



## Latest Trends in Financial Management and Financial services

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### Abstract:

The financing and financial services are fast moving from year to year due to the current issues in the economy which have a direct relation with the latest technology, political and regulatory authority. Financial institutions are competing to provide fast services at low interest rates in relation to the quality of assets. Non-banking institutions are aggressive in providing financial services with innovative strategies, while trying to minimize the risk rate.

Full digital banking and mobile banking are providing flexibility, adaptability, integration and efficiency. Market niches have to be addressed with different strategies. Technology is being used in the financial markets, the availability of skilled manpower to address the issues related therein is a challenge for the financial institutions.

Daily finance and micro finance are playing a vital role in the Indian economy which does not have a regulating authority. These fulfill the immediate financial requirement of petty businesses which are not in the purview of the government or the regulatory body.. Large banks do not have the ease of providing finance because of the complex procedures, rules and regulations within which banks have to function. There exists a wide gap between sectoral financial requirements that needs to be addressed by the Government with public private partnership. The transparency in maintaining and sharing the relevant data with the help of emerging technologies will lead to healthy financial markets.

While some banks are trying to deal with historic losses reflected in their balance sheets. The aim of the study is to explore the business activities of banks with a special focus on their lending behavior and responsiveness to unconventional monetary policy. Deleveraging has been mainly via market to market assets falling in value and policy is now serving to reflate these assets without a strong impact on lending. . A study shows that GSIFI banks are least responsive to policy. Non GSIFI banks respond to the lending rates spread to cash rates, the spread between lending rates and the alternative investment in Government bonds, and the distance to default ( the bank's solvency). The study would show that better lending in the US is a result of safer banks and a better spread to govt. bonds – yields on the later are too attractive relative

to lending rates in Europe. Finally, the paper comments on the problem of using cyclical tools to address structural problems in banks and suggests Which alternative policies would better facilitate A FINANCIAL SYSTEM MORE aligned with lending.

**Keywords:** bank; transition; reform; financial system; deregulation; consolidation; financial trends

### I. Introduction

Imagine two very different financial market structures. The first has many suppliers, each with only a small share of the market. The second has a few very large firms that supply most of the market, plus many smaller players that make up the rest. Which structure is more stable: the one with many small firms or the concentrated market where a few firms dominate? Which structure best describes financial markets in the United States? Those are questions we address in this article.1 A *stable* market is one that can endure shocks to supply or demand without collapsing—that is, without experiencing surging (or wildly oscillating) prices or sharply shrinking volumes. Stability requires certain self-correcting tendencies that ensure that a market can right itself. If supply falls because a major producer fails, for example, the resulting excess demand must push prices upward. Rising prices, in turn, must induce prompt substitution toward other suppliers or products. Substitution tends to dampen upward pressure on prices, thus stabilizing the market.

The financial sector has been cautious - sometimes resistant

- when dealing with the relentless change and uncertainty brought on by the digital age. But consumer need and behaviour is changing the industry's landscape.

- In the UK, people are using their smartphones for over 41 hours a month, accessing them an average of nine times a day.1

- 14.7 million banking apps have been downloaded .2

- £1.7 billion is transferred each week via mobile banking apps.3

- Spending on contactless cards trebled in 2014, reaching a record £2.32 billion.4

In this report, we've highlighted the trends that are shaping the financial industry. These are the trends you need to act on now; the trends you need to

analyse to understand their imminent impact; and the future trends you need to be aware of.

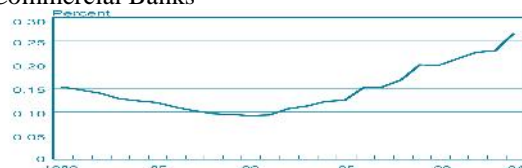
## II. The Ambiguous Link between Concentration and Stability

Why should a change in concentration affect either the probability of a firm's distress or the severity of the consequent market disruption? In this section, we review theory and empirical evidence that address this question. History certainly suggests a link between market concentration and the severity of market disruption given the distress of a major market supplier. A good example is the market for original-issue, below-investment-grade (junk) bonds and the role played in it by Drexel Burnham Lambert. At the peak of the firm's market dominance in the mid-1980s, Drexel's market share oscillated around 50 percent, with a dollar value of issues up to ten times that of the second largest competitor (Altman and Nammacher 1987). As a result of well-known events, Drexel filed for Chapter 11 bankruptcy protection in February 1990. Drexel's exit significantly disrupted the junk-bond market. Return spreads over Treasury securities increased from an average of 400 basis points during the 1980s to 1,000 basis points after Drexel's exit. Issuance also shrank substantially.

The annual value of new issues declined from about \$30 billion before Drexel's exit to about \$4 billion in 1990, and it took three years to return to pre-exit volumes (Edwards and Mishkin 1995). Moreover, negative repercussions were also felt in other industries, as large junk-bond holders attempted to find suitable substitutes for the services Drexel had provided.<sup>2</sup> Theory, however, has focused almost exclusively on the link between market concentration and the probability of a firm's distress, offering mixed conclusions about the link's direction. Some of the literature suggests a negative link between market concentration and the probability of firm distress. This literature focuses on how market concentration affects firms' incentives to take risk, a concept with direct correspondence to the probability of a firm's distress. Keeley (1990) as well as Hellmann, Murdock, and Stiglitz (2000) argue that banks in concentrated markets have incentives to reduce risk. If higher concentration reflects decreased competition and increased profitability, then banks' franchise values will be higher. Higher franchise values reduce the incentives of equity holders to engage in excessive risk-taking behavior that might jeopardize their franchise.

Chart

Share of Total Bank Assets Held by Top Four U.S. Commercial Banks



Source: Federal Financial Institutions Examination Council Reports of Condition and Income.

## III. Concentration Trends

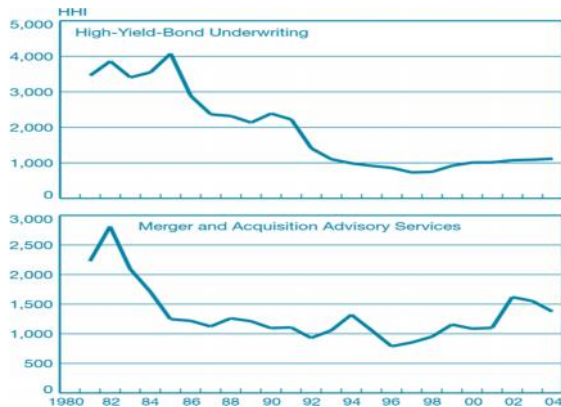
We now examine trends in concentration across a selection of major U.S. financial markets over the past fifteen years. The basic question is whether the regulatory changes of the 1990s have led to a broad pattern of high and increasing concentration in U.S. financial markets. It is already well known that bank concentration at the *aggregate* level (measured by the market share of the four largest U.S. banks) has climbed steadily since the early 1990s (Chart 2), rising from less than 10 percent of banking industry assets in 1990 to 25 percent at the end of 2004. Our review shows that high and rising concentration is not universal across individual financial markets. We find generally moderate levels of concentration in wholesale credit and capital market activities and in most OTC derivatives markets, plus a mixed pattern in terms of trend, with concentration rising in some markets and falling in others. The most noticeable exception is the prime brokerage market, where concentration is high (but declining).

Our review covers major U.S. wholesale credit and capital markets. Admittedly, these markets are not exhaustive; however, they do represent some of the most important markets for core wholesale financial and banking services.<sup>8</sup> We measure market concentration by the standard *n*-firm concentration ratio, calculated as the sum of the market shares of the top *n* (two, three, or five) firms in the market, or by the Herfindahl-Hirschman Index, the sum of squared market shares of all firms in the market.<sup>9</sup> The HHI ranges from zero for a market with an infinite number of equally sized (very small) competitors to 10,000 for a market with a single competitor with a 100 percent market share. Guidelines published by the U.S. Department of Justice used in antitrust analysis specify that markets with HHIs of between 1,000 and 1,800 are considered "moderately concentrated," while markets with HHIs greater than 1,800 are considered "highly concentrated." Although the application is not direct, these figures are useful for interpreting the HHI figures we discuss.

## IV. Market Interdependencies

Thus far, our discussion has centered on the analysis of single markets. However, the probability of distress for a firm and the severity of market disruption may also be affected by interdependencies *across* markets. The emergence of large financial superstores in the late 1990s suggests that financial markets may now be more interrelated. In this section, we examine a variety of evidence on cross-market linkages, finding that these linkages have increased, especially since the late 1990s. This increase has been driven mainly by a growing common set of second-tier firms, rather

than by increases in the number of firms with top-five market shares in multiple markets.



Sources: Securities Data Corporation; Loan Pricing Corporation.

Note: HHI is the Herfindahl-Hirschman Index.

Is an increase in cross-market linkages a concern for overall stability? On the one hand, the ability of financial firms to operate simultaneously in several product markets should open up better diversification opportunities, reducing risk and thus the probability of firm distress. On the other hand, the diversification benefits may be spent by undertaking riskier investment strategies, making the overall effect on risk unclear.

Moreover, as financial markets become increasingly dominated by the same set of financial firms, these firms may also become more and more alike, thus actually increasing the risk of exposure to common aggregate shocks. Risk may also be enhanced when the same firms are big providers in multiple markets because alternate suppliers are needed in many places at once. This multi-market presence might potentially strain alternate suppliers, especially if they themselves are operating in the same multiple markets. On net, firms that are active in multiple markets may be more diversified, but the financial system on the whole may be more vulnerable to firm-specific shocks.<sup>20</sup>

We look at cross-market linkages through two lenses. First, we examine trends in market share correlations—that is, are banks' shares in one market now more or less correlated with their shares in other markets? Second, we examine the extent to which individual firms have high shares across multiple markets and how those shares have changed.

#### V. Prompt Substitution Minimizes Disruptions

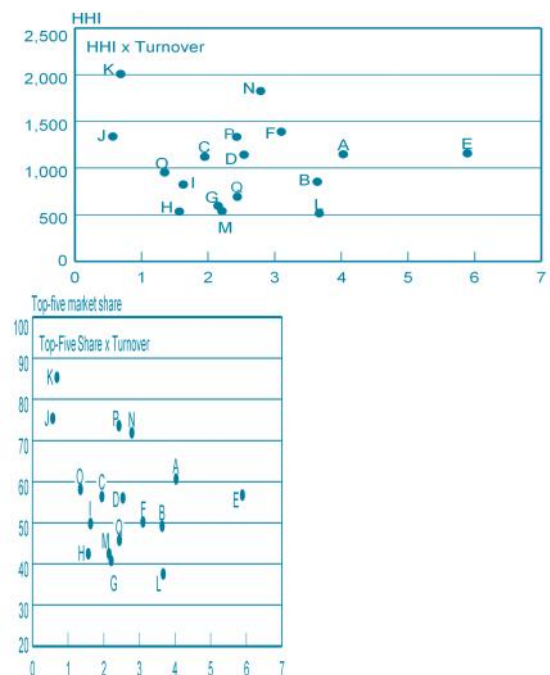
Our review of trends in financial market structure yields two main findings. First, while high and rising concentration is not universal, some markets are indeed highly concentrated or increasingly so. Second, financial markets are becoming more interdependent, and the same set of large institutions is increasingly likely to occupy top rankings in several markets. The stability

implications of higher concentration in some markets and increasing interdependence are two-sided. If the firms that dominate a concentrated market or that are spreading across markets are more diversified, then the probability of a given firm's failure should be lower accordingly. In such an event, however, disruptions may be more severe, because the exit of a dominant firm in a concentrated market leaves a bigger hole in that market *and* in any others where that firm was top-ranked.

Whether the failure of a leading financial provider will disrupt the entire market for a given product depends crucially on how quickly users can switch to other providers or products.

If clients of the departed leader can readily switch to secondary providers at little extra cost, or if they can substitute a related service, the resulting disruption will be accordingly small. If switching is slow or costly, then disruptions will be more severe. This section discusses financial product characteristics that tend to speed or slow substitution. We also compare financial markets by two simple indicators of potential substitution: the number of active providers and the turnover in providers' relative rankings. Lastly, we array markets by those indicators and by the level of concentration. Markets with low turnover, indicating less potential for substitution among providers, *and* high concentration may be more susceptible to severe market upheaval in the event of failure by a leading firm than would those markets characterized by high concentration alone. Considering both characteristics together thus may provide more insight than examining concentration in isolation.

#### Market Concentration and Turnover



## VI. Conclusion

Our review of the literature shows that, theoretically, higher concentration may either increase or decrease the probability of a firm leaving the market as a result of distress. However, anecdotal evidence, and common sense, indicates that the market disruption generated by such an event would be more *severe* in concentrated markets. Hence, even if concentration were to reduce firms' incentives to take risk and thus the potential for distress, public oversight would still be justified.

We find that market concentration has *not* followed a universal upward trend: concentration has increased in some markets and fallen in others. Markets have become more interdependent, it seems, as the same small set of financial firms has become more dominant across multiple markets. We argue that the risk or severity of financial instability depends not just on concentration, but also on whether other firms can *promptly substitute* for an exiting firm. By examining the concentration-substitution dimension, we are able to identify potentially problematic areas where the exit of a large player might exacerbate financial instability.

What does our analysis say about the role of policymakers? If the severity of disruptions is limited by the availability of ready substitutes, what can or should policymakers do to enhance substitution? The answer depends on those factors that limit substitution in the first place. If close relationships are the limiting factor, *laissez-faire* may be optimal. Financial relationships are delicate, dynamic, and sometimes implicit contracts that are probably hard to improve from the top down. However, if the drag on substitution is customized products, policymakers might help in efforts to standardize. Standardization is a public good or externality, so public officials are right to lead efforts in that direction.<sup>1</sup> The recent initiative to remove the backlog of uncleared derivatives transactions and to hasten future clearing appears to be a good step. Policymakers may also have a say when the friction that limits substitution is some technological barrier; if privileged access to a key trading or pricing platform entrenches dominant providers and limits the choices of users, policymakers clearly have a legitimate interest to ensure both stability and competition. Clearing appears to be a good step. Policymakers may also have a say when the friction that limits substitution is some technological barrier; if privileged access to a key trading or pricing platform entrenches dominant providers and limits the choices of users, policymakers clearly have a legitimate interest to ensure both stability *and* competition.

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