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NON-BANKING FINANCIAL COMPANIES (NBFCs)

Department of Economics

INTRODUCTION

- Non-Banking Financial Company is a company regulated by Company Regulation Act 1956 and RBI Regulation Act 1997, so it is registered with RBI also. When company's financial assets constitute more than 50% of total assets and income from financial assets constitute more than 50% of gross income only then it can be registered as NBFCs by RBI.
- It is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.
- Since the Great depression (1930), NBFCs have proliferated in number and type, playing a key role in meeting the credit demand by traditional banks.

TYPES OF NBFCs:

1) **Insurance companies:** These types of NBFCs provide coverage against risk resulting from damage or loss of life. Its regulatory body is Insurance Regulatory Development Authority (IRDA).
2) **Housing finance companies:** It caters the need of costumers who require money for buying or constructing a home. This is regulated by National Housing Bank (NHB).
3) **Merchant Banks:** They provide advisory services to corporate world. They may also act as investment banks but do not provide regular banking services to general public.
4) **Nidhi companies:** They involve in business of borrowing and lending among its partners for their benefits. They are also called benefit fund, mutual benefit fund, permanent funds. These are registered under company act 2013.
5) **Chit fund companies:** They manage and supervise investors of funds. Shree Ram Chit Fund Company, Sharda Chit Fund Companies are some of examples. Its regulation body is State Government.
6) **Venture Capital Companies:** These companies provide fund to start-up companies and small business.

ROLE OF NBFCs

- Development of sectors like transport & infrastructure..
- Major thrust on semi-urban, rural areas & also on first time buyers/users.
- Substantial employment generation.
- Help to increase wealth creation.
- Broad based economic development
- To finance economically weaker sections of society.

Importance of NBFCs

- In the present economic development, it is very difficult to cater need of society by banks alone, so role of Non Banking Finance Companies become indispensable.

- The role of NBFCs as effective financial intermediaries has been well recognised as they have inherent ability to take quicker decisions, assume greater risks, and customise their services and charges more according to the needs of the clients.

- At present, NBFCs in India have become prominent in wide range of activities like high-purchase finance, equipment lease finance, loans, investments etc.
- To help in developing the large number of industries as well as entrepreneur in different sector of different areas.
- To cover all the areas which is being untouched or uncovered by RBI or other FCIs.

Difference between NBFCs & Banks

Basis	NBFCs	Banks
Meaning	Provide banking services to people without holding a bank license	Government authorised financial intermediary which provide banking services to general public
Incorporated under	Companies act 1956 & 2013	Banking Regulation Act,1949
Demand Deposit	Not accepted	accepted
Foreign Investment	Allowed up to 100%	Allowed up to 70% for private sector banks
Payment and Settlement system	Not a part of system	Integral part of system
Deposit insurance facility	Not available	Available
Credit creation	Do not create credit	Create credit
Transaction services	Do not provide	provide

Popular NBFCs in India

Indiabulls HOME LOANS
Ab Ghar Aa Jao

IIFL
India Infoline Limited

TATA CAPITAL
We only do what's right for you

DHFL
Changing Rules Changing Lives

RELIGARE | HOME LOANS
Values that bind

LIC
भारतीय जीवन बीमा निगम
LIFE INSURANCE CORPORATION OF INDIA

Fullerton India

ADITYA BIRLA
FINANCIAL SERVICES

conclusion

- Though this financial institution sounds good for development, they have not been much profitable.
- Very much improvement is needed in the area of its operating cost as it stands much higher than co-operative banks.
- The sector can be strengthen by letting people educate about it and provide them training to make it more organised, so that interest cost can be reduced and will be beneficial for ultimate consumers.
- There is strong need for enhancing the credit delivery mechanism of NBFCs and also is need for more stringent law for the defaulters.

Thank You!