BRIEF MEANING

OF

KEY TERMS

OF

MANAGEMENT OF FINANCIAL SERVICES (M-305)
(MBA III SEM)

PREPARED

BY

B.K.JAIN

M.B.A. FACULTY

BIYANI INSTITUTE OF SCIENCE & MANAGEMENT

(BISMA)

BIYANI GROUP OF COLLEGES

JAIPUR(RAJASTHAN)

1. **ATM Card:** Automatic Teller Machine (ATM) is a computerized telecommunication device that provides the customers of a financial institution with access to financial transactions in a public space/ place without the need of a human clerk or a bank teller. Customer is identified by inserting a plastic with a Plastic ATM Card with a magnetic strip or a plastic smart card with a chip.

2. **American Depository Receipts (ADR's):**- Depository Receipts issued by a company in USA are known as ADR's. Such receipts are issued in accordance with provisions stipulated by Securities and Exchange Commission of USA. ADR's are dollar dominated and are traded in the same way as are the securities of companies of USA.

3. **Bill Discounting:** When holder of the bill does not wait for payment by debtor, goes to bank and discounts the bill, it is known as bill discounting. Bank charges some discount and pays the balance to the holder.

4. **Bonds:** - Bonds refer to debts instruments bearing interest on maturity. Organization may borrow funds through securities named bonds having a fixed maturity period and pay a specified rate of interest (Coupon Rate) on the principal amount to the holders.

5. **Book Building: -** Is a method of issuing / offering shares to investors in which the price at which share are issued is discovered through bidding process. In this, bidder's (potential investors) have the flexibility to bid for shares at a price they are willing to pay.

6. **Capital Market:** Capital Market refers to institutional arrangements for facilitating borrowing and lending for long term securities having maturity period of above one year. Capital Market can be divided into primary market and secondary market.

7. **Call money Market: -** Is an integral part of Indian money market where day to day surplus funds mostly of banks are traded for short term loans from one day to 14 days. In case of need or meeting mandatory requirements of CRR and SLR, money is borrowed by one bank from other on interest rate agreed between them.

8. **Consumer Finance: -** Refers to any type of lending to consumer. It is a part of retail banking where small amount is advanced to consumer. This consumer finance is classified in two i.e. secured and unsecured loans. Loans are home loans auto loans, and unsecured are personal loans, credit cards etc.

9. **Credit Rating** – Is an act of assigning values by estimating worth or reputation of solvency credit rating froth or repretratuon of solvency and honesty so as to repose trust in a person's ability and intention to repay. Many credit rating agencies are operating in India a such as CRISIL, CARE, ICRA, etc.

10. **Commercial bill market:** Is a market where commercial Bills/Trade bills discounted by banks are traded and rediscounting of such bills takes place in this commercial bill market.

11. **Commercial Paper(CP) :** CP `s are negotiate short term unsecured promissory notes issued by well rated companies generally sold on a discount basis payable after a fixed period a fixed amount on the specified due date.

12. **Certificate of Deposit(CD) :** After treasury bills, the next lowest risk category instrument is CD issued by banks or financial institutions. It is issued at a discount to face value. RBI allows CD up to one year maturities, It is a negotiable promissory note.

13. **Challenge in Financial Services :** Financial service sector is facing a few challenges such as lack of investors awareness , lack of specialization, lack of efficient risk management system and lack of adequate, qualified and trained staff in innovative financial services.

14. **Credit Card:** It is a system named after small plastic card issued to the user of the system. Issuer lends money to the consumer. It is issued by a financial institution / bank to a reputed / creditworthy customer and costumer need not to have an account in the bank.

15. **Debit card:** It is a plastic card issued to a costumer having account in bank to withdraw funds from his account using ATM. A debit card draws directly in the costumer bank account. It is considered relatively safe alternative to cash.

16. **Debentures:** Are principal source of funds to meet long loan financial needs. Debenture is a document issued by a company as evidences of debt the holder usually arising out of loan and mostly secured by a charge.

17. **Derivatives:** To avoid risk in financial transaction derivatives came in to existence. Various types of derivatives products are forward contract, futures, options and swaps. Generally two simultaneous transaction of sale and purchases are done to reduce risk in future.

18. **Development Banks:** Are specialized banking institutions which provide finance to accelerate the rate of growth in a particular sector. Example of such development banks are NABARD for agriculture & rural development, National housing bank for housing , Exim Bank for Import & Exports and many national level institutions like IFCI, IDBI etc. for industries.

19. **Financial System:** -It is a complex and well integrated set of sub system of financial institutions, financial markets, financial intermediaries, services which facilitate transfer and allocation of funds effectively and efficiently. It also consists of regulations,laws and practices followed in the system.

20. **Financial Market:** - Financial market refers to those centers and arrangements which facilitate buying & selling of financial assets / instruments. Whenever a financial transaction takes place, it is deemed to have taken place in financial market. There is no specific place or location to indicate a financial market.

21. **Financial Services:** Are various services rendered by financial institutions /banks. These services are of two types i.e. fee based services where some fee is charge for services & fund based services where service is provided by involving funds such as loans etc.

22. **Financial Instruments:** - Are liability of issuer towards the holder. It is a claim against a person/institution for payment at a future date and periodic payment in the form of interest or dividend. Financial Instruments helps the financial market and the financial intermediaries to perform the important role of channelizing funds from lender to borrower.

23. **Financial Intermediaries:** Are institutions that mediate between ultimate lenders and ultimate borrowers or between those who have surplus money and those who need money to finance their deficit budget. Best examples of such intermediaries are bank, insurance companies, UTI, PF etc.

24. **Financial lease:** Is a contractual commitment that is noncancellabe on the part of the lessee (user) to make a series of payment to the lesser (The owner) for the use of an asset. In this case period of use is shorter then the life of asset.

25. **Factoring:** Is an arrangement between financial institutions or a bank and a business concern where factor purchases book debts either with or without recourse. In other words, outright purchaser of receivable is known as factoring.

26. **Forfeiting:** - It is a form of financing of receivables pertaining to international trade. The purchase is in the form of discounting the documents like trade bills, promissory notes covering the entire risk of nonpayment in collection of dues. All risk of collection problems are of purchaser (Forfeiture).

27. **Global Depository System (GDR's):** A depository receipt is basically a negotiable certificate denominated in US dollars that represent non U.S. company's publicly traded local currency (Indian rupee) equity shares .

28. **Hire purchase :** It is a converted from of credit sale and such hire purchased transaction are governed by hire purchase act 1972. It involves a system in which term loans for purchase of goods and services are advanced to be liquidated in stages through a contractual obligation.

29. **Housing finance:** Is a finance provided by financing agency to purchase, develop, maintain a house. Since house is a basic human need , separate financing institution for housing finance came into being National Housing Bank was establish by RBI to develop housing finance in India in 1988.

30. **Insurance services:** Services provided by insurance companies. Insurance is protection against loss or damage in which individual agree to transfer risk by paying specific amount of money called premium. Many insurance companies in the field of life and non life insurance are providing various services to policy holder.

31. **Intial Public Offering (IPO):** Original amount of shares issued /offered to public for subscription is known initial Public Offer.

32. **Investment Banks :** Are those which collect savings from public and mobilize these saving to put to productive purposes. On the one hand saving are mobilized for productive uses and on the other hand used for investment purposes and thereby help in capital formation. Best examples of investment banks are GIC,UTI, LIC, & etc.

33. **Insurance Regulatory and Development Authority (IRDA):-** IRDA came in to existence in 1999 under IRDA Act to protect the interest of insurance policy holder and to regulate and promote an orderly growth of insurance industry and all intermediary companies dealing with life and non-life insurance in the financial system of India.

34. **Leasing:** Refers to contractual agreement between two parties where by one (lesser) conveys to other (lessee) in return of rent , the right to use an asset for an agreed period of time.

35. **Money Market:** - It is a market for short term money and financial assets that are near substitutes of money. Here dealing are for a short period ranging from one day up to one year and financial assets can be converted into case easily with minimum cost. Examples of money market are call money market, treasury bill market, certificate of deposit etc.

36. **Merchant Banking: -** Merchant Bankers are issue houses which manage new issues of companies. As per SEBI Act' 1992 " any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to the securities as manager , consultant ,advisor or rendering corporate advisory services in relation to such issue" is known as merchant banker.

37. **Managers to the issue :** For mobilizing resources from public , companies go to capital market by way of public issue of shares, debentures bonds for which financial institutions or merchant bankers are appointed as " Manager to the issue". The Managers to the issue perform various advisory services to the company regarding issue.

38. **Mutual fund:** - Mutual funds are special type of institutions which act as financial intermediary in investment business. Mutual funds mobilize funds/savings of small investors and households by selling their own shares also known as units and pass on the returns there of .

39. **Nationalization of banks:** Converting private ownership of banks in to govt. ownership with a view to make use of huge deposit of bank in lending to weaker section and priority sector. Major 14 banks were nationalized in 1969 and six more bank were nationalized in 1980.

40. **National Housing Bank:** A development bank created in 1988 to develop housing sector in the economy. It performes financial, promotional and regulatory function in respect of housing finance in India. It also helps housing finance institutions in the state.

41. **Operating lease:** In contrast to financial lease, operating lease gives the lessee only a limited right to use the asset. The lessee enjoys right to terminate the lease at a short notice without a significant penalty.

42. **Plastic money:** Plastic money is plastic card used in place of currency when a transaction of buying and selling takes place by using these cards. Cards like ATM card , debit card, credit card are the example of plastic money in use.

43. **Registers to the issue:** Registrars are the public face of primary capital market and the intermediary that comes in the greatest contact with investors in new issues. They process the data contained in share application form, decide the basis of allotment, refund orders and issuing share certificates etc.

44. **Risks in financial services :** Risk is a part of corporate life. Various types of risk faced by financial institution while providing financial services are credit risk, liquidity risk , interest rate risk, market risk, technology risk, foreign exchange risk etc.

45. **Share (Ordinary & Preferences) :** Share is a part of unit by which share capital of a company is divided. Two classes of share are there i.e. ordinary and preference share. Equity share capital refers to the share capital which is not preference share capital.

46. **Securitization:** Means acquisition of financial assets by a Securitization or Reconstruction Company. This process of Securitization is resorted to reduce large non performing assets where illiquid financial assets are converted into marketable securities which can be sold to investors.

47. **Security & Exchange Board of India (SEBI):-** SEBI was made a statutory body under SEBI Act 1992 to monitor and regulate capital market activities and to promote healthy development of capital market. Its basic aim is to protect the interest of investors in securities by regulating security market.

48. **Secured Premium Note (SPN):** It Is a debenture or bond which is issued on the security of an asset of a company and matures with an assured premium. Interest is paid along with repayment of principal on redemption. It is a good source of project financing.

49. **Treasury bill:** In the short term, lowest risk category instrument is treasury bills issued by RBI on behalf of central government for a fixed amount . Their maturity period usually does not exceed more than a year. They are generally 91 days, 182 day and 364 day maturity.

50. **Venture capital:** Is capital invested in high risk industrial projects with high reward possibilities. Investment generally utilize new technology with higher probability of failure than success and investor makes higher capital gains if new technology process is successful.