Tutorial Notes
Class: M.Com, Semester IV (MC 4.3 / EC3**)**
Subject: Financial Institution &Market
Topic: Non Depository Institution.
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Financial Intermediaries – Non-Depository Institution.

Where you cannot put your money and withdraw it . You would not get interest. They are intermediary between borrowers and saver. They are:

1. Insurance Companies:

Insurance companies specialize in writing contracts to protect their policyholders from the risk of financial losses associated with particular events, such as automobile accidents or fires. Insurance companies make money on the policies they sell, which protect against financial loss and/or build income for later use. The policies are not tangible and the protection they offer is financial, so the companies are performing a financial service.

Insurance companies collect premiums from policyholders, which the companies then invest to obtain the funds necessary to pay claims to policyholders and to cover their other costs.

Although insurance companies do not typically make loans, in some cases the paid value of a policy may be used to secure a loan from insurance company or other banks who take the policy as security against loan. Insurance premiums (costs) are not deposits. Private insurance companies try to earn a profit from the premiums beyond the cost of insurance payouts.

2. Trust Companies/Pension Funds:

Companies that administer pension or retirement funds also perform financial services. For many people, saving for retirement is the most important form of saving. These companies take contributions from people and promise in return to provide future income. Pension funds invest contributions from workers and firms in stocks, bonds, and mortgages to earn the money necessary to pay pension payments when contributors retire. Growth for the contributor comes not from interest on deposits, but investments made by the administrator of these pension funds.

Some pension funds are closely regulated, but others may not be. These investments may yield a profit, but there is a risk of loss as well. Private and state and local government pension funds are an important source of demand for financial securities.

3. Brokerage Houses:

A brokerage firm, or simply brokerage, is a financial institution that facilitates the buying and selling of financial securities between a buyer and a seller. Brokers are people who execute orders to buy and sell stocks and other securities. They are paid commissions.

A traditional, or "full service", brokerage firm usually undertakes more than simply carrying out a stock or bond trade. Their staff is entrusted with the responsibility of researching the markets to provide appropriate recommendations. They provide service to help investors do as well as possible with their investments. Brokerage houses may offer advice or guidance to individual investors as well as pension fund managers and portfolio managers alike. They are private companies who make a profit on the transactions.

4. Loan Companies:

Loan companies, sometimes called finance companies, are not banks. They do not receive deposits, and they should not be confused with banks, savings and loan associations, or credit unions. They are private companies who lend money and make a profit on the interest. They have relaxed norms of documentation when compared to other financial institutions and will sometimes offer loan to customers when other institutions will not. To offset the risk these companies charge a higher rate of interest but provide quicker access to funds to their customers.

5. Currency Exchanges:

Currency exchanges do not make loans or receive deposits. Currency exchanges are private companies that cash checks, sell money orders, or perform other exchange services. They charge a fee, usually a percentage of the amount exchanged. Currency exchanges often locate in areas where no other financial intermediaries exist, and they offer the only financial services available to people in those areas. You will often find these currency exchanges available in the Airports and other travel and tourist destinations.

Because their business depends on these fees, interest rates are usually higher than at banks or other financial institutions.

6. Mutual Funds:

Mutual Funds (MFs) are regulated entities, which collect money from many investors and invest the aggregate amount in the markets in a professional and transparent manner. The returns from these investments net of management fees are available to you as a MF unit holder.

A mutual fund is a type of professionally managed collective investment vehicle that pools money from many investors to purchase securities. A mutual fund obtains money by selling shares to investors and then invests the money in various equities and bonds, typically charging a small management fee for its services and sharing the returns with the investors. They are sometimes referred to as "investment companies" or "registered investment companies." Most mutual funds are "open-ended," meaning investors can buy or sell shares of the fund at any time. MFs offer various schemes, like those investing only in equity or debt, index funds, gold funds, etc. to cater to risk appetite of various investors. Even with very small amounts, you can invest in MF schemes through monthly systematic investment plans (SIP).

Mutual funds have both advantages and disadvantages compared to direct investing in individual securities.

By buying shares in a mutual fund, investors can take the benefit of increased diversification and liquidity along with ability to participate in investments that may be available only to larger investors. They also reduce the costs they would incur if they were to buy many individual stocks and bonds along with professional investment management, service and convenience. Because mutual funds are willing to buy back their shares at any time, they also provide savers with easy access to their money.

Mutual funds have disadvantages as well, which include additional fees, less control over timing of recognition of gains, less predictable income and no opportunity to exercise individual judgment or to customize the invested portfolio.

7. Hedge Funds:

Hedge funds are not considered a type of mutual fund but are similar to mutual funds in that they accept money from investors and use the funds to buy a portfolio of assets. They are private, actively managed investment funds, which invest, in a diverse range of markets, investment instruments, and strategies. Hedge funds are often open-ended, and allow additions or withdrawals by their investors.

However, a hedge fund typically has no more than 99 investors, all of whom are wealthy individuals or institutions such as pension funds. Hedge funds typically make riskier investments than do mutual funds, and they charge investors much higher fees.

As these hedge funds are sold to a small number of investors, they have been historically exempt from some of the regulation that governs other funds. They are subject to the regulatory restrictions of their country and generally regulations limit hedge fund participation to certain classes of accredited investors.

8. Investment Banks:

An investment bank is a financial institution that assists individuals, corporations, and governments in raising capital by underwriting and/or acting as the client's agent in the issuance of securities. They differ from commercial banks in that they do not take in deposits and rarely lend directly to households.

Investment Banks concentrate on providing advice to firms issuing stocks and bonds or considering mergers with other firms. They also engage in underwriting, in which they guarantee a price to a firm issuing stocks or bonds and then make a profit by selling the stocks or bonds at a higher price. They may provide ancillary services such as market making, trading of derivatives and equity securities, and FICC services (fixed income instruments, currencies, and commodities).