

Financial Intermediaries In A Financial System

Posted on October 29, 2019

A financial intermediary is defined as an institution that serves as the middleman between two or more parties in order to aid in any financial transactions. The common institutions that are involved include investment banks, commercial banks, stock exchanges, pooled investment funds and stockbrokers. Financial intermediaries transfer the uninterested capital to various productive initiatives through various stockholding structures, debt and equity. Through the process of financial intermediation, the liabilities and assets undergo various changes to different assets and liabilities. The process tends to channel money from those people who have savers to those who need funds in order to carry out their various activities. In other words, a financial intermediary is known as an institution that enables the channeling of funds between financiers and those who borrow indirectly (Baranova, Coen, Noss, & Lowe, 2017). The savers give money to intermediary institutions, for instance, banks, and then the institution lends those funds to the borrowers. When the borrowers receive the funds, they are informed of mortgages or loans. The funds might be given either directly through the financial market that tries to eliminate the financial intermediary, which is referred to as disintermediation. In the context of development and financial climate context, the paper aimed to discuss financial various roles of financial intermediaries, its own mechanism of a financial system, the role of the financial center, various types of finance, the functions of the financial intermediaries, the issues of financial system and finally recent Brexit or the financial crisis in relation to financial intermediaries (Schneider, 2017).

Mechanism Of Financial System

The financial system is the various methods through which money is made available, such as share issues, savings, bank loans and sales revenue. It operates at global, national, and specific company levels (Schneider, 2017). They comprise complex services which is early related to institutions to provide efficient and regular bonds among depositors and investors. In the financial system, money, finances and credit are used as a medium of exchange. They are considered as of value for which various goods and services can be converted to an alternative to other bartering. The modern financial system consists of the following: financial markets, banks, financial services and financial instruments (Leroy & Pop, 2018). The system allows funds to be invested, moved among the economic sector and allocated. It plays a vital role for individuals and firms to share the associated risks.

Component Of The Financial System

I) Banks

Banks are financial intermediaries that give out funds to borrowers in order to generate revenue. Banks provide market stability and ensure the protection of consumers, which is why banks are heavily regulated. Banks are classified into Commercial banks, Cooperative banks, Central banks, Public banks, State managed cooperative banks, and State managed land development banks (Lagoarde-Segot, 2017).

II) Non-Bank Financial Institutions

They are institutions that are made to facilitate financial services like market brokering, risk pooling, and investments. They neither have full banking licenses nor are supervised by bank regulation; they include Mutual funds, Commodity trade, Insurance Companies, Finance and Loan Companies (Rousseau & Wachtel, 2017b).

III) Financial Loan Markets

They are markets in which the commodities, securities and even fungible goods are traded at the value to represent the supply and demand.

IV) Financial Instruments

They are the tradable financial assets of any nature. The financial instruments include contracts, evidence of ownership and money. There are different types of financial instruments they include; first, Cash instruments are values that are determined directly by the markets. They include deposits, loans, and securities (Maggiori, 2017). Secondly, Derivative instruments this is a contract that derives its value from a single or more assets, interest rate as an even index.

V) Financial Services

Financial services are services offered by huge businesses that involve finance firms. They are as follows: banks, credit cards and credit unions.

Roles Of The Financial Center

Financial center provides loans. Through financial intermediaries, people get financial aid to carry out their own business activities. For instance, it facilitates self-employment programmes where it provides finances for those people who want to engage in their self-employment programs, which generates more production and income for an individual. The financial intermediaries have helped those people who are socially and economically depressed. It provides loans to help them carry out various economic activities. This method is aimed at improving both rural and urban conditions (Bazot, 2017). In housing finance, as a way of improving dwelling houses, the financial intermediaries provide housing loans by providing finances to various agencies.

Asset storage. Through financial center, people, companies, and other interested groups can be able to store cash as well as other assets majorly for future use. For example, institutions like banks are ideal for storing assets since they offer protection and might not be found in other places (Rousseau & Wachtel, 2017a). They provide a cheaper way of accessing the assets by providing checks, credit card deposit slips, and checks. To ensure that the assets are on the safe side, the financial center provides access to the records of the withdrawals, payment which are very essential in enabling the businesses of various companies and individuals the keeping records for future reference.

Financial center provides a good platform for investments. Brokerages, investment banks, and mutual funds are examples of financial centers that aim to assist people and companies in increasing their assets through investments (Martiskainen & Kivimaa, 2017). It uses the experience and available resources to assist the clients in reducing any risk and, at the same time, maximize the returns of a good percentage. Along with investments and trading, financial intermediaries provide financial advice to their clients and investments. They do this all the time and more especially through online means.

Financial intermediaries also take various considerations. Depending on the economic and climatic changes. The financial center can pass strict rules and requirements, especially regarding the procedure of lending funds and investing (Hancock & Dewatripont, 2017). Therefore, one has to do detailed research on financial institutions like banks, investment companies and credit unions in order to comprehend the rights and responsibilities. This research is very vital in determining whether financial intermediaries have the capabilities to meet the client's requirements. The information gathered is essential since it reduces the possibility of fees, which are not expected or taking unnecessary risks in investments.

Types Of Finance

There are three types of finance. They are as follows: Personal finance, Public finance Cooperative finance.

A) Personal Finance

Personal finance is the way of handling money, making financial decisions, earning, spending, investing, and even saving by the household or an individual. Personal finance may involve paying for durable goods, paying for education and even buying insurance. Personal planning involves six major areas of financial planning. They include:

I) Financial Position

It deals with ways how to comprehend the individual resources that are available by examining the net worth and the cash flow of the household. Net worth entails the individual's balance sheet, which is calculated by adding the assets that the person owns and subtracting the liabilities of the individual.

II) Adequate Protection

It is the analysis to safeguard the household from risks. The risks can be categorized as follows: disability, health care, death, property and liability. These risks may be insured by an individual, while others may need to purchase an insurance contract (Rey, 2017). For one to determine how much insurance to get, the most appropriate terms require acquaintance with the market for individual insurance. The majority of people, like businessmen, professionals individual insurance in order to protect themselves.

III) Tax Planning

The income tax is known to be the single largest expense in the household. Regulating taxes is not an issue but the issue becomes when paying the taxes becomes an issue. The state lends a lot of incentives in the form of credits and tax reductions, which is essential in the reduction of the lifetime tax burden.

IV) Investment And Accumulation Goals

In planning how an individual acquires enough money for the purposes of large purchases and the events of life. Is what the majority of the people prefer to financial planning? The primary reason to accumulate assets involves starting a business, purchasing cars or houses, saving for retirement and even paying for education. The achievements may need the cost of each asset when an individual wants to borrow funds in order to cater to this goal.

V) Retirement Planning

It is the process of comprehending how much an individual needs to live at retirement to come up with a plan to divide assets in order to achieve any income shortfall. There are various methods how to take advantage of the state-allowed structures to control tax liability, including personal structures, life insurance products and employer retired plans.

VI) Estate Planning

It includes planning for the nature of an individual's assets after death. There is an existence of the tax due to the government after the individual's death. Overcoming these taxes implies that a person's assets will be shared with the immediate family members.

B) Cooperate Finance

It is a type of finance that is majorly concerned with various sources of funding and the capital structure of the cooperation. The steps the administrators take to upsurge the value of the companies to those people who have shares in the firm and the main tools that are used to distribute financial sources (Schackmann-Fallis & Scheffler, 2017). Generally, cooperating fiancé involves various ways how to balance the risks, increase the profitability of the firm and try to maximize the entity's assets. To regulate the net incoming cash flow and the worthiness of the stock. It entails three major sections of the capital resource distribution, which include: first, capital budgeting, the administration should identify the type of the project to carry out. Secondly is the source of capital. This may relate to where the resources are founded, where the sources of the various investments are the dividend policy that requires the administration to determine if there is an unappropriated profit (extra) to be kept for future investment. Cooperate finance includes the scope of business progress investing management and even stock investing.

C) Public Finance

Public finance tries to describe finances related to the sovereign government, municipalities, sub-national entities, providers, counties and any other public-related entities. Most of the time, it encompasses long-term plans involving the investment choices that affect any public institution. It is mainly concerned with the source of the revenue, the process of budgeting, the identification of the appropriate expenditure of public institutions and debt assurance.

Functions Of The Financial Intermediaries

Financial intermediaries play various functions to people. Its functions include: first, it offers services that are very helpful to an individual or company to borrow or save money. Hence facilitates the requirement of different needs of the borrower and the lender. Secondly, through creditors, the financial intermediaries provide a good platform for rendering a line credit to qualified customers and collecting the premiums of various debt instruments, for instance, education, small businesses financing homes and any other personal needs(Rey, 2017). On the same note financial intermediaries helps I converting short term liabilities to long term assets; this means that it deals with more clients who are lenders and the borrowers thus trying to reconcile their differences. Thirdly, financial intermediaries play a major function in converting risky investments by lending to borrowers. This reduces the risk that might occur to the clients. Fourth, financial intermediaries try to march small deposits with huge loans, hence making them convenient denominations.

Issues In Financial System

There are various issues that the financial system faces. They include, first, not making enough money. Despite the profitability that is on the headlines, various financial institutions are not making enough funds that are equated to what they invest. Secondly. Consumer expectations. The majority of the clients are currently informed and have various experiences. Many institutions of late experience pressure because they do not meet the quality services that the clients demand, especially in the area of technology (Martiskainen & Kivimaa, 2017). Thirdly, there is an increment of competition especially from the upcoming technology firms. Many technology companies have come up with various software that provides financial services, hence creating a challenge to traditional financial institutions since they are unable to move with the technology. Finally, there is regulatory pressure. The demand is becoming very difficult to adhere which forces financial institutions to spend most of their budget in order to meet the demands.

According to recent reports from Karel Lanao, he tries to put forward that financial services are about 8 percent of the country's GDP. This explains why the United Kingdom attaches immense importance to holding access to the European Union. The process of making the rule in good condition will take a good number of years and will permit less admission than the United Kingdom-licensed companies enjoy today.

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