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Analysis on the Functions of Financial Intermediary

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ABSTRACT
With the continuous development of the times, the development of financial intermediary makes human society step into a state of efficient integration and matching between real economy and virtual economy. In order to improve the understanding of the function and performance of financial intermediary institutions, the author has carried out an in-depth study on this knowledge. In order to have a deeper understanding, the author makes a detailed analysis, especially on the function of financial intermediary and the comparison between China and abroad. there are many factors that affect the development of financial arbitration, but in the long run, the growth of financial intermediary is driven by the growth of economy. Financial innovation, technological revolution and changes in the financial system all play a vital role. However, the main reason is that financial intermediaries contribute to the development of the economy by reducing social transaction costs, improving the information gap and promoting the effective allocation of resources through effective risk management.

Keywords: *Financial Intermediary, Financial arbitration, Economic Globalization*

1. INTRODUCTION

With the deepening of economic financialization and the rapid rise of economic globalization, financial intermediaries all over the world are playing increasingly important roles. Some developing countries are concerned about the importance of financial intermediation. First of all, financial intermediary has five basic functions, including facilitating payment and settlement, promoting financing, reducing transaction costs, improving information asymmetry, and transferring and managing risks. From the perspective of financial activities, financial intermediaries are one of the entities participating in the financial market, absorbing deposits of loans and indirect loans, as well as contacting between entities, financing and direct loan investors. This degree of interdependence shows that their development is complementary. The development of financial institutions is beneficial to the efficiency of financial markets, and the sustained development of financial markets provides a favorable external environment and development momentum for financial institutions. From the perspective of financial system, financial markets and financial intermediaries jointly raise funds. Economic actors must raise funds without looking directly for financial markets or financial institutions, but these two parts are part of the financial system. The main purpose of this article can facilitate people to better understand and refer to the basic knowledge and development of financial intermediary.

2. OVERVIEW OF FINANCIAL INTERMEDIARY

According to John G. Gray and Edward S. Shaw, the main task of financial intermediaries is to buy securities from the ultimate borrower and issue indirect bonds to the ultimate lender in order to achieve the purpose of financing [1]. The main function here is to play the intermediary role of income transfer besides unit expenditure. Performing this function will help improve the level of investment and savings, and maximize the allocation of meager savings to existing investment projects. They also believe that the borrowing, use and entry of financial intermediaries actually means that the unit cost of loans that enterprise intermediaries can invest or operate is lower than that of most individual borrowers. Only by diversifying the scale of factories can the risks be greatly reduced. The author can adjust the time structure to minimize the liquidity crisis. Intermediaries with a large number of depositors can usually predict repayment demand. The essence of financial intermediary is that the lender of last resort, the lender of last resort and the third party participate in the saving and investment process. The simplest form of intermediary is broker, which provides convenience for the transactions between lenders without obtaining or claiming liabilities from lenders. In contrast, "actual" financial intermediaries keep their demands on lenders and become parties to financial activities while sending claims to lenders. In actual intermediary, mutual funds can be distinguished from deposit recipients. Mutual funds provide investors with the share of asset portfolios, and the value of these portfolios changes according to the value of the core asset pool that constitutes the intermediate portfolio. The focus of this study is deposit arbitration, which claims investors, including the intermediary value in the independent portfolio of the value provided by the contract [2].

3. ANALYSIS OF FINANCIAL INTERMEDIARIES

3.1 Analysis of the Function of Financial Intermediary

First of all, one of the main functions of financial intermediary is to promote the consensus of payment, commodity trading and labor supply on the grounds of financial balance in economic activities. The basic function of financial intermediary is to use advanced technology, equipment and management system to improve income and financial expenses, and to improve bond clearing service between customers and the basic function of financial intermediary is also the convenient payment and settlement of income and capital expenses. The convenience of settlement through financial intermediary companies not only reduces the transaction time, but also improves the transaction efficiency, to a certain extent, reduces the waiting time and the intermediate stage of the transaction, makes the transaction smoother and makes the transaction operation scale. Secondly, financial intermediaries can also be connected between the supply and demand of capital through financing and in the process of financing and financing financial intermediaries using various financial instruments. Financial intermediaries raise capital from all sides through absorbing deposits, issuing financial bonds or issuing other financial instruments to finance consumers through certain specific operations, promoting the transition from savings to investments, improving capital efficiency and ultimately realizing value added. The operation of the financial intermediary greatly increases the efficiency of financial transactions, reduces the cost of financial transactions, makes large loans possible. Financial intermediaries optimize the allocation of social resources and promote social finance through asset conversion [5]. In addition, financial intermediaries can reduce transaction costs, promote economic activities, promote substantive economic development and ultimately promote their own development through financial innovation and further reform of the financial system. For example, the initial monetary business of commercial banks continues to grow in reducing transaction costs. Financial operation reduces the transaction cost of businessmen in international trade through exchange, import, collection of money, fees and funds. Through currency transactions, merchants can save time to find business partners at the expense of currency, while holding income, expenses and expenses can reduce the merchants' expenses in over-the-counter transactions with currency. At the same time, the currency business can distinguish the cost of currency. Information asymmetry is also closely related to financial intermediation. If information asymmetry is continuously improved, financial intermediation will also be improved. For example, commercial banks can take advantage of scale in data collection, judge the credit status of capital requirements more effectively, invest funds in the most effective capital requirements, and improve the capital operation efficiency of all societies. Generally speaking, there are two American credit rating agencies: Standard & Poor's and Moody's Investors Service. In this financial intermediary, a large amount of data is collected from investors, investment suggestions are provided, and resources continue to flow. Enterprises that represent modern productive forces will eventually promote real economic and financial development [6]. Finally, the role of financial intermediary is to transfer and disperse some risks.

3.2 Development of financial intermediaries in China and foreign countries

First of all, in China, there are many functions of financial intermediary. In terms of capital flow and logistics, products can break through the narrow region and broad market space, and realize the coordination of capital flow, information flow and logistics, thus ensuring the operating costs and virtual economy of enterprises. For example, the Shanxi Green Intelligent Transportation Logistics Management Demonstration Project has a total investment of 4.771 billion yuan, including a loan of 200 million dollars from the Asian Development Bank and 180 million euros from the German Bank for Reconstruction. These funds are mainly used for the Xi'an Logistics Park project financing space base, the multimodal transportation storage center project, the supporting logistics park project of the transportation equipment company, and the Yan'an green city distribution project. This can also provide support for the development of SMEs and provide logistics services through intermediary loans. Secondly, from the angle of capital flow and information flow, according to the needs of the times, this paper puts forward effective ways to save capital flow, information dissemination and information service industry. In terms of resource allocation, financial intermediaries separate the value and law of wealth from different physical forms and transform them into virtual financial assets. It promotes the flow of social wealth in the form of symbols and infinitely expands the scope of social wealth distribution. This form also greatly improves the configuration efficiency. At the same time, in order to save the transaction costs of financial intermediaries, on the basis of the transaction costs unchanged, the scope of the option agreement is expanded, and the transaction success rate is improved. However, like any developed country in the world, American financial intermediaries and their markets have undergone tremendous changes in recent years. In fact, the changes in America may be more serious than those in other places, for two reasons. First of all, American financial institutions and markets are often more professional and meticulous than other places, whether traditional or organized. Second, the banking industry, especially large institutions, has deep historical distrust. Therefore, until recently, the goal of public policy has been to maintain the authority of departments in geographical location and products [3]. In fact, if we do not realize these historical problems, we cannot correctly understand the American public policy towards financial institutions. At the beginning of the 19th century, when the American market and financial institutions began to develop, supervision was the privilege of the state government. Therefore, banks and other financial institutions develop at different interest rates according to different laws. Two attempts were made to enforce domestic banks-the first failed in America (1791-1811). The First Bank of America came into being. Its main responsibilities are to provide credit, store public and financial funds, manage public debt and take charge of capital flow between States. The First Bank of America is a bank similar to the central bank, which is both public and private and cannot fully participate in market competition. So it ended in failure and the second failed in America (1816-1836). At that time, the Anglo-American War broke out. In order to stabilize the market economy and repay the debts caused by the war, the Second Bank of the United States began to operate. However, the threshold for the establishment of banks was very low, and the state banks mushroomed and developed rapidly, which also led to uneven bank quality, frequent fraud, violations and other incidents, and greatly shortened the bank's survival period. So it was eventually limited and eventually failed [4].

4. DISCUSSION

Comparison of Financial Systems between China and Western Developed Market Economy Countries A country's financial system generally includes three elements: financial institutions, financial markets and financial instruments. Below, the report mainly compared China by introducing American financial institution system. The American financial institution system centered on the Federal Reserve System is mainly composed of the Federal Reserve System, commercial banks, government financial institutions and non-bank financial institutions. The Federal Reserve System of the United States consists of the Federal Reserve Board, the Federal Open Market Committee, the Federal Reserve Bank and several major advisory bodies. The Federal Reserve is mainly responsible for monetary policy, supervising the 12 Federal Reserve banks and financial institutions under its jurisdiction, ensuring the integrity and continuity of the American payment system, and implementing the federal consumer credit regulations. At the same time, the Committee must submit an annual report on its operation and a special report twice a year on the economic development of the country and the growth target of the Federal Reserve's money and credit supply. China has basically formed a financial institution system with the People's Bank of China as the leading factor, state-owned commercial banks as the main body, various financial institutions coexisting and division of labor and cooperation as a whole. The specific structure is: the central bank, policy banks, wholly state-owned commercial banks, other commercial banks, rural and urban credit cooperatives, other non-bank financial institutions, insurance companies and foreign financial institutions in China. As the central bank, the People's Bank of China is a state organ that formulates and implements monetary policies and supervises and manages the financial industry under the leadership of the State Council. It has the general characteristics of central banks all over the world: it is a monetary bank, a bank and a government bank. Branches of the People's Bank of China shall be established in accordance with the needs of performing their duties, and shall be responsible for the financial supervision and management within their respective jurisdictions and carry out related businesses in accordance with the authorization of the People's Bank of China. Policy banks are invested and established by the government. They specialize in policy financial commercial banks according to the government's decision and intention. Their activities are not for profit, and they serve specific fields according to the specific division of labor. China Development Bank Export-Import Bank of China and Agricultural Development Bank of China. At the beginning of the business process, we should implement the basic principles of not competing with commercial financial institutions, operating independently and not making profits.

5. CONCLUSION

In the behavioral transactions of financial markets, financial intermediaries play an active role in sharing transaction risks, improving financial transaction efficiency and increasing transaction liquidity. By promoting financial transactions, the problems of adverse selection and moral hazard caused by information asymmetry are effectively solved, such as private production and sale of information, increased supervision of information by the government, and the influence of choice. The existence of financial intermediaries is also necessary. From the information asymmetry and transaction costs, it can be seen that financial intermediaries and financial markets also have some similarities, such as pooling funds, allocating funds, producing and providing information, risk management, supervision and incentives, etc., but financial intermediaries have some similarities. The functions of financial intermediaries are issuing currency, providing payment and settlement system, maintaining the stability of monetary system, changing time limit, screening investment projects and creating deposit currency. As far as the development institutions of financial intermediaries are concerned, the share of deposit-taking financial institutions in financial funds is declining, and the financial assets are gradually concentrated in mutual funds and pension funds. To sum up, the development trend of financial intermediaries is constantly improving, and financial institutions in various countries are constantly improving and enriching. According to the understanding of this inquiry paper, the history of the establishment of financial institutions in different countries can be introduced in detail in the future.

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