd highest foreign employer in the United Kingdom after the United States.

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4.7 The Indian Economic Indicators

The India economic indicators are essential as they given an accurate status of India and across economy at different points of time. Various types of Indian economic indicators are used for various periods of time. These help us to analyze the Indian economy.

4.7.1 Gross Domestic Product of India

The gross domestic product (GDP) of India, according to purchasing power parity was US \$2.996 trillion in the financial year 2007. And in terms of official exchange rate, it was US \$1.099 trillion. There was a real growth rate of 9 percent in India. Per capita gross domestic product (GDP) of India in terms of purchasing power parity in the financial year 2007 was US \$2,600. The agricultural sector contributed 17.2% of India's gross domestic product; the industrial sector contributed 29.4% of the GDP while the services sector contributed 53.7% of the GDP in the financial year 2008.

4.7.2 Rate of inflation in India

An important economic indicator is the rate of inflation. The rate of inflation (CPI) was 7.8% for the year 2008. In 2007, the rate of inflation as per the wholesale price index was 8.75 percent.

4.7.3 Foreign Institutional Investors' (FII)

There were net investments by foreign institutional investors' (FIIs) to the tune of US\$ 10 billion from April to September of 2009-10. Most of these investments have come from the primary market. According to the Securities and Exchange Board of India (SEBI), FII net investment was US\$ 7.08 billion till 6 November 2006.

4.7.4 Foreign Direct Investment (FDI)

In July 2009, the inflow of foreign direct investment (FDI) was US\$ 3.5 billion according to Mr Anand Sharma, the Commerce and Industry Minister. During April-July 2009, FDI equity inflows receipts were US\$ 10.532 billion. In June 2009, India attracted foreign direct investment worth US\$ 2.58 billion according to the Department of Industrial Policy and Promotion (DIPP).

4.8 Future of Financial Service Industry

As the financial services industry becomes more fast-paced and competitive, technology will be an even more important component of success. Probably more than any other sector of the American economy, financial services rides the crest of technological innovation. Finance is increasingly a twenty-four-hour, seven-day-a-week global activity with vast sums flashing between markets over the electronic communications web. The ability to instantaneously interpret the financial markets and anticipate their movement can bring huge profits or avoid disastrous losses. With large sums committed in the markets, financial organizations need to calculate how much risk they are accepting. India's financial services sector will enjoy generally strong growth during coming years, driven by rising personal incomes, corporate restructuring, financial sector liberalization and the growth of a more consumer-oriented, credit-oriented culture. This should lead to increasing demand for financial products, including consumer loans (especially for cars and homes), as well as for insurance and pension products.

Following are driving forces for future of financial service industry

4.8.1 Greater expectations

This is one of the most important trends across society and business, and it's not likely to change. Becoming extreme in developed countries in terms of expectations of health, environment, transparency, service and far more, expectations will also soar in developing countries.

4.8.2 Integration

Increased integration of information flows and applications will transform the flow of financial information, and the architecture of financial applications.

4.8.3 New payment mechanisms

While underlying inter bank payment systems are unlikely to change dramatically, the way payments are made by individuals and companies are being transformed. From online and mobile payments to biometric authorization, new payment mechanisms will gradually supplant cash for most uses. The reality of black market economies means cash will never die.

4.8.4 Modularization

Integration technologies are leading to a 'modular economy', in which business processes are being broken down into small elements that can be combined and recombined across organizational and national boundaries.

4.8.5 New capital markets

Microfinance has already created new markets for capital. Markets for capital are essential and will emerge. For both the poorest and also small emerging businesses, new markets will emerge. The wholesale shift to a knowledge-based economy with lower capital requirements needs to be matched with investors seeking broader participation in the economy.

4.8.6 Value of relationships

The value of relationships is nothing new, but paradoxically in a technology-driven world relationships are becoming even more important. Virgin Money's business is only relationships - with its customers and suppliers of financial services.

Above explained points shows the future of Financial Service Industry in India.