International Scholars Journals

International Journal of Banking, Economics and Finance ISSN 2756-3634 Vol. 6(3), pp. 001-002, September, 2022. Available online at www.internationalscholarsjournals.com © International Scholars Journals

Commentary

Components of financial services sector

Vasant Gandhi*

Department of Economics, University of California, Santa Cruz, USA.

Received: 17-Aug-2022, Manuscript No IJBEF-22-75851; Editor assigned: 19-Aug-2022, PreQC No IJBEF-22-75851 (PQ); Reviewed: 02-Sep-2022, QC No. IJBEF-22-75851; Revised: 16-Sep-2022, Manuscript No. IJBEF-22-7584 IJBEF-22-75851(R); Published: 23-Sep-2022.

DESCRIPTION

The economy is divided into several separate components known as sectors. These sectors are made up of various firms that offer goods and services to consumers. A sector is made up of enterprises that offer a comparable product or service. The agriculture industry, for example, includes businesses that provide agricultural services. The telecommunications sector includes companies that provide mobile or cellular telephone services. This article examines the financial service industry, which is one of the most significant sectors of the economy.

- Financial services are one of the most significant and powerful areas of the economy.
- Financial service encompasses a variety of more particular operations such as banking, investing, and insurance.
- Financial services are the activities of financial service businesses and their specialists, whereas financial products are the actual items, accounts, or investments that they offer.

What exactly is the financial services industry?

People and businesses can obtain financial services from the financial services industry. This sector of the economy includes a wide range of financial institutions, including banks, investment businesses, lenders, financing companies, real estate agents, and insurance organisations. As previously said, the financial service sector is perhaps the most significant sector of the economy, dominating the globe in terms of earnings and equities market capitalization. This industry is dominated by large corporations, although it also contains a varied spectrum of smaller enterprises.

Financial services, according to the International Monetary Fund's (IMF) finance and development section, are the methods through which consumers or enterprises obtain financial commodities. A payment system provider, for example, provides a financial service by accepting and transferring payments between payers and receivers. This covers credit and debit card transactions, cheques, and electronic financial transfers.

The financial service sector's importance

The financial services industry is the principal engine of a country's economy. It allows capital and liquidity to move freely in the market. When the sector is robust, the economy grows, and businesses in this area are better equipped to handle risk. The strength of a country's financial services industry is also vital to its population's prosperity. Consumers earn more when the sector and economy are robust. This increases their trust and purchasing power. They resort to the financial services industry to borrow when they require finance for major purchases.

However, if the financial services industry collapses, the economy of a country might suffer. This has the potential to cause a recession. When the financial system begins to fail, the economy suffers. As lenders tighten their lending policies, capital begins to dry up. Unemployment grows, and earnings may even fall, causing consumers to cut down on their spending. To compensate, central banks decrease interest rates in an attempt to stimulate economic development. This was mainly the case during the financial crisis that precipitated the Great Recession.

Financial services

The banking sector is the backbone of the financial services industry. It focuses on direct saving and lending, whereas the financial services sector includes investments, insurance, risk transfer, and other financial activities. Large commercial banks, community banks, credit unions, and other organisations offer banking services. Banks make money largely from the gap between the interest rates levied on credit accounts and the interest rates provided to depositors. These financial services generate money mostly through fees, commissions, and other mechanisms such as the interest rate differential between loans and deposits.

Banking divisions

Banking is divided into three categories: retail banking, commercial banking, and investment banking. Retail banking, often known as consumer or personal banking, caters to individuals rather than companies. These banks provide personal financial services such as checking and savings accounts, mortgages, loans, and credit cards, as well as some investment services. Corporate, commercial, or business banking, on the other hand, is concerned with both small and large firms. It, like retail banking, offers account services and credit products customised to the needs of companies.

*Corresponding author. Vasant Gandhi, E-mail: gandhivas@ucs.edu.