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Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES**: These should be simple, crystal clear, centered, separately numbered &self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

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- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
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- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS
- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS
- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES
- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES
- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES
- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

CHALLENGES BEFORE INDIAN FINANCIAL SECTOR IN INFORMATION AGE

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ABSTRACT

The reforms in the financial sector have changed the shape of Indian banking industry into a much regulated and organized industry. The market developments with liberalization and globalization have resulted in transformation of banks in a much higher pace with technology. The Indian financial system is a group of various players like PSU'S , private banks, regional rural banks, foreign banks, cooperative banks and many more .Today the customers need not to stand in long queues for making transactions in the commercial banks in Indian. Now with the proliferation of internet, banking transactions have become much more convenient. Though the banking sector in India has adjusted quite fairly with the emerging environment and is trying to extend its reach and diversity, yet greater challenges lie ahead. Banks will have to prepare themselves for the greater challenges lying ahead in future. Some of these are to minimize the fiscal deficit, to improve system for dealing with weak banks, and develop the capital market, to improve financial services for the welfare of customers and to improve the legal, regulatory and supervisory frameworks or banking sector.

KEYWORDS
financial sector, information age.

INTRODUCTION
The economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate sector, government and household sector. While performing their activities these units will be placed in a surplus/deficit/balanced budgetary situations.

There are areas or people with surplus funds and there are those with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities.

REVIEW OF LITERATURE
A review of the literature is an essential part of our academic research project. The review is a careful examination of a body of literature pointing toward the answer to our research question.

Literature reviewed typically includes scholarly journals, scholarly books, authoritative databases and primary sources. Sometimes it includes newspapers, magazines, other books, films, and audio and video tapes, and other secondary sources.

Primary sources are the origin of information under study, fundamental documents relating to a particular subject or idea. Often they are firsthand accounts written by a witness or researcher at the time of an event or discovery. These may be accessible as physical publications, as publications in electronic databases, or on the Internet.

Secondary sources are documents or recordings that relate to or discuss information originally presented elsewhere. These, too, may be accessible as physical objects or electronically in databases or on the Internet.

Literature reviews that Indian banking system consist of a larger structure on of financial institutions, Commercial banks, foreign financial institutions. The Reserve bank of India, performed role as a supervisor and controller of finance system. RBI, dominated over all the forms of finance controls in India. RBI, worked on financial stability, credit control, and regulation of interest rates and formation banking structure.

The main aims of financial liberalization program is to regulate the rates of interest, cash reserves and performance financial system consist of financial institute stocks exchanges and banks. It makes liberalization program enhance the importance of banking sector and make it more efficient and competitive.

The paper starts with a review of the literature on the design of the financial system and the existence of banks. It proceeds with a presentation of the market failures that justify banking regulation and an analysis of the mechanisms that have been suggested to deal with these failures. The paper then reviews the theoretical literature on bank capital regulation.

IMPORTANCE OF THE STUDY
The purpose of research is to inform action. Thus, our study should seek to contextualize its findings within the larger body of research. Research must always be high quality in order to produce knowledge that is applicable outside of the research setting with implications that go beyond the group that has participated in the research. Furthermore, the results of our study should have implications for policy and project implementation.

Well-conducted research is vital to the success of global heath endeavors. Not only does research form the foundation of program development and policies all over the world, but it can also be translated into effective global health programs. Research draws its power from the fact that it is empirical: rather than merely theorizing about what might be effective or what could work, researchers go out into the field and design studies that give policymakers hard data on which they can base their decisions. Furthermore, good research produces results that are examinable by peers, methodologies that can be replicated, and knowledge that can be applied to real-world situations. Researchers work as a team to enhance our knowledge of how to best address the world's problems.

RESEARCH METHODOLOGY
The process used to collect information and data for the purpose of making business decisions. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information.

SOURCES OF DATA

PRIMARY DATA-Theprimary data are those data which are collected a fresh and for the first time.

SECONDARY DATA-are those data which have already been collected from someone else and which have already been passed through statistical process.

In this project, I have used secondary data which have been collected from following sources-

Books
Internet
Others

ROLE/FUNCTIONS OF FINANCIAL SYSTEM
A financial system performs the following functions:

- It serves as a link between savers and investors. It helps in utilizing the mobilized savings of scattered savers in more efficient and effective manner. It channelizes flow of saving into productive investment.

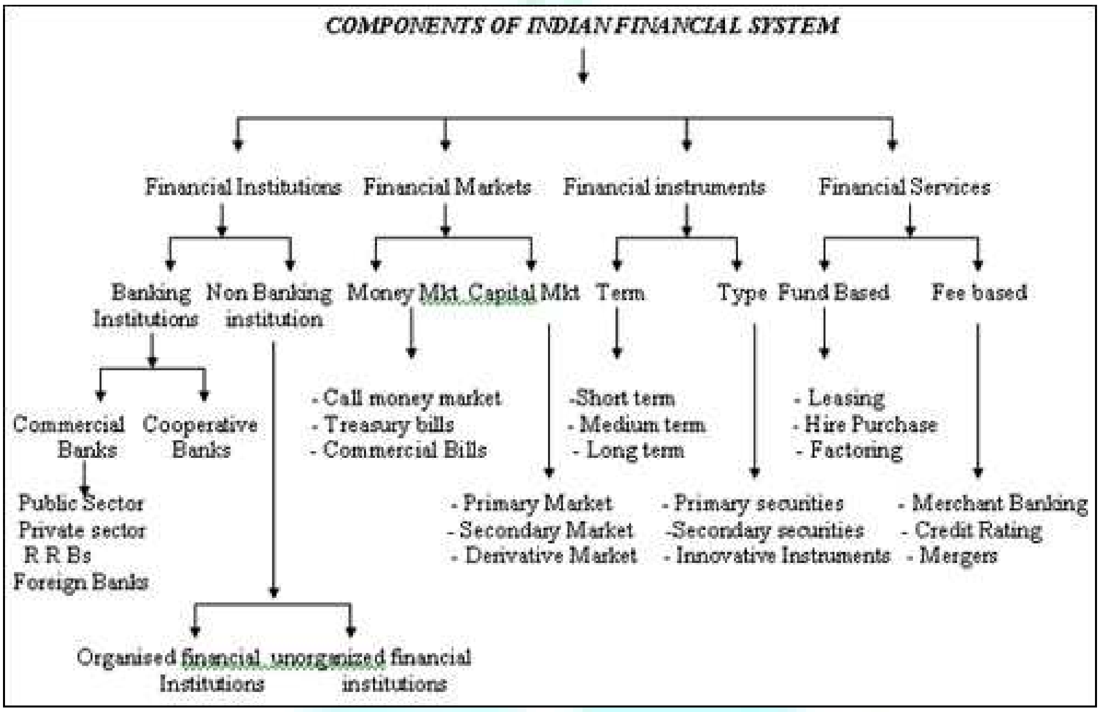
- It assists in the selection of the projects to be financed and also reviews the performance of such projects periodically.
- It provides payment mechanism for exchange of goods and services.
- It provides a mechanism for the transfer of resources across geographic boundaries.
- It provides a mechanism for managing and controlling the risk involved in mobilizing savings and allocating credit.
- It promotes the process of capital formation by bringing together the supply of saving and the demand for investible funds.
- It helps in lowering the cost of transaction and increase returns. Reduce cost motives people to save more.
- It provides you detailed information to the operators/ players in the market such as individuals, business houses, Governments etc.

COMPONENTS OF INDIAN FINANCIAL SYSTEM

The following are the four main components of Indian Financial system

1. Financial institutions
2. Financial Markets
3. Financial Instruments/Assets/Securities
4. Financial Services

FIG. 1



FINANCIAL INSTITUTION

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities seeking advice on various issues ranging from restructuring to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets elsewhere. Financial institutions act as financial intermediaries because they act as middlemen between savers and borrowers.

Intermediary	Market	Role
Stock Exchange	Capital Market	Secondary Market to securities
Investment Bankers	Capital Market, Credit Market	Corporate advisory services, Issue of securities
Underwriters	Capital Market, Money Market	Subscribe to unsubscribed portion of securities
Registrars, Depositories, Custodians	Capital Market	Issue securities to the investors on behalf of the company and handle share transfer activity
Primary Dealers Satellite Dealers	Money Market	Market making in government securities
Forex Dealers	Forex Market	Ensure exchange ink currencies

FINANCIAL MARKETS

A Financial Market can be defined as the market in which financial assets are created or transferred. As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset. Financial Assets or Financial Instruments represents a claim to the payment of a sum of money sometime in the future and /or periodic payment in the form of interest or dividend

The main functions of financial markets are:

1. to facilitate creation and allocation of credit and liquidity;
2. to serve as intermediaries for mobilization of savings;
3. to assist process of balanced economic growth;
4. to provide financial convenience

1. **MONEY MARKET**- The money market ifs a wholesale debt market for low-risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

Some of the important money market instruments are briefly discussed below;

1. Call/Notice Money
2. Treasury Bills
3. Term Money
4. Certificate of Deposit
5. Commercial Papers

2. **CAPITAL MARKET** - The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year. The capital market generally consists of the following long term period i.e., more than one year period, financial instruments; In the equity segment Equity shares, preference shares, convertible preference shares, non-convertible preference shares etc and in the debt segment debentures, zero coupon bonds, deep discount bonds etc.

FINANCIAL INSTRUMENTS
The another important constituent of financial system is financial instruments. They represent a claim against the future income and wealth of others. It will be a claim against a person or institutions, for the payment of the some of the money at a specified future date. The different types of securities are-
DEBENTURES- A debenture is a type of loan acknowledgement which is taken by the company from the public. Debenture holders are entitled to get interest at a specified rate on the face value of debenture.
SHARES-The capital of the company can be divided in several parts with a definite value. Each part is called a share. There are two types of shares-
i) **PREFERNCES SHARES**-These are those shares on which shareholders enjoy two preferences
Payment of dividend out of profits
Repayment of capital in case of liquidation.
ii) **EQUITY SHARES**-Equity shareholders are the real owners of the company. These shareholders are having residual claims on the income and assets of the company. Such shareholders may go without dividend if no profit us made by the company.
INNOVATIVE INSTRUMENTS-These are the new instruments issued by companies and financial institutions. These are as follows-
Participating debentures
Convertible debentures
Zero coupon convertible notes
Warrants
Retirement bonds
FINANCIAL SERVICES
Efficiency of emerging financial system largely depends upon the quality and variety of financial services provided by financial intermediaries. The term financial services can be defined as "activities, benefits and satisfaction connected with sale of money that offers to users and customers, financial related value".
FUND BASED SERVICES
Major part of the income is earned through fund-based activities. At the same time, it involves a large share of expenditure. Fund based income comes mainly from interest spread (the difference between the interest earned and interest paid), lease rentals, income from investments in capital market and real estate) Involve provision of funds against assets, bank deposits, etc.
HIRE PURCHASE ◦ Hire purchase is a mode of financing the price of the goods to be sold on a future date. In a hire purchase transaction, the goods are let on hire, the purchase price is to be paid in installments and hirer is allowed an option to purchase the goods by paying all the installments.
EQUIPMENT LEASING◦ A lease is an agreement under which a company or a firm acquires a right to make use of a capital asset like machinery, on payment of a prescribed fee called „rental charges‟.
ACCOUNTS RECEIVABLES FINANCING/FACTORING◦ A type of asset-financing arrangement in which a company uses its receivables - which is money owed by customers - as collateral in a financing agreement. The company receives an amount that is equal to a reduced value of the receivables pledged. ◦ Factoring is similar to the above with the only difference that the factoring firms purchase the receivables outright taking ownership of the receivables.
BILL DISCOUNTING ◦ Bill discounting is a short tenure financing instrument for companies willing to discount their purchase / sales bills to get funds for the short run and as for the investors in them, it is a good instrument to park their spare funds for a very short duration
HOUSING FINANCE ◦ Housing finance refers to providing finance to an individual or a group of individuals for purchase, construction or related activities of house/flat etc. ◦ Housing loan is extended by way of term loans; for a number of years (5-20) at a certain rate of interest.
VENTURE CAPITAL ◦ Venture capital (VC) is financial capital provided to early- stage, high-potential, high risk, growth startup companies ◦ The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc.
MUTUAL FUNDS ◦ A mutual fund refers to a fund raised by a financial service company by pooling the savings of the public. It is invested in a diversified portfolio with a view to spreading and minimizing the risk.
FEE BASED SERVICES
Fee based income does not involve much risk. But, it requires a lot of expertise on the part of a financial company to offer such fee-based services.
MERCHANT BANKING-◦ A merchant banker is a financial intermediary who helps to transfer capital from those who possess it to those who need it. ◦ Merchant banking includes a wide range of activities such as management of customer securities, portfolio management, project counseling and appraisal, underwriting of shares and debentures, loan syndication, acting as banker for the refund orders, handling interest and dividend warrants etc.
LOAN SYNDICATION-◦ Similar to consortium financing. ◦ Taken up by the merchant banker as a lead manage. ◦ It refers to a loan arranged by a bank called lead manager for a borrower who is usually a large corporate customer or a government department. ◦ It also enables the members of the syndicate to share the credit risk associated with a particular loan among themselves.
CREDIT RATING◦- Evaluates the credit worthiness of a debtor, especially a business (company) or a government ◦ It is an evaluation made by a credit rating agency of the debtors ability to pay back the debt and the likelihood of default ◦ Some credit rating agencies; ICRA, CRISIL.

ROLE OF FINANCIAL SECTOR IN ECONOMIC DEVELOPMENT
The economic development of any country is dependent on its financial system -- its banks, stock markets, insurance sector, pension funds and a government-run central bank with authority -- or at least influence -- over currency and interest rates. In developed countries, these two sides of the economic coin work together to promote growth and avoid runaway price inflation. When a country is still in a developing stage, the lack of a strong, sound financial system generally works against the national economy.

BANKING SECTOR
Banks are the cornerstone of a national financial system. Their key services are to provide a safe haven for the earnings of individuals and loans to companies in need of capital, either to start operating or to stay in business. Without this source of available capital, businesses would be hard-pressed to continue growing and returning a profit to their owners and outside investors. By channeling savings into the business sector through loans -- and also offering loans to individuals to buy cars and homes -- banks boost overall economic growth and development.

FINANCIAL MARKETS
Stock markets provide an opportunity for individuals to invest in companies. By issuing shares, public companies pay off debt or raise capital for their operations. The bond market provides another means to raise money. When an individual or an investment company buys a bond, it receives a steady stream of interest payments over a set period. The bond market is accessible to companies as well as governments, which also need a reliable stream of funds to operate. Without the bond market, a government could only raise money by levying taxes, an action that tends to dampen business activity and investments.

ISSUES AND CHALLENGES

Over the past decade the banking industry has witnessed many positive developments. The banking industry in India compares quite well with many of its international counterparts on metrics such as growth, NPAs, ROA, etc. Although the Indian banking industry has witnessed significant growth in last few years, comparatively lower levels of financial inclusion remains a concern. A large proportion of the population is still financially excluded, with the number of bank branches per one lakh (hundred thousand) adults being low (by global standards) at 9.4 branches. Further, the progress made during past decade is limited to a small part of the industry. While the onus for tackling the emerging challenges lie mainly with bank managements, a facilitating policy and regulatory framework will be critical for the further development of the banking industry. The following are some of the challenges faced by the Indian banking sector.

INCREASE PENETRATION OF INDIA-TACKLE DEMAND SUPPLY MISMATCH

Primarily supply side constraints are responsible for the high levels of financial exclusion in the country, as they have a causal effect in keeping demand low from certain factions of the population. The demand supply mismatch, which is reflected in measures of financial exclusion, shows the limitations on the banks' ability to supply products and services.

A large proportion of the population in India, largely concentrated in rural areas is believed to be financially excluded from formalized credit markets (implies having access to bank credit) and payments systems (implies not having access to bank accounts). Inaccessible institutional credit drives these people to use the services of unorganized credit markets which charge interest at rates in the range of 35-60%. According to the Report of the Committee on Financial Inclusion (NABARD, 2008) and NSSO, 45.9 million farmer households in India do not have access to credit, even from noninstitutional sources. Only 27% of farmer households have loans from institutionalized sources, two-thirds of which also borrow from the unorganized sector. Among the urban poor class, financial exclusion level is not determined with certainty, since this population group is highly migratory. But, clearly, north eastern, eastern and central regions suffer more from financial exclusion than other regions of the country.

Many initiatives are being taken by the RBI and other banks in the country, notably public sector banks, to increase supply of financial services to the unbanked areas. Introduction of 'no frills' account (2005) and utilizing services of NGOs and other civil organizations for providing financial services (2006) are some steps in that direction. The ability of banks to supply products and services is clearly reflected in the population being served by them per branch, or their physical presence geographically.

Table 7.1: Population Served per Bank Branch ('000)

Year	1969*	FY81	FY91	FY01	FY07	FY08	FY09
Population per Bank Branch	63	19	14	16	16	15	15

**: as at end June*

Source: Annual Report, RBI, various issues

Foreign banks committed to making a play in India will need to adopt alternative approaches to win the "race for the customer" and build a value-creating customer franchise in advance of regulations potentially opening up post 2009. At the same time, they should stay in the game for potential acquisition opportunities as and when they appear in the near term. Maintaining a fundamentally long-term value-creation mindset will be their greatest challenge.

CREDIT DISBURSEMENT TO PRIORITY SECTORS

One of the major challenges faced by the banking system in India is to provide timely and cost effective credit to the priority sectors especially the agriculture and Small scale industries, which are critical in generating employment and support the growth momentum of the economy. After witnessing robust growth between FY05-FY07, the growth in agriculture credit witnessed some moderation in FY08. Thus banks are required to ensure availability of credit to the agriculture sector, which forms the backbone of the Indian economy. With significant slowdown in economic activity and exports during the latter part of FY09, the credit growth to the micro and small experienced some moderation. While it is important for the banks to maintain the asset quality, they also need to direct the credit flow towards small and medium enterprises which play a critical role in India's economic development.

MAINTAIN ASSET QUALITY

The secured advances made by banks have shown a mild decline in FY09. The unsecured advances of banks particularly of credit card receivables have increased substantially. In FY09, the quality of assets of banks has come under scrutiny, as the rising interest rates started putting pressure on the repayment by borrowers in the H1 FY09. While the interest rates began to soften in the latter part of the fiscal, the risk of default persisted mainly due to slowdown in economic activity. Thus a major challenge in the current economic scenario for the Indian banks is to maintain the gains made with respect to asset quality over the past few years.

In such situations, unsecured advances possess greater risk to business. The sensitive sector advances is an important indicator towards the quality of assets held by banks. Though this does not in itself indicate a high risk, the higher exposure signals a greater need for monitoring by the banks as the susceptibility increases. This is of even greater importance in the current scenario when capital markets and real estate are extremely risky sectors. The exposures of SCBs to sensitive sectors have increased inexplicably from less than 3.5% to over 20% within a span of two years. New private sector banks have the highest exposure to sensitive sectors, largely due to the exposure in real estate.

IMPROVE RISK MANAGEMENT MECHANISM

Strategies to combat the problem of high risk perception must be taken up by banks on priority basis. Increased usage of rating services must be employed to reduce risk. Besides, SME specific risk management procedures must be setup to make the business more viable, as the risk perception associated with lending to small enterprises is generally very high. Further, the banks would also be required to acquire skill for managing emerging risks resulting from innovations in financial products as well as technological advancements.

The availability and ease access to reliable data/information to both banks and regulators/supervisors of the banking system is a key for prudent risk management. Hence, strengthen the existing system would be another challenge for the banking industry. More over the recent global financial market turmoil has accentuated the need for further improvement in the transparency and disclosure standards.

TECHNOLOGY ADOPTION

The problem of resistance from workforce has largely been neutralized over the years, but the primary issue involved with the adoption and rapid integration of technological processes within banks still related to human resources- the availability of technically skilled resources is scarce. Technology is not among the core competencies of financial institutions, which necessitates outsourcing. Banks in India are different from banks in many other countries, in ways that they have a very large branch network and varied needs specific to regions and customers. Most off the shelf solutions are not exactly in conformity to the needs of the banks, which makes room for large customizations.

Besides, a serious concern in implementing complex technologies is protection against frauds and hackings. Security concern slows down technology adoption significantly for the banking industry. A fast pace of development of security systems is imperative to the adoption of large scale innovations in the industry.

Another issue is that of business process reengineering, which is required after computerization. Failure to successfully carry out BPR neutralizes the benefits that an institution wishes to accomplish via adoption of a technological process.

TOP CHALLENGES FACING FINANCIAL SERVICES

The financial services industry is facing challenges on several fronts, many of them intertwined, as we enter the new year-

At this time of year, when the perennial lists of "top issues for the new year" appear, it will be useful to remember that the financial services industry is challenged on many fronts, all of them to some degree intertwined, and all of them critical to restoring the health and sustainable growth of the industry. Financial institutions of all shapes and sizes are in a period of strategic transformation, and must necessarily attend to a wide range of issues simultaneously -- some more visible and fast-moving, others more fundamental and long-term -- in their recovery from the crisis of the past five years.

The first and most visible dimension (though not necessarily the most important) includes the "current" or "hot" issues in the industry media and conferences. They typically revolve around the latest technology or political/regulatory trend, and while often urgent, is not always strategic. They tend to be the relatively fast-moving issues that change from year to year. The list for 2013 will include:

-- Incorporating mobile banking as a regular delivery channel

-- developing a strategy around social media

-- coming to permanent resolution with the regulatory issues of 2012, such as Dodd-Frank, Basel and the CFPB -- dealing with the economic aftermath of the "fiscal cliff," whichever way it turns out

A second dimension of issues is more complex and more regular, involving those recurring financial and competitive industry issues that financial institutions deal with every year. Now, however, they are in a new economic context as the industry emerges from the financial crisis:

-- How to come to a new level of growth and sustainable profitability in an environment of low interest rates

-- rebuilding asset quality and strengthening their capital adequacy

-- Where to develop new and reliable sources of revenue

-- enriching and increasing the business value of customer relationships, at a time when customer behaviors and expectations are more demanding

-- Restoring public confidence in the industry

-- How to deal with aggressive and innovative non-bank competitors

-- embedding a risk management culture into the fabric and habit of daily operations

A third dimension concerns the ever more critical need for financial institutions to transition their technology architectures to next-generation capabilities, putting in place the enablers for all the issues listed above. Banks, thrifts and credit unions now need to approach technology no longer as an expense to be managed down, but more as an investment for future growth. By focusing less on specific systems and applications, and more on enterprise-wide capabilities, they need to address such challenges such as:

-- implementing fully digital banking

-- Filling manual gaps and delivering straight-through, efficient business processes

-- Enterprise-level integration and management of data -- interactive customization of products and services to meet customer demands

-- Transparency in costs, compliance and prices.

CONCLUSION

It may be concluded that Indian financial system has been gone through a variety of changes. To cope up with the fast expanding industrial demand for funds, Indian financial system is passing through the re-emergence of private financial institutions and strong structure of Indian financial institutions. Since the inception of the liberalization and globalization, Indianfinancial system is undergoing major transformation. A noticeable development has been the introduction of innovation in financial products. The corporate sector and financial institutions have offered variety of financial instruments or securities to cater to the increasing demand of bonds.

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