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INDIAN FINANCIAL SYSTEM: IT'S ROLE IN ECONOMIC DEVELOPMENT

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Abstract

The Indian Financial System plays a great role in economic development of the country. It consists of various components through which the financial system works like banks, capital market, money market etc. There are some parties which have surplus funds and some parties which are in deficit state and it gives rise to the process of lending and borrowing. The financial system act as an intermediary/agent between those parties and it also facilitates the flow of funds among them. So the financial system is required to manage the affairs regarding finance. As we know, finance is the bridge between the present and the future. All the sectors (whether it may be primary sector, secondary sector and tertiary sector) require fund for their operational activities and this requirement could be met only if there is strong and well developed financial system present. Without finance nothing could be possible and economy can never be converted into developing state. The development of any country depends on the economic growth which the country achieves over a period of time but the economic growth and development of any country depends upon a well-developed financial system. The economic growth and development relates to investment and production and also the extent of Gross Domestic Product in a country. So when it grows, the public will experience growth in the form of improved standard of living, namely economic development. The financial system is like an investment system. It results in capital formation which means conversion of savings into investments. A high rate of capital formation is needed for the rapid economic development. The lack of a sound financial system puts hindrance in economic development of a nation. It is required for economic transformation. Therefore economic development of any country is dependent on its financial system. The study basically highlights the role played by the financial system of India in the economic growth and development of the country. The study also highlight the need of the financial system.

Keywords: Finance, Growth, Development, Economic Transformation, Capital Formation.

INTRODUCTION:

We all know that finance is required in all the sectors, and for acquisition of finance there should be present a financial system that can meet the financial requirements of every sector. Individuals and households require finance for meeting day to day expenses and for purchasing capital goods, Industry needs finance for buying raw material, for paying wages and salaries, for buying machines etc., Traders need finance for buying and stocking of goods, Farmers also need finance for long and medium periods for agriculture sector. So everyone needs finance for meeting their obligations. If we get finance easily, then the new business starts which results in high productivity of the country that can lead to increase in exports and foremost it results in increase in GDP also, as everybody getting finance easily

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then economic circle will move that generates income and productivity, as a result the economy will surely be converted from under developing state to developing state and from developing state to developed state, where everybody getting employment and earn his/her livelihood. The Indian financial system plays crucial role in the economic development of the India through Capital Formation. If we discuss about the financial system of India it was subject to strict regulations till 1990 when, interest rates were administered and asset allocation was governed through various formal mechanisms and strict controls limited the entry of financial companies. Everybody was not getting finance as they require and the economy was progressing at a very slow rate, then in 1991, Indian financial reforms started with the Narasimham Committee recommendations which includes a wide range of proposals for the strong foundation of the financial system. The reforms were mainly focused on the banking sector, financial institutions, capital market, and money market that led to the emergence of a strong and flexible financial sector. The post 1991 reforms initiated the entry of new private sector banks permitted long-term lending institutions like ICICI, IDBI, HDFC to carry out banking activities, deregulation of interest rates etc. Public sector banks have lost their market coverage against dynamic private sector banks. Time to time changes have been made in the financial system of India to make it strong. The banking sector in India has become increasingly more competitive in recent years. Besides it there are number of non- banking financial institutions that are playing an important role in the development of economy of the country. The financial system collects funds from the person who have excess in quantity and provide to those who need it. It creates bridges between the persons who have excess finance and the persons who require the finance. So it provides investment opportunity and it is only the investment that can lead to development of the economy, because capital formation is the indication of the development of the country. India's financial system includes many institutions and mechanism that affect generation of savings, mobilization of savings and effective allocation of the savings among those who demand and need for investment purpose. Thus the financial system of India lead to rapid industrialization in the country and thus contributing in achieving target GDP. Financial system also improves the standard of living due to its flexibility assisting the people to acquire many things including luxury items which a normal can't afford, the financial system helps them by providing funds and installment system is going popular in the modern time even a mobile set can be bought by giving small amount of money at a time and rest in installments. So the financial system is playing significant role in the development of the economy of India.

REVIEW OF LITERATURE:

Schumpeter and others economists pointed out that industrialization in most developing countries was largely due to the availability of financial systems to mobilize productive, financial capital.

Schumpeter (1911) has cited that financial markets play an important role in the growth process by channeling funds to the most efficient investors and by fostering entrepreneurial innovation.

Goldsmith, (1969) & McKinnon and Shaw's, (1973) empirical study found that there is close ties between financial system and economic development of a country. They found, till late 1960s, the role of financial intermediaries, in the process of economic growth of a country

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was largely ignored. Influential work during the late 1960s and early 1970s showed that there exists a strong positive correlation between financial development and economic growth.

Stiglitz (1985) has cited that the financial system can enhance efficiency in the corporate sector by monitoring management and exerting corporate control. He also found that, banks are often in a better position to monitor firms than equity holders.

Research by Ross Levine and others surveyed in Levine (1997) shows a strong link between economic growth and the depth of the banking system and liquidity of financial markets.

Lee (2012) finds that in the US, the UK and Japan, the stock market played an important role in financing economic growth, whereas the banking sector played a more important role in Germany, France, and Korea.

The literature review showing that the role of financial system in economic development is significant.

RESEARCH METHIODOLOGY:

This study is mainly based on **secondary sources** of information such as books, journals, research papers, websites, E-Books and other publicly available information. The methodology is **content analysis.** According to C.R. Kothari, "Content Analysis consists of analyzing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed".

OBJECTIVES OF THE STUDY:

The objective of the study is:-

1. To understand the role of financial system of India in the economic development of the country.
2. To understand the need of the financial system.
3. At last to draw conclusions.

Indian Financial System: The word Financial means finance/money/fund and the word system means group of closely linked procedures, institutions, transactions, agents claims and liabilities within an economy. The financial system refers to a system which enables the exchange of money/funds between lenders, investors and borrowers. The So, the Indian financial system is the system that deals with borrowing and lending of funds and the financial system can be divided into industrial finance, agricultural finance, government finance and development finance. Financial systems allow funds to be allocated, invested, or moved between economic sectors. The Financial system operates at national, global, and firm-specific levels. The financial system act as an intermediary and facilitates the flow of funds from the areas of surplus to the deficit. It is a composition of various institutions, markets, regulations such as banks (public or private sector), financial markets, financial instruments, and financial services. **According to Christy**, the objective of the financial system is to "supply funds to various sectors and activities of the economy in ways that promote the fullest possible utilization of resources without the destabilizing consequence of price level changes or unnecessary interference with individual desires."

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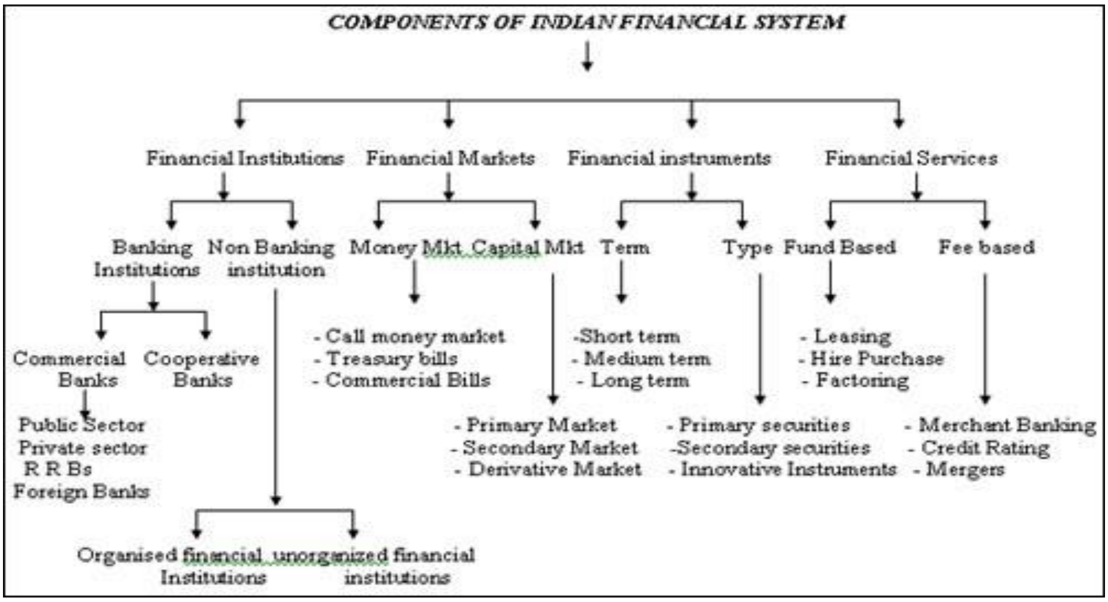
Components of Indian Financial System:-



These components of Indian financial system are briefly discussed as below:-

- **Financial Institution:** They collect savings from people & provide them to individuals, farmers, industrialists & entrepreneurs. Thus it serves the interest of the investors and borrowers. Financial institutions are classified into two types: Banking Institutions such as, Commercial banks public and private banks and Non-Banking Financial Institutions such as Mutual funds, NABARD etc. the existence of them helps in the efficient functioning of the financial system.

- **Financial market:** They are the Centre or a place where financial institution, government, individuals, firms come together to lend and borrow funds either directly or through brokers/agents. These are classified into two types:

  (a)Primary markets: Those markets where the securities are traded for the first time that is new issue of securities is deal there.
  (b)Secondary markets: Those markets where the existing securities are traded.

  Financial market can also be classified as:- Money & capital markets, and further they

  are categorized into Organized unrecognized markets, Formal & informal markets,

  Official & unofficial markets, Domestic & foreign markets.

- **Financial Instruments:** These are the financial assets or the claims against a person for payment in future. It differs from each other in respect with marketability, liquidity, risk, transaction costs etc. They are further divided into:

  (a)Primary securities: These are the securities issued by the direct borrowers for subscription by the ultimate borrowers. For E.g. shares, debentures

(b)Secondary securities: These are the securities issued by the financial intermediary for

the savers. It takes the form of bank deposits, insurance policies etc.

(c)Financial market regulators: For the smooth & efficient operations of a financial

system rules & regulations are indispensable. Regulators play an important role in the enactment of such rules & regulations. It ensures a fair & transparent financial system. The overall financial system will not function efficiently if regulators do not play their role efficiently. Thus, there is an inevitable need for regulatory financial institutions.

- **Financial Services:** These services are provided by the financial intermediaries in order to bridge the gap between the investors & markets. These include fund based and fee based financial services such as merchant banking, hire purchasing, credit rating etc. Therefore financial services forms the life blood of the Indian financial system. It facilitates formation of business, industrial & economic growth.

FINDINGS OF THE STUDY:

The Indian Financial system moves around four components as already discussed this includes commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. But, in the financial sector in India the dominant sector is the banking sector with commercial banks which accounts for more than 64 per cent of the total assets held by the financial system. Banks have always played an important position in the country's economy. They plays an important role in the development of the industry and trade. They are acting not only as the custodian of the wealth of the country but also as resources of the country, which are necessary for the economic development of a nation. India's gross domestic savings (GDS) as a percentage of Gross Domestic Product (GDP) has remained above 30 per cent since 2004.It is projected that national savings in India will reach US$ 1,272 billion by 2019. Over 95 per cent of household savings in India are invested in bank deposits and only 5 per cent in other financial asset classes. India's GDP growth during January–March period of 2015 was at 7.5% compared to China's 7%, making it the fastest growing economy. This is due to role of financial system. Because during economic slowdowns it is the financial system that provides finance to run the units. It helps in meeting the day to day expenses of a business. The Government of India has introduced several reforms to liberalize, regulate and enhance this industry sector, agriculture sector and the tertiary sector. The Government and Reserve Bank of India have taken various measures to facilitate easy access to finance for large enterprises, Micro, Small and Medium Enterprises (MSMEs), farmers and those which falls tertiary sector in India. A healthy economy is dependent on efficient transfers of resources from people who are net savers (surplus) to firms and individuals who need capital. The capital market is also plays a decisive role in the economic development of India. The Government of India has taken various steps to deepen the reforms in the capital markets, such as simplification of the Initial Public Offer (IPO) process which allows qualified foreign investors (QFIs) also to access the Indian bond markets. Therefore, it is absolutely essential that our financial market functions efficiently, not only quickly, but also at a minimal cost. So this paper is written to describe the importance of financial system o the economic development of a nation.

A brief History of the Indian Economy:- In the pre independence- India is one of the world's oldest civilizations. The main source of economy and income for the people in the ancient ages was agriculture. The main form of trading in those times was the barter system. According to the economic rule, the farmers and villagers were required to provide a part of their crops or produce to the kings or the landlords. The colonial era of India is a significant part of the India's Economic history. It brought a considerable change in the process of taxation from the revenue taxes to the property taxes which resulted in large scale economic breakdown. In fact a number of industries like the Indian handicrafts industry suffered huge losses. However, the British rule also developed the country to a great extent. The financial and banking system as well as free trade was established, a single currency system with exchange rates was brought into being, standardization of weights and measures took place and also a capital market came into existence.

After Independence to 1990s:- After independence, efforts were made to stabilize the economic system of the country. In the subsequent Five Year Plans, a number of economic reforms and policies were formulated. Emphasis was given to increase the quantity and quality of the export items, making the country self-sufficient and minimize imports and other related reforms. In this regard, the 'Green Revolution' movement was initiated in the 1960s. Development was made in sectors such as agriculture, village industries, mining, defense and so on. New roads were built, dams and bridges were constructed, and electricity was spread to the rural areas to improve the standard of living. In the 1980s, the first step towards market liberalization was undertaken by the then government headed by Rajiv Gandhi. In the initial stage of the 1990s, India's economic condition was sick. The main trading partner, Soviet Union was dissolved and India faced huge balance of payment problems. The loans kept on increasing. And then reforms were suggested.

Since1990s to the present:- In this situation, Manmohan Singh, Finance Minister at that time initiated the liberalization plan. With economic liberalization starting in 1991, the Indian economy has moved to a market-based system. In the liberalization plan, foreign direct investments were welcomed, public monopolies were abolished and banking, service and tertiary sectors were developed. Efforts were also made to develop the money market and capital market. In this reforming phase India has experienced tremendous economic growth. India became the second-fastest growing major economy in the world by 2008. Now it has become one of the fastest growing economies in the world with a GDP growth rate of around 7-8%. To complement the growing GDP, the country has also experienced growth in per capita income, standard of living and industrial development. The economy of India is the world's twelfth largest economy according to market exchange rates. It is also the fourth largest economy by purchasing power parity basis.

Role of financial system in economic development of a country:- An economy's financial intermediaries are critical to its overall development. Banking systems and stock markets enhance growth and helps in poverty reduction. The role is depicted as below:

1. Financial system is itself the investment agencies for the primary sector, secondary sector and tertiary sector of any country.

2. It Links the Savers and Investors: The role of financial system is important, as they induce the public to save money by offering attractive interest rates/saving schemes. These savings are channelized by lending to various business concerns which are involved in production and distribution. So for achieve economic development, a country needs higher investment and production. This can happen only when there is a facility for savings.
3. Channelizing the Funds to Productive Investment**:** Financial markets and Banks plays a decisive role in mobilized savings for productive purposes. The pooled savings are distributed to various sectors of the economy with a view to increase the productivity of the nation. It performed an important role in the economic development of the nation.
4. According to the World Economic Forum's Financial Development Report (2011), greater degree of financial advancement and wider the accessibility of financial services allow for diversification of risk. This increases the long run growth path of a country and eventually improves the interests and affluence of producers and consumers with access to financial services.
5. It also permits continuous technologies up gradation/innovations for promoting growth on a sustainable basis.
6. It not only helps in selecting projects to be funded but also inspires the operators to monitor the performance of the investors.
7. It provides payment mechanism for the exchanges of goods and services and transfer economic resources through time and across geographic regions and industries.
8. It also makes available price-related information which is a valuable assistance to those who need to take economic and financial decisions.
9. It provides financial services such as insurance, pension and offers portfolio adjustments facilities.
10. Use of Electronic system: Computer is being used by financial intermediaries for most of their activities now and they are able to link their branches through a network. This has resulted in quicker transfer of funds between centres and this has helped customers in realizing their cheques in a speedy manner. It is for this purpose, that Magnetic Ink Character Recognition (MICR) cheques have been introduced.
11. Financial system ensures balanced growth: Economic development requires a balanced growth which means growth in all the sectors (Primary sector, secondary sector and tertiary sector) simultaneously. require adequate funds for their growth
12. Financial system's role in balanced regional development: Through the financial system, backward areas could be developed by providing various concessions. It will also check migration of rural population towards towns and cities.
13. Financial system helps in fiscal discipline and control of economy.
14. It also helps in infrastructural growth, helps in development of trade, economic integration, political stability etc. for the development of the economy.
15. It helps in the creation of a financial structure that lowers the cost of transactions. It has a beneficial influence on the rate of return to savers. It also reduces the cost of borrowings.

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The economic reforms and the growth of the nation as a whole are highly interrelated to the working of the financial system. The finance helps in production, capital accumulation and growth. The financial system encouraging savings, mobilizing savings and allocation of funds among alternative uses and users.

Pre-reform financial system:- Pre 1990s, the commercial banking system was characterized by an administered interest rate with the government setting the interest rates both for lending as well as for deposits. The government employed a credit rationing policy favoring certain priority sectors with loans at subsidized interest rates while other industries had to pay very high rates thus resulting in cross- subsidization. The MRTP Act (Monopolies and Restricted Trade practices Act) controlled the private investment and its scale of operation. The securities market was heavily regulated through the Capital Control Act, which gave the government, the authority to determine who can raise money, how much they can raise and through what instruments. The control was so extreme that the government even prescribed the debt-equity ratios for industries and the technology to be used to conduct their operations. Additionally, the institutional framework for the capital markets was very weak with no regulator for the capital markets. There was no participation for foreign investors in capital markets. The exchange market reflected the closed nature of the economy with a single currency fixed exchange rate system. The RBI had the single authority to conduct foreign exchange transactions with no other intermediary in the foreign market. There were severe limitations on currency exchange transactions

Reforms in Financial System:- Gopinath, (2007), cited that the need of financial sector reforms was to improve allocative efficiency of resources, ensure financial stability and maintain confidence in the financial system by enhancing its soundness and efficiency. As it is clear from the above study that the financial system's role in the country economic development is significant, so for economic development the Government understands the role of financial intermediaries. In 1990's India's balance of payment was adverse and the fiscal deficit was also very high. So the weaknesses which were prevalent in India's financial system were found out, then the reforming phase/era starts under the leadership of Narasimham Committee. The committee made certain type of changes to the banking system, stock market, insurance companies and other financial players etc. that are covered under the Indian Financial System. These changes are called as the recommendations of the Narasimham Committee that are published in various journals and handbooks, from which we can see the recommendations. Financial sector reforms that were initiated by the government since the early '90s have been to meet the challenges of a complex financial architecture. This has ensured that the new emerging face of the Indian financial sector will culminate in a strong and transparent system. There has been steady forward movement in these areas. Capital market reform was an integral part of the agenda of financial sector reforms in India. But before 1992, the functioning of the Indian capital market remained highly regulated and was under the direct control of the government. In 1992, Securities and Exchange Board of India (SEBI) was formed as the apex regulator of the capital market. The new regulatory framework laid down by SEBI sought to strengthen investor protection by ensuring disclosure and transparency rather than through direct control. In 1993, the Indian capital market was opened up to foreign institutional investors (FIIs) and Indian companies were allowed to raise capital abroad by issue of equity in the form of global depository receipts (GDRs). These reforms in the financial system of India helps a lot to the country to move in the developing state.

Changing Role of Finance in India after 1990's:- The economic liberalizations in 1991 have outlined the new role of finance in India. The finance sector experienced massive inflow of foreign direct investment, expansion as well as diversification of the individual units within various sectors. The nationalization of the banking system made the system more organized as well as strong and thus aided the banking sector in fighting successfully with the financial crisis that had effected a large fragment of the Asian population. The system had certain deficiencies. The Indian baking system did not maintain a planned cost structure and was also unable to match its steps with the changing market needs and the rising competition. The other drawback existing within the Indian banking system was the rigidity that lay within the decision making procedure. Thus, the role of finance as an accepted norm is to reflect the "real economy". The other significant cause behind the high cost of banking is that the percentage of the average cost of operation of banking activities out of the assets is much high compared to the development economies in the world. The changing market demands have again brought India at the face of a challenge and the new role of finance in India would be to accept this challenge and incorporate new policies again to meet the changing market demands. As a first step towards this goal, the banking system should be up graded to bring in reductions in the cost of operation.

India's Economic Performance after 1991 financial Reforms: India's performance in phase of stabilization of the economy was commendable. The sudden increase in oil prices affected by the Gulf War in 1990 put a severe strain on a balance of payments already made weak by several years of large fiscal deficits and increasing external debt. Performance in the next two years, measured in terms of the usual parameters of growth and stability clearly exceeded expectations. The current account deficit, which had expanded to 3.2% of GDP in 1990-91, was brought down to a comfortable level of 0.4% in 1993-94. Foreign exchange reserves were rebuilt to a respectable level of 8.6 months of imports by the end of 1993-94. Inflation, which had reached 13.7% in 1991-92, declined to 8.4% in 1993-94. Contrary to the original expectations, there was no need to negotiate further access to IMF resources at the end of the stand-by arrangement in November 1993. Most important of all, and in sharp contrast to stabilization program in many other countries, there was minimal disruption of growth. The rate of growth of GDP had collapsed to 0.8% in 1991-92 but it rebounded to a near normal 5.3% in 1992-93, and then accelerated to 6.2% in 1993-94. Some of the economic performance of India is shown in tables as below.

GDP of India:- The gross domestic product (GDP) measures of national income and output for a given country's economy. The gross domestic product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time. GDP in India averaged 550.27 USD Billion from 1970 until 2014, reaching an all-time high of 2066.90 USD Billion in 2014 and a record low of 63.50 USD Billion in 1970. GDP in India is reported by the World Bank Group. India's GDP growth during January–March period of 2015 was at 7.5% compared to China's 7%, making it the fastest growing economy. There are various sectors that contribute to India's GDP. Some of the major sectors are Automobile Industry, Steel Industry, Real Estate Industry, Tourism Industry, Energy Sector, Textile Industry, Airlines Industry, Medical Industry, Biotechnology Industry,

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Electronics and Hardware and the power industry. Besides these industries, there are several other sectors that are important contributors to the GDP of India.

Financial Assistance Sanctioned & Disbursed by All Financial Institutions in India: (Table no. 1) Data (In Rupees Billion)

Year	Total	
	Sanctions	Disbursements
2014-15	1147.42	1,029.06
2008-09	1052.28	942.7
2000-01	1213.52	761.39
1990-91	220.55	149.68

Source: Report on Development Banking of the erstwhile, Industrial Development Bank of India and respective financial institutions.

The data for the 2013-14 and 2014-15 is provisional in above table. So it is useful to remember that the public sector financial institutions, especially IDBI, ICICI and IFCI sanction direct financial assistance to newly established companies to meet their capital requirement. For existing companies financial assistance is made available due to expansion of capacities and modernization plans.

Employment in Various Sectors (Table no. 2) Data (In million)

Year	Number of Persons on the Live Register (End-December)
2012-13	46.80
2008-09	38.15
2000-01	42.00
1990-91	36.30

Source: Directorate General of Employment and Training. Ministry of Labour & Employment, Government of India.

The table shows that employment is increased to the great extent after the 1990s reforms. The financial system development leads to the development of various business units in the country as now finance is easily available to all the sectors, this leads to the generation of new employment opportunities also. In this table the data from 1990-91 to 1998-99 and for 2002-03 onwards are based on Quarterly Employment Review.

Foreign Exchange Reserves in India (as at the end of 31st March each Year) (Table no. 3)

Financial Year	Foreign Exchange Reserves (in US $ million)
April 29, 2016	363120
2000-01	42,281
1990-91	5,834

Source: Reserve Bank of India

The table shows that the foreign exchange reserves which are rising after the 1991 financial sector reforms. Continuing their rising trend, the country's foreign exchange reserves increased by $1.350 billion to touch a record high of $363.12 billion in the week to April 29, according to Reserve Bank. So we can see that the financial system plays great role in industrialization in the country which contributes to high exports and leads to increase in foreign exchange reserves. If it goes on like this the currency of India becomes strong in near future.

Agriculture Growth:- Agriculture plays an important role in India’s economy. Almost 58 per cent of the rural households earn their livelihood from agriculture sector. India is the largest producer, consumer and exporter of spices and spice products. Agricultural export constitutes 10 per cent of the country’s exports. India's fruit production has grown faster than vegetables which makes it the second largest fruit producer in the world. In 2014-15 India's horticulture output, including fruits, vegetables and spices, in 2014-15 records high of 283.5 million tonnes. It ranks third in farm and agriculture outputs. The various financial intermediaries are providing financial help to the farmers.

Infrastructure Growth: Infrastructure sector is a key element in economic growth. The sector is highly responsible for propelling India’s overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. The development of infrastructure in terms of roads 4 lane, 6 lane and 8 lanes projects are undertaken in various areas of the country, the railways network is also getting wide, the power has been made in India as more Dams are created, thus infrastructure of the country is growing both in rural and urban areas. It helps a lot to the industry for transporting of goods with in short time. The government issues infrastructure bonds to attract investment in the infrastructure of the economy thus finance help in the infrastructure growth also.

Manufacturing Industry Growth: Manufacturing has emerged as one of the element to get economic growth country by producing more and contributes to exports and to reduce the fiscal deficit of the nation. For this Prime Minister Mr. Narendra Modi, had launched the ‘Make in India’ program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. The Government of India has set a target of increasing the contribution of manufacturing output to 25% of Gross Domestic Product by 2025, from 16% currently. A number of schemes, grants and rebates, low interest loans/funds to the manufacturing sector in India are given for the growth of the manufacturing industry of India.

Retail Industry Growth: The Indian retail industry has emerged as one of the most fast-paced industries due to the entry of several new players. It accounts for over 10 per cent of the country’s Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world’s fifth-largest global destination in the retail space. Now a high percentage of FDI in retail sector is allowed in India also to become it more competitive and more profitable.

Market Size of the Financial System of India:- The scheduled commercial banks of India’s total outstanding credit stood at US$ 1.06 trillion. The assets of the mutual fund industry have reached a size of Rs 12.62 trillion (US$ 185 billion). During April 2015 to February 2016

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period, the life insurance industry recorded a new premium income of Rs 1.072 trillion (US$ 15.75 billion), indicating a growth rate of 18.3%. The general insurance industry recorded a 14.1% growth in Gross Direct Premium underwritten in financial year 2016 up to the month of February 2016 at Rs 864.2 billion (US$ 12.7 billion). India's life insurance sector is the biggest in the world with about 360 million policies, which are expected to increase at a Compounded Annual Growth Rate (CAGR) of 12-15% over the next five years. The total market size of India's insurance sector is projected to touch US$ 350-400 billion by 2020. India is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow in the coming years. Life insurance penetration in India is just 3.9 per cent of GDP, more than doubled from 2000. A fast growing economy, rising income levels and improving life expectancy rates are some of the many favorable factors that are likely to boost growth in the sector in the coming years.

Indian Economy Growth and The Way Forward:- India's services sector has been the most dynamic part of its economy, leading GDP growth for past two decades. India's industrial economy is gathering momentum on the back of improved output of core sector industries – coal, crude oil, refining, steel, cement, natural gas, fertilizers, electricity etc. Some of the important economic developments in the country are as follows:

- Various companies in India have been signing many private equity deals thus registering substantial increase from previous years.
- General Electric plans to make India a manufacturing hub for its global markets due to its huge talent pool and lower manufacturing costs. The company's upcoming plant at Chakan, Maharashtra, is the first major step towards this direction.
- The Securities and Exchange Board of India (SEBI) plans to gradually introduce more commodity products and allow more participants in the commodity derivatives market in India.
- The Reserve Bank of India (RBI) has granted in-principle licenses to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas, thereby giving fillip to Prime Minister's financial inclusion initiative.
- The Reserve Bank of India (RBI) has also given in-principle approval to 11 entities to open payment banks which are expected to result in widening the reach of banking services and thereby improve the extent of financial inclusion as envisaged by the government. The setting up of 11 new payments banks can potentially free up Rs 1,400,000 crore per annum to fund the infrastructure sector, as per a study by the State Bank of India.
- Indian corporations have been raising significant amount through commercial papers.
- The country is projected to become the fifth largest banking sector globally by 2020, as per a joint report by KPMG-Confederation of Indian Industry (CII).

- The Union Cabinet has approved 100 per cent Foreign Direct Investment (FDI) under the automatic route for non-bank entities that operate White Label Automated Teller Machine (WLA), subject to certain conditions.
- The cumulative amount of FDI equity inflows into India were worth around US$ 300 billion in the 2000–2014 period.
- India's services sector has been the most dynamic part of its economy, leading GDP growth for past two decades. India serves as an example as to how services sector can play an important role in a country's economic growth.
- The estimated value of FII holdings in India stands at US$ 279 billion.
- IT spending by the Government of India is growing 7 per cent year-on-year, according to a report by research and advisory firm Gartner.
- India's IT-business process outsourcing (BPO) industry revenue is expected to cross US$ 225 billion by 2020, according to a Confederation of Indian Industry (CII) report, titled 'The SMAC Code-Embracing New Technologies for Future Business'.
- Garments exports from India have increased by 31 per cent to touch US$ 1.19 billion year-on-year in 2013, on back of increased demand from all major markets, including the US and the European Union (EU).
- The interest for costume jewellery is on the rise and costume jewellers estimate that they have clocked 20–30 per cent growth in the current fiscal. The industry size is expected to touch Rs 150 billion (US$ 2.40 billion) by December 2015, as per an industry body.
- The relaxation in the foreign direct investment (FDI) limit to 49 per cent can result in additional investments up to approx. Rs 60,000 crore (US$8.81 billion).
- The number of millionaires in India is expected to reach 300,000 by 2018 from about 182,000 currently, according to the global wealth report released by the Credit Suisse Research Institute. Wealth per adult in India has risen by 135 per cent from US$ 2,000 in 2000 to US$ 4,700 in 2013, at an average annual rate of 8 per cent.
- India added about US$ 17.6 billion worth of value domestically in 2012 by processing and fabricating gold bars and coins.
- LIC, the industry body of life insurers in India, has estimated the sector to record a compound annual growth rate of 12–15 per cent over the next five years.
- The total number of registered micro, small and medium enterprises (MSME) in India recorded a 19 per cent growth in 2011–12, according to the Ministry of MSME's annual report for 2012–13.
- Agricultural gross domestic product (GDP) in India is expected to grow by over 5 per cent.
- India's largest microfinance company Bandhan has set up Bandhan Bank Ltd, banking and financial services company, post the receipt of license from RBI.

Some initiatives by the Government:- For attracting more investing the Union Budget of India 2016-17 has allowed foreign investment in the insurance and pension sectors in the automatic route up to 49 per cent subject to guidelines. With effect from April, 2016 Service tax on service of life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority (PFRDA) being exempted. In order to encourage and support to the small entrepreneurs, the Government of India plans to revise and improve few of its schemes such as Pradhan Mantri Mudra Yojana. The Government has also announced several schemes to improve the extent of financial inclusion. In order to provide loans to small and backward sections of the business community the Prime Minister of India has launched the Micro Unit Development and Refinance Agency (MUDRA) to fund and promote Microfinance Institutions (MFIs). The Secretary of Financial Services Mr Hasmukh Adhia has announced that the ministry will launch a campaign for loans under Pradhan Mantri Mudra Yojana (PMMY) in order to double loan disbursement to the small business sector to over Rs 100,000 crore (US$ 14.67 billion). Government of India's 'Jan Dhan' initiative for financial inclusion is great movement to economic growth. Under Pradhan Mantri Jan DhanYojna (PMJDY), 210 million accounts have been opened. Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the Pradhan Mantri Jan Dhan Yojana (PMJDY). Minister of Finance Mr Arun Jaitley has formally declared the merger of Forward Markets Commission (FMC) with Securities and Exchange Board of India (SEBI), which help convergence of regulations in the commodities and equity derivatives markets. The Insurance Regulatory and Development Authority of India (IRDA), as part of its endeavour to increase insurance sector growth, has allowed a new distribution avenue called the 'point of sale' person, who will be allowed to sell simple standardised insurance products in the non-life and health insurance segments, which are largely pre-underwritten. All this is the financial system efforts that are initiated by Government of India to provide money to needy to develop the economy of country.

CONCLUSION

It is rightly said, "A well-defined financial move can very easily change the fate of the nation or corporation". The whole of the study shows that the role of financial system in country's economic development is significant. With the reforms made during 1991 to financial system the India's growth in terms of GDP, employment opportunities, foreign exchange reserves is touching to the desired level. As it is the major element of the economic system of India, the financial experts and economists suggests that the financial system should be flexible in nature so that timely reforms can be made to become it as more competitive and more attractive from the point of view of foreign investors too. As the investment is the blood in the economic development, the country with strong and flexible financial system can attract more money from the residents of that country and also from the foreigners that can create a pool of large amount of money. This money attracted and collected by various financial players in the financial system form the savers across the world can be invested in infrastructure, industrialization, agriculture and the services sector that can lead to employment generation, become self-sufficient and contributes to exports and ultimately all this leads to economic development of the nation. Thus we can say that the financial system of country plays a vital role in economic growth and development.

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