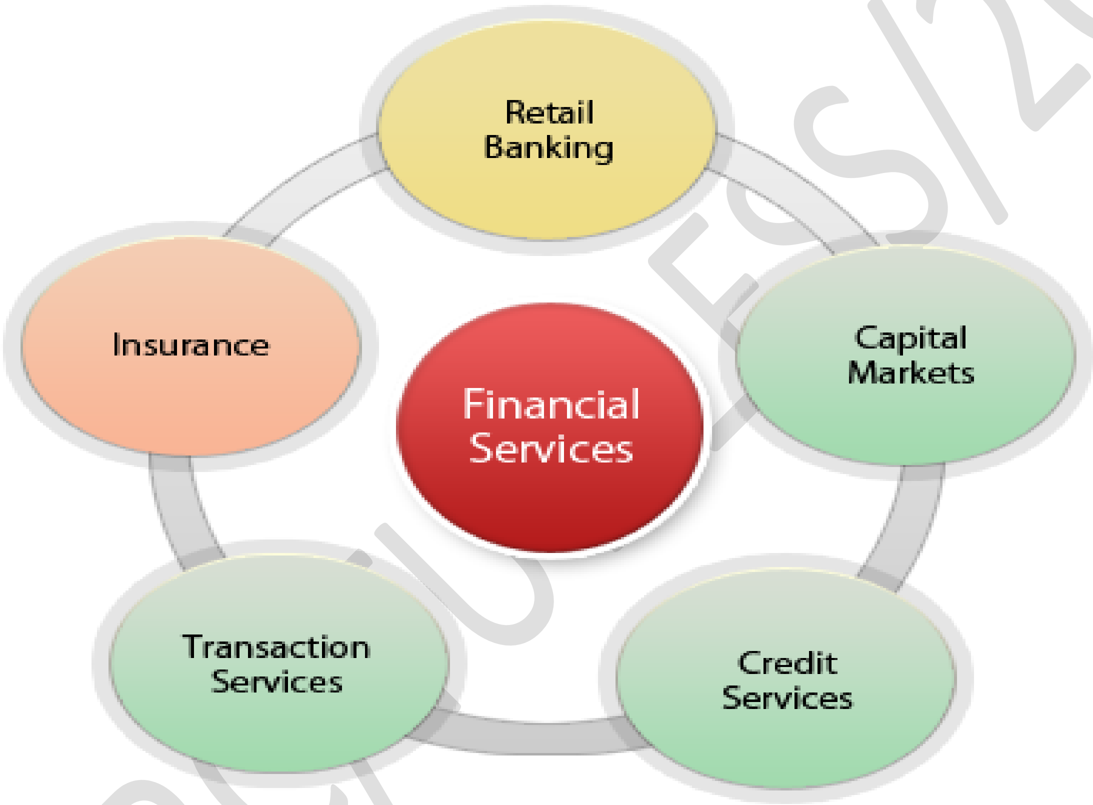
SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: Innovative Financial Services   Unit: I   Prepared by: Raju D. Gole

➢ Definition of Financial Services

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



➢ Functions of Financial Services

- Facilitating transactions (exchange of goods and services) in the economy.
- Mobilizing savings (for which the outlets would otherwise be much more limited).
- Allocating capital funds (notably to finance productive investment).
- Monitoring managers (so that the funds allocated will be spent as envisaged).
- Transforming risk (reducing it through aggregation and enabling it to be carried by those more willing to bear it).

➢ Characteristics and Features of Financial Services

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

➢ Factoring

Factoring, receivables factoring or debtor financing, is when a company buys a debt or invoice from another company. Factoring is also seen as a form of **invoice discounting** in many markets and is very similar but just within a different context. In this purchase, accounts receivable are discounted in order to allow the buyer to make a profit upon the settlement of the debt. Essentially factoring transfers the ownership of accounts to another party that then chases up the debt.

Factoring therefore relieves the first party of a debt for less than the total amount providing them with working capital to continue trading, while the buyer, or factor, chases up the debt for the full amount and profits when it is paid. The factor is required to pay additional fees, typically a small percentage, once the debt has been settled. The factor may also offer a discount to the indebted party.

Factoring is a very common method used by exporters to help accelerate their cash flow. The process enables the exporter to draw up to 80% of the sales invoice's value at the point of delivery of the goods and when the sales invoice is raised.

Benefits Of Factoring

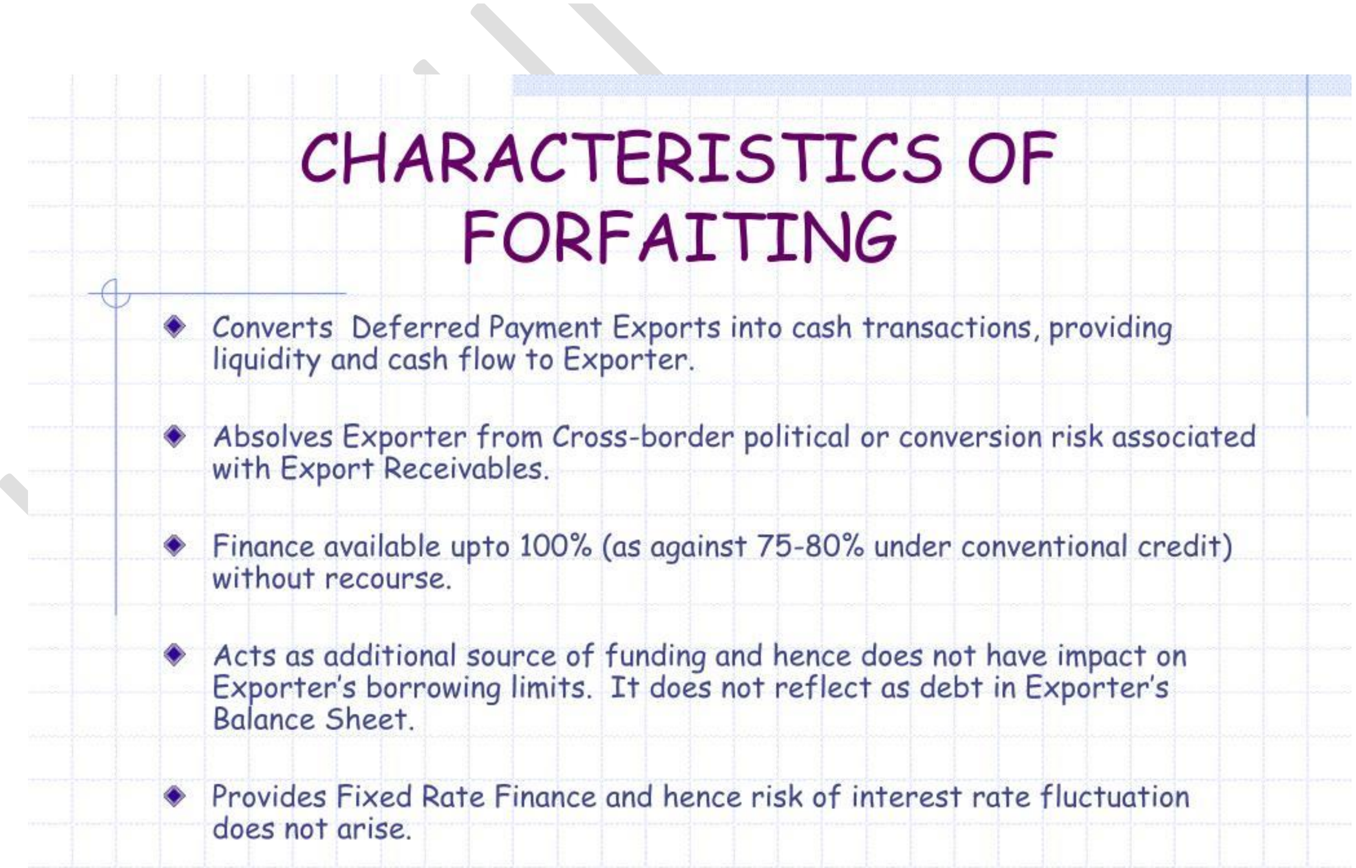
- Financial Services
- Collection Service
- 'Credit Risk' Service
- Provision of expertise 'sales ledger management' service
- Consultancy service
- Economy in Servicing
- Off-balance sheet financing
- Trade Benefits
- Miscellaneous service

TYPES OF FACTORING

1. Recourse & Non-Recourse Factoring	• Based on the assumption of credit risk associated with the collection of the receivables.
2. Advance, Maturing & Participation Factoring	• Related to the time of payment on account of receivables by the factor to the client.
3. Disclosed & Undisclosed Factoring	• Based on the disclosure or non-disclosure of the name of the factor in the invoice.
4. Domestic & Export/Cross-border/ International Factoring	• Based on the domicile of the parties involved.
5. Full Factoring	

➢ Forfaiting

Forfaiting is a means of financing that enables exporters to receive immediate cash by selling their medium and long-term receivables—the amount an importer owes the exporter—at a discount through an intermediary. The exporter eliminates risk by making the sale without recourse. It has no liability regarding the importer's possible default on the receivables.



NOTE: ABOVE MENTIONED POINTS ARE ONLY ILLUSTRATIVE AND NOT EXHAUSTIVE. PLEASE EXPLAIN THE ANSWERS IN DETAIL WITH PROPER EXAMPLES WHEREVER NECESSARY. ALSO REFER NOTES & BOOK(S) FOR THE SAME.

Important Questions

a. Role of Non-Banking companies in Financial Services?

b. Explain Fund Based financial Services?

c. Characteristics of Financial Services? Explain

d. Explain Non-Fund Based financial Services?

e. Define financial services. What are the types of financial services?

f. Benefits of Forfaiting? Explain

g. Describe objectives of financial service market.

h. State the characteristics of financial service market in brief.

i. List down various Types of Factoring?

j. Explain meaning & working of forfaiting.