

FINANCIAL SERVICES: AN OVERVIEW

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ABSTRACT

With the increase in the employment people are more aware about the financial assistance. They want to know where to invest the money so their earning may become safer. For the convenience of people it motivates us to write on the topic Financial Services. The paper discussed below highlights on the Finance Services provided by Banks, Capital Market, Private Banking, Banking Services, Custody Services, Bank Cards, Credit Card Services and Networks, Investment Services, Asset management, Hedge Fund Management, Insurance, Reinsurance, Intermediation or Advisory Services, Stock brokers (private client services) and Discount Brokers, Private Equity, Venture Capital, Share Market, Mutual Funds, etc.

Some references regarding the Financial Services are incorporated through which the study was carried out. They also motivated and help us in writing the paper on such an important topic.

Keywords: Bank, Stock Market, Insurance Services, Mutual Funds, Leveraged Buyouts (LBO's), Life Insurance Corporation of India, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), National Electronic Fund Transfer (NEFT), Automatic Teller Machine (ATM), Asset Under Management (AUM).

1.0 INTRODUCTION

The term Financial Services is related to the services in which Finance is involved. It became more prevalent in the United States partly as a result of the Gramm-Leach-Bliley Act of the late 1990s. It enabled different types of companies operating in the US financial services industry at that time to merge. Eric Poggemiller^[9] gave the note on "The Consumer Response to Privacy Provisions in Gramm-Leach-Bliley. L. Richard Fisher^[11] highlighted on "The Gramm-Leach-Bliley Act and Its Implementation". In the USA almost every company which previously described themselves as a bank, insurance company, or brokerage house, now describes themselves in

some way or the other as a financial services institution. Pathak^[16] in the year 2008 discussed on the The Indian Financial System. Companies usually have two distinct approaches to this new type of business. One approach would be a bank which simply buys an insurance company or an investment bank, keeps the original brands of the acquired firm, and adds the acquisition to its holding company simply to diversify its earnings. Outside the U.S., such as in Japan, non-financial services companies are permitted within the holding company. In this scenario, each company still looks independent, and has its own customers, etc.

In the other style, a bank would simply create its own brokerage division or insurance division and attempt to sell those products to its own existing customers, with incentives for combining all things with one company. Report on development Banking in India^[10] was given by IDBI, in 2000-01. The Indian financial sector is on a roll. Driven by a strong investor interest and an expanding market, the industry is also becoming more vibrant, with new types of products and services being offered to meet the needs of the booming economy. Chandra Shekher^[5] in 2001 wrote an article on Unit Trust of India, A New Lease of life, in Chartered Financial Analyst.

The attractiveness of India in the global financial market is also reflected in the Indian cities such as Mumbai, New Delhi and Bangalore - finding a place of pride in the list of the world's top 75 commercial centers, as per the 2008 'MasterCard worldwide Centers of Commerce Index'. Agrawal, Surabhi & Gupta Namita^[1] in 2002 also highlighted on Let's not talk about Equity, Portfolio Organizer. Bhatt^[3] in his article in The Economic Times discussed on Wealth Effect & the Bull Market. IDBI^[11], gave a report on development Banking in India. Bhattacharya, K^[4] in his article in "The Economic Times" highlighted on the topic Dealing with NPA Menace.

2.0 Banks

A "Commercial Bank" is referred to as a "bank".

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The term “commercial” is used to distinguish it from an “investment bank”, a type of financial services entity which, instead of lending money directly to a business, helps businesses raise money from other firms in the form of bonds (debt) or stock (equity). Satish^[17] also wrote on Indian Banks on Coming up trumps in Chartered Financial Analyst. Economic Times^[8] in its Various Issues discussed on Banks.

2.01 Capital Market Banks

Capital market banks underwrite debt and equity, assist company deals

(advisory services, underwriting and advisory fees), and restructure debt into structured finance products.

Prominent amongst capital market banks include:

- Barclays Capital
- Citigroup Global Markets (formerly Salomon Brothers)
- Credit Suisse First Boston
- Deutsche Bank
- Goldman Sachs
- ING Group
- JP Morgan Chase
- Lehman Brothers
- Merrill Lynch
- Morgan Stanley
- Needham & Company
- Nomura
- UBS
- Gleacher Shacklock
- D.A. Davidson & Co.

3.0 Private Banking

The providing of banking services to wealthy individuals and families. Many financial services firms require a person or family to have a certain minimum net worth to qualify for private banking services.

4.0 Banking Services

The primary operations of banks are:

- To keep money safe and allowing withdrawals when required
- Issuance of checkbooks so that bills can be paid and other kinds of payments can be delivered by post
- Provide personal loans, commercial loans, and mortgage loans (loans to purchase a home, property or to start new business or to expand it.)
- Issuance of credit cards and processing of credit card transactions and billing
- Issuance of debit cards for use as a substitute for checks
- Allow financial transactions at branches or by using Automatic Teller Machines (ATMs)

- Provide wire transfers of funds and Electronic fund transfers (NEFT) between banks
- Facilitation of standing orders and direct debits, so payments for bills can be made automatically
- Provide overdraft agreements for the temporary advancement of the Bank’s own money to meet monthly spending commitments of a customer in their current account.
- Provide Charge card advances of the Bank’s own money for customers wishing to settle credit advances monthly.
- Provide a check guaranteed by the Bank itself and prepaid by the customer, such as a cashier’s check or certified check.
- Notary service for financial and other documents.

4.0.1 Custody Services

Custody services and securities processing is a kind of ‘back-office’ administration for financial services. Assets under custody in the world were estimated to \$125 trillion at the end of 2007^[22]. Firms engaged in custody services include:

- State Street Corporation
- The Bank Of New York Mellon
- JP Morgan Chase
- PNC Financial Services Group
- Kas Bank

4.0.2 Bank Cards

Bank cards include both credit cards and debit cards.

Bank of America is the largest issuer of bank cards.

The other banks that issue card are as under:

- a- American Express
- b- Barclaycard
- c- Capital One
- d- Discover Card
- e- HSBC
- f- Intelligent Finance
- g- MasterCard
- h- Washington Mutual
- i- VISA

4.0.3 Credit Card Machine Services and Networks

Companies which provide credit card machine and payment networks call themselves “merchant card providers”. These include:

- BA Merchant Services (Bank of America)
- First Data Corporation
- Heartland Payment Systems
- US Bank
- PBZ Card
- Barclays

- HSBC
- HBOS (Halifax Bank of Scotland)
- RBS (Royal Bank of Scotland)

5.0 Investment Services

5.0.1 Asset management

Asset management is the term usually given to describe companies which run collective investment funds.

The following is Global Investor's 2005 ranking of the top 10 investment managers by assets under management: For detail see table 1.1

5.0.2 Hedge Fund Management

Hedge funds often employ the services of "prime brokerage" divisions at major investment banks to execute their trades ^[21]. Prominent hedge funds include:

- Black-Rock, Inc.
- Bridgewater Associates
- Caxton Associates
- Citadel Investment Group
- Deutsche Bank
- Renaissance Technologies
- SAC Capital Partners
- Soros Fund Management
- Man Investments

6.0 Insurance

Insurance Brokerage: Insurance shop brokers for insurance (generally corporate property and casualty insurance) on behalf of customers ^[23]. Significant companies in this sector of the financial services market include:

- IBS Insurance Broking Services
- Aon Corporation
- Marsh & McLennan Companies
- Wachovia
- Wells Fargo

6.0.1 Insurance Underwriting

Personal lines insurance under-writers actually underwrite insurance for individuals, a service still offered primarily through agents, insurance brokers, and stock brokers. Underwriters may also offer similar commercial lines of coverage for businesses. Activities include insurance and annuities, life insurance, retirement insurance, health insurance, and property & casualty insurance. Some well known insurer includes:

Allianz	Allied Insurance
Allstate	AIG
Aviva	AXA
Berkshire Hathaway	Chubb Corporation
CGNU	Independent Order of Foresters

Geico	LIC
MetLife	Mutual of Enumclaw
Nationwide Insurance	New York Life
Safeco	State Farm
Zurich Financial Services	

6.0.2 Reinsurance

Reinsurance is insurance sold to insurers themselves, to protect them from tragic losses ^[24]. Firms which involved in this sector are:

- Berkshire Hathaway
- Lloyd's of London
- Munich Re
- Swiss Re
- Aon
- Towers Perrin

7.0 Intermediation or Advisory Services

7.0.1 Stock brokers (private client services) and Discount Brokers

Stock brokers assist investors in buying or selling shares. Primarily internet-based companies are often referred to as discount brokerages, although many now have branch offices to assist clients. These brokerages primarily target individual investors. Examples of discount brokerages include:

- Ameritrade
- Charles Schwab
- Edward Jones
- E-Trade
- Fidelity Investments
- Scottrade
- Tradeking
- FolioFN
- Share-builder

Full service and private client firms primarily assist execute trades and execute trades for clients with large amounts of capital to invest, such as large companies, wealthy individuals, and investment management funds. Examples include:

- Deutsche Bank
- Goldman Sachs
- Merrill Lynch
- Morgan Stanley
- Smith Barney
- UBS AG

8.0 Private Equity

They are closed-end funds, which usually take controlling equity stakes in businesses that are either private, or taken private once acquired. Private equity funds often use leveraged buyouts to acquire the firms in which they invest. The private equity funds can generate returns much higher than provided by the equity markets.

The year 2007 was a watershed for private equity market, which has emerged as the most preferred mode of fund mobilization for India Inc. The capital mobilized through this route was higher than the funds mobilized through IPO's, follow-on issues and qualified institutional placements put together.

India, in fact, topped the Asia private equity chart for the first time in 2007 in

terms of aggregate deal value. According to Grant Thornton, a total of US\$ 17.14 billion was mobilized through 386 deals by India Inc in 2007, compared to US\$ 7.8 billion in 2006. Real estate, infrastructure, banking and financial services were the dominant sectors attracting about 55 per cent of the total private equity investments. The growth continues apace in 2008. The total number of PE deals during the first five months of 2008 stood at 170, with an announced value of US\$ 6.39 billion as against 159 deals amounting to US\$ 4.97 billion during the corresponding period in 2007. India is among the top 10 countries in terms of value of private equity deals across the world, as per the global deal tracking firm Zephyr.

8.0.1 Venture Capital

It is a type of private equity capital typically provided by professional, outside investors to new, high-potential-growth companies in the interest of taking the company to an IPO or trade sale of the business.

8.0.2 Angel Investment

An angel investor or angel (known as a business angel or informal investor in Europe), is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital.

9.0 Market Share

The financial services industry constitutes the largest group of companies in the world in terms of earnings and equity market cap. However it is not the largest category in terms of revenue or number of employees. It is also a slow growing and extremely fragmented industry, with the largest company (Citigroup), only having a 3% US market share. The largest home improvement store in the US, Home Depot, has a 30 % market share, where as for largest coffee house Starbucks it has 32%.

10.0 Brand Equity

Each year, Business Week and Inter-brand publish their 100 Best Global Brands study, ranking the financial value of brands. The following are the

financial services companies in this list, ranked by this study for 2009. See table 1.2

11.0 Stock Markets

In the year 2007, Indian stock markets touches new peaks, sensex crossing 21,000 and Nifty crossing the 6,000 mark for the first time. It was the third best performing market in the world with a dollar return of 71.23%. The popular Bombay Stock Exchange (BSE) benchmark index, Sensex, posted its highest ever absolute gain of 6500 points in over two decades. Bhatt, U. R.^[3] discussed in The Economic Times on the Wealth Effect & the Bull Market. Alagari and Ganesh^[2] throw a light on Securitization and issues prospects. This performance of Indian stock markets has led to the total investor wealth of Bombay Stock Exchange (BSE) surging to a record high of over US\$ 1.7 trillion, with an average increase of over US\$ 10.18 million in every minute of trading during 2007. At the end of 2006, the total market capitalization was US\$ 812 billion.

Simultaneously, the National Stock Exchange (NSE) has climbed to the top spot in stock futures contracts and number-two slot in the index futures segment in the world. According to Ernst & Young, India was also the fifth largest market in terms of number of IPO's and seventh largest in terms of the proceeds for the year. Indian companies raised a whopping US\$ 11.48 billion through public issues in 2007, which is 83 per cent higher than US\$ 6.28 billion mobilized in 2006.

The robust performance of the Indian stock markets can also be seen in the huge increase in the funds mobilized by the corporate India. During 2007-08, India Inc mobilized a whopping US\$ 8.13 billion through issue of shares on rights issue, which is almost an eight-fold increase over US\$ 926.32 million raised in 2006-07. In fact, the mobilization of the funds in 2007-08 was more than the combined mobilization of the preceding 12 years. The flurry of fund raising activity by the companies on the Indian stock exchange has continued in 2008. Fund raising by India Inc through IPO's rose by a whopping 62 per cent since the beginning of 2008 to 29 May, 2008 to US\$ 4.2 billion, against US\$ 2.6 billion during the same period in 2006, according to global deal data provider Dialogic. Significantly, fund mobilization during the first quarter of 2008 is the second highest for a quarter in the Indian capital's history^[19].

12.0 Mutual Funds

India is also one of the fastest growing markets for mutual funds industry attracting a host of global players. The combination of increasing number of

fund houses (along with new schemes) and increase in the number of people parking their savings in mutual funds has resulted in total funds mobilization, increasing at a whopping 124.93 per cent during 2007-08 to stand at US\$ 1.11 trillion as against US\$ 485.13 billion in 2006-07^[18].

The average assets under management (AUM) of the mutual fund industry for March 2008 stood at US\$ 134.76 billion as against US\$ 89.86 billion at the end of 2006, representing a year-on-year growth of 49.96 per cent. A detail on an overview on mutual funds is discussed in Chartered Financial Analyst^[6], in July 2002.

13.0 Conclusion

From the above discussion we can say that Banking and Financial Services businesses have to deal with increasing globalization in a fast paced environment. This has led to issues like severe competition, a complex regulatory environment and increased efficiency pressures. Economies of scale and the capability to innovate will prove to be sustainable competitive advantages and these can be achieved only by making intelligent technology decisions. To combat these challenges, Banking and Financial services providers have to focus on -

- Aligning business processes to provide customer concentric services
- Increase outsourcing initiative enabling reduction in application development time and cost
- Encourage technology standardization for better scalability and techno-operational flexibility
- Continuously reengineer and reinvent the business and operational processes
- Intensify use of control procedures to detect fraud and to meet regulatory requirements

Datamatics is the preferred outsourcing partner to global financial services corporations. It brings together rich domain knowledge and strategic business consulting skills helping clients to respond effectively to change. It also provides a broad range of IT services in Application Development, Application Management, Enterprise Applications and Embedded Systems.

The good spirits in the economy is estimated to lead to a four-fold increase in India's investable wealth from US\$ 250 billion in 2007 to US\$ 1 trillion by 2012. Simultaneously, according to a report by Celent, an international consultancy firm, India's wealth management segment will rise to an estimated 42 million households by 2012 from about 13 million households in 2007. It seems that there is huge potential in this segment. Significantly, wealth

management revenues are expected to account for 32-37 per cent of the total full-service financial institutions by 2012. The market is also expected to undergo a structural transformation with organized players increasing their market share.

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Table 5.0.1

Rank	Company	Assets under management (US\$ million)	Country
1.	Barclays Global Investors	1,400,491	UK
2.	State Street Global Advisors	1,367,269	US
3.	Fidelity Investments	1,299,400	US
4.	Capital Group Companies	1,050,435	US
5.	The Vanguard Group	852,000	US
6.	Allianz Global Investors	790,513	Germany
7.	JP Morgan Asset	782,646	US
8.	Mellon Financial Corporation	738,294	US
9.	Deutsche Bank Asset	723,366	Germany
10.	Northern Trust Global	589,800	US

Table 1.2

Rank	Brand	Brand Value (US\$ Billions)	Annual Change	2005 Rank	Country of Origin
11	Citigroup	21.46	7%	12	U.S.
14	American Express	19.64	6%	14	U.S.
21	Merrill Lynch	13.00	8%	25	U.S.
28	HSBC	11.62	11%	29	U.K.
33	J.P. Morgan	10.21	8%	34	U.S.
36	Morgan Stanley	9.76	0%	33	U.S.
37	Goldman Sachs	9.64	13%	37	U.S.