
Role of financial intermediaries in capital market

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Abstract: This study tries to examine the role of financial intermediaries in capital market. And also looks over the impact of financial intermediaries on capital market development. Financial intermediaries exist for the profits within the Financial system. Capital market is the place where the savings and the investment have been done between the suppliers and the people who need the capital. The financial intermediaries arise to reduce the information of risk management and the mobilisation of the savings. These intermediaries assist the investors to grow their money by the way of investments. This paper comes to the opinion that financial intermediaries play a major part in the economy and helps the investors easily make investment in the capital market.

Keywords: Financial Intermediaries, Capital Market, Financial Institutions, Innovation, SEBI.

INTRODUCTION

Individuals, Business and the Government agencies will require money for meeting their current activities, some may need more and for some they need less, so we need a mechanism to balance the savers with borrowers. Financial Institutions will act like intermediaries between borrowers and savers, and also direct the flow of funds among them. Financial Institutions are accountable for the supply of money. The major role of Financial Institutions is to give liquidity to the economy and permit a more significant level of economic activity that would somehow or another be possible. Some of the major financial institutions are Investment banks, Commercial banks, Brokerage, Investment companies and Insurance companies. The Reserve Bank of India and other financial institutions have been promoting the financial Institutions.

To facilitate the fund transactions between two parties there must be an entity. Financial Intermediaries act as an entity for financial transactions. Bank, Insurance company, Pension funds, Mutual funds and Investment banks are some of the financial intermediaries. These Financial intermediaries channel the savings into investments, they also demand a fee for their investments. They give short term and long term goals also provide customised services for their clients. The important roles played by the intermediaries are collecting deposits from savers and lending money to the borrowers. They invest in a variety of bonds, stocks and other financial assets by pooling the savings of many people. They also provide financial assistance to the small business and the customers. These Financial intermediaries protect the investors from market failures. Financial intermediaries can provide factoring services but they do not accept public deposits. A country's economic stability could be shown through Financial intermediaries activities and Financial service industries growth. Financial intermediaries pool funds from the savers which help them to make large investments, which in return advantages the organisations which they are investing their funds.

Capital market provides a place for sellers and buyers to transact securities like shares, debt instruments, debentures, derivatives instruments, bonds etc. These securities are meant for more than one year where short term investment can be done through the money market. It allows investors and the companies to trade their securities in an easy way. Settlement of transactions on time can be done through the Capital market and also it minimises the transaction cost. When we invest in the Capital market our investments are insured against the market risk. There are mainly two types of Capital market they are primary and secondary market. Capital market offers different types of investment. The functions performed by the Capital market and Money market are similar. The only difference is that the Capital market deals with long term securities while money markets are meant for short term investments. It is a well-regulated and organised market. Even Though the investors get many benefits from the Capital market there is a risk in terms of fixed returns periodically because the investments are long term and future are unpredictable. Our research idea is based on the rich knowledge acquired by our peer teams across the university. (A.C.Gomathi, S.R.Xavier Rajarathinam, A.Mohammed Sadiq, Rajeshkumar, 2020; Danda et al., 2009; Danda and Ravi, 2011; Dua et al., 2019; Ezhilarasan et al., 2019; Krishnan and Chary, 2015; Manivannan, I., Ranganathan, S., Gopalakannan, S. et al., 2018; Narayanan et al., 2012, 2009; Neelakantan et al., 2013, 2011;

Neelakantan and Sharma, 2015; Panchal et al., 2019; Prasanna et al., 2011; Priya S et al., 2009; Rajeshkumar et al., 2019; Ramadurai et al., 2019; Ramakrishnan et al., 2019; Ramesh et al., 2016; Venugopalan et al., 2014)

REVIEW OF LITERATURE

(Klewitz et al., 2012) reviewed the role which mediaries can play in a small to medium sized enterprise which is pursuing corporate maintainability with an emphasis on the eco-innovation. It also indicates the drives and boundaries for eco-innovation and cooperation between the SMEs enterprise and local specialists.

(Schaffer, 2019) has studied the risk behaviour of financial intermediaries based on market traditional depository institutions from the year of 1980-2010. They also evaluate the role competition, regulations played and financial innovations in their risk behaviour.

(Menon et al., 2009) identified whether the stock market investors operate market systematically, freely and with sound fundamentals.

(Din et al., 2017) studied the role of insurance in the growth of the economy and to know the economic growth vs insurance for six nations over the time of 1980 to 2015. And also revealed the significant and positive relationship among economic development and insurance.

(Lazaridis and Tryfonidis, 2006) has reviewed the connection among corporate profitability and working capital management. The administrators can make profits for their organisations by accurately taking care of the money conversion cycle and holding each various components to an ideal level.

(Purna, 2007) discussed the link between financial development vs economic growth in the stock market / general market with monetary activity arising economies. The goal of the investigation is to discover the natural connection between the economic activity and security market in India.

(Laopodis and Papastamou, 2016) have studied the dynamic connection in the economy vs the stock market. The goal of the investigation is to re-evaluate the connection among the security market and general economic growth in the country. The study also revealed that the stock market and real economy have a positive correlation.

(Levine and Zervos, 1998) has learned about banking advancement, stock market liquidity, and economic development in the long run. They use two measures of market liquidity for the study first, Turn-over. The second proposition of market liquidity for examination is Value Traded. The examination revealed the reliability with the perspective that financial markets offer significant types of assistance for development. The stock markets offer various types of services from banks also.

(Pradhan et al., 2020) has studied whether there is any relationship between security market growth and financial market growth, monetary development and macroeconomic factors, specifically inflation rate and premium rate. The investigation uncovered that it gives an empirical experience that both security market advancement and stock market improvement are related with interest rate, monetary growth and inflation.

(Jayashankar and Narayan, 2017) inspect the connection among stock return, interest rate and exchange rate of India. Considering the monthly information from Jan 2000 to Dec 2014, and investigated the connection among stock return, interest rate and exchange rate using maximum information. This examination indicates the empirical connection among these factors are not huge at lower scales but rather at a higher scale. There is reasonable linkage among the stock return, interest rate and the exchange rate.

(Ghosh, 2013) has investigated the part of financial intermediaries and financial institutions in promoting economic development by increasing the effectiveness of capital gathering and improving investment funds.

(Demirgüç-Kunt and Levine, 1993) depict about the security market advancement & financial intermediary development, to sum up data about a different type of measures for security market development, in order to encourage study into the connections among stock markets, economic development, and corporate financing decisions. It reads that the purpose behind this quick improvement could yield significant experiences.

(Rejikumar et al., 2019) taken fulfilment of 256 clients gathered utilising a questionnaire survey. And also revealed the current risk beliefs are deficient, encounters have lower predictive commitment to quality approach.

(Gupta et al., 2016) have studied an investigation of perception of brokers related to the currently presented commodity derivatives market in India.

RESEARCH METHODOLOGY

This study has collected the data by using the primary data. The questionnaire is done by using five-point Likert's scale. The questionnaire is given to 78 investors and collected data are analysed by the help of frequency, mean analysis and ANOVA. The demographic profile represented via the pie chart.

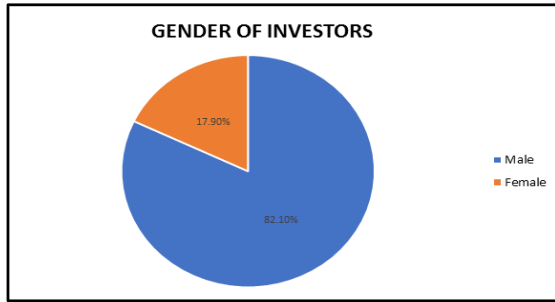


Fig.1: The pie chart describes the percentage of gender in the sample. 82.1% of the sample are Male and 17.9% are Female.

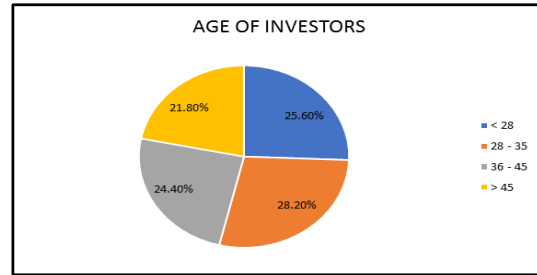


Fig.2: The pie chart describes the age of the Investors respondents. 28.20% of investors are of age 28 - 35 years. 25.60% of investors are of age less than 28 years. 24.40% of investors age of age 36 - 45 year and the remaining 21.80% of investors age of age greater than 45 years.

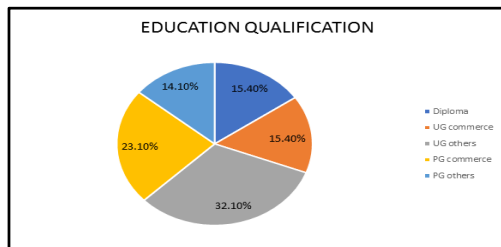


Fig.3: The pie chart depicts the Education background of sample respondents. 32.10% of respondents are Undergraduate Others. 23.10% of respondents are Postgraduate Commerce. 15.40% of respondents are having education qualification of both Diploma and Undergraduate Commerce. And the remaining 14.10 % of respondents were Postgraduate Others.

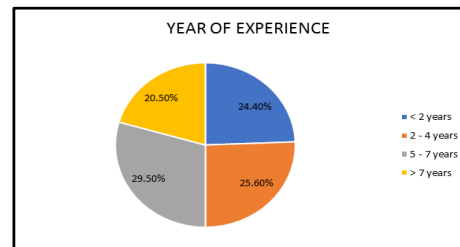


Fig.4: The pie chart depicts the year of experience of the sample respondents. 29.50% of investors are having experience of 5-7 years, 25.60% of people are having 2-4 years of experience, 24.40% of investors are having the year of experience of less than 2 years and the remaining 20.50% of investors are having experience greater than 7 years.

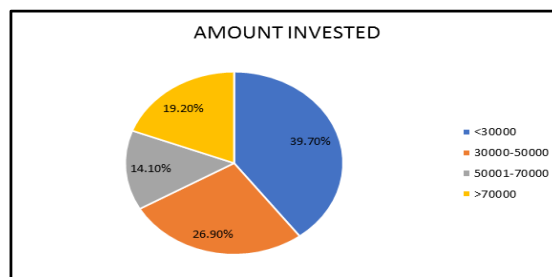


Fig.5: The pie chart depicts the amount invested by the sample respondents. 39.70% investors have invested less than 30000, 26.90% investors have invested between 30000-50000, 19.20% Of investors have invested more than 70000 and the remaining 14.10% of investors have invested between 50001-70000.

Table 1: Role of financial intermediaries in the capital market

S. No	Role of financial intermediaries in the capital market	Mean	Rank
1	Brokers assist in documentation process	4.0385	4
2	Assistance for bookings rendered by the broker	3.9615	8
3	Brokers give edges for trading	4.1026	1
4	Brokers provide proper facilities for trading and banking accounts	4.0385	4

5	Brokers provide trading platforms	3.9359	9
6	The brokers assist customer services on instructions	4.0897	2
7	Depository services are provided by the financial intermediaries	4.0769	3
8	Banking institutions provides funding facilities to trading accounts	4.0256	7
9	Clearing Corporation helps to close the transaction successfully	4.0385	4

Table 1 shows the mean analysis of the role of financial intermediaries in the capital market. From this table it is clear that brokers provide edges for trading has the highest mean value of 4.1026, followed by the brokers assist in customer services on instructions (4.0897). The least mean value is 3.9359 which includes brokers that provide trading platforms.

Table 2: Perception Vs Demographic Details

Age	F	Significant
Perception	1.918	.134
Education Qualification	F	Significant
Perception	.696	.597
Years of experience	F	Significant
Perception	2.051	.114
Amount Invested	F	Significant
Perception	2.206	.095

Table 2 shows the one-way ANOVA analysis of age, education qualification, year of experience and the amount invested. It is seen from the table that a significant value of age (.134) is greater than 0.05. So, there is no difference between age and the perception. It is seen from the table that a significant value of education qualification (.597) is greater than 0.05. So, there is no difference between education qualification and perception. It is seen from the table that a significant value of year of experience (.114) is greater than 0.05. So, there is no difference between years of experience and perception. It is seen from the table that a significant value of the amount invested (.095) is greater than 0.05. So, there is no difference between the amount invested and perception.

CONCLUSION

Financial intermediaries and the legal system gives an alternate way to fulfil some of the core functions that the organisation attains internally. Therefore large organisations may need a powerful financial institution and strong legal system to coordinate investigation by the corporate internals. Financial intermediaries come out to decrease the information uneven, increase corporate control, risk management and mobilising savings. They would examine the unfairness of investors, redress promptly and all queries are adequately dealt with to provide true and sufficient information to investors. Most importantly they shall maintain a good relationship between its core activities and other activities.

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