Unit-3

Financial Institutions:

Introduction, Meaning of Financial Institutions; Types of Financial Institutions And Their Roles, Commercial Banking- Objectives And Functions, Public And Private Sector Bank, Cooperative Banks-objectives And Functions, International Banking, NPA, Banking Innovations, NBFCs: Concept, Growth And Prospects.

Unit Objective:

- To understand about Financial Institutions.
- To understand the concepts and Nature of Banking.

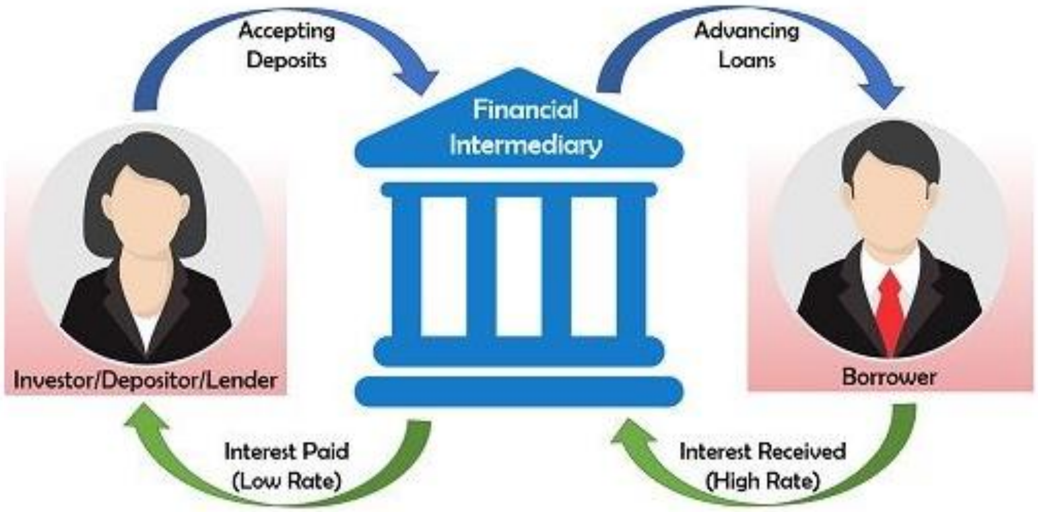
Introduction:

A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.

Example

Mrs. A. is a housewife and deposits her savings into her account with the XYZ bank every month. On the other hand, Mr. B is a young entrepreneur who is seeking a loan to start his venture. Now, Mr. B has two options for availing the loan.

- *The first is that he can find and convince the individuals who are looking for investment opportunities, or; he can approach the XYZ bank for a loan.*
- *We can see that the first option is uncertain, and it will take a lot of time to find the investors. However, the second option is more convenient and quick.*



Types Of Financial Institutions:

The most common types of financial institutions are

- **Commercial Banks**
- **Cooperative Banks**
- **Investment Banks,**
- **Insurance Companies,**
- **International Banks**
- **Brokerage Firms**.

These entities offer a wide range of products and services for individual and commercial clients such as deposits, loans, investments, and currency exchange.

The Following is The List of Roles Performed by Financial Institutions:

- Regulation of monetary supply
- Banking services
- Insurance services
- Capital formation
- Investment advice
- Brokerage services
- Pension fund services
- Trust fund services
- Financing the small and medium-scale enterprises
- Act as a government agent for economic growth

Banking:-

A bank is an institution which deals with money and credit. It accepts deposit from the public, makes the funds available to who need them, and helps in the remittance of money from one place to another. There are various types of banks in India and each is responsible to perform different functions. The bank takes deposit at a much lower rate from the public called the deposit rate and lends money at a much higher rate called the lending rate.

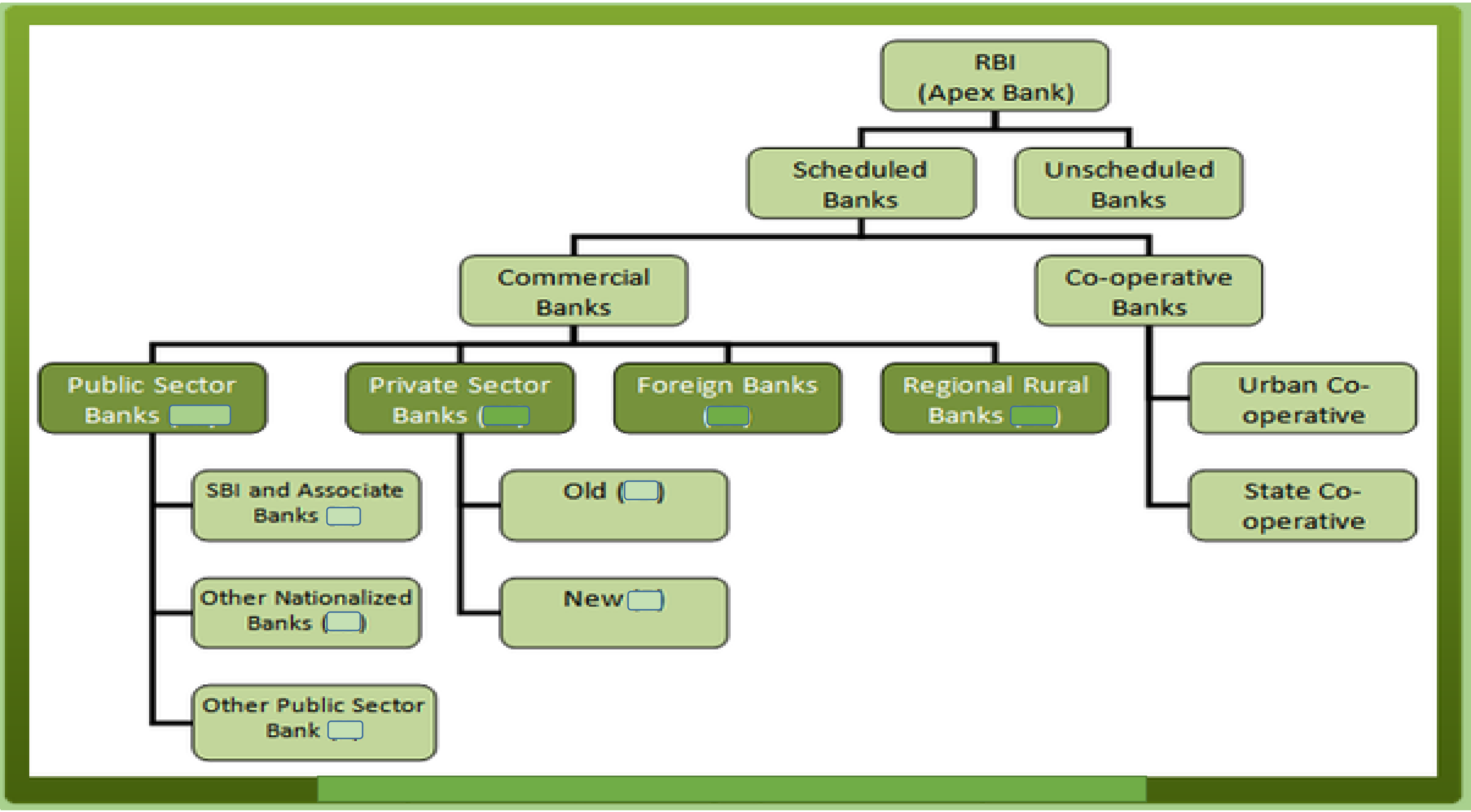
Banks can be classified into various types. Given below are the bank types in India:-

- Central Bank
- Cooperative Banks
- Commercial Banks
- Regional Rural Banks (RRB)
- Local Area Banks (LAB)
- Specialized Banks
- Small Finance Banks
- Payments Banks

Functions of Banks:-

The major functions of banks are almost the same but the set of people each sector or type deals with may differ. Given below the functions of the banks in India:

- Acceptance of deposits from the public
- Provide demand withdrawal facility
- Lending facility
- Transfer of funds
- Issue of drafts
- Provide customers with locker facilities
- Dealing with foreign exchange


RBI
(Apex Bank)
Scheduled Banks
Unscheduled Banks
Commercial Banks
Co-operative Banks
Public Sector Banks
Private Sector Banks
Foreign Banks
Regional Rural Banks
Urban Co-operative
State Co-operative
SBI and Associate Banks
Other Nationalized Banks
Other Public Sector Bank
Old
New

Commercial Bank:-

A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit. The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate. Some of the features of commercial banks are as follows:

- Organized under the Banking Companies Act, 1956
- They operate on a commercial basis and its main objective is profit.
- They have a unified structure and are owned by the government, state, or any private entity.
- They tend to all sectors ranging from rural to urban
- These banks do not charge concessional interest rates unless instructed by the RBI
- Public deposits are the main source of funds for these banks

The commercial banks can be further divided into three categories:

- **Public sector Banks** - A bank where the majority stakes are owned by the Government or the central bank of the country.
- **Private sector Banks -** A bank where the majority stakes are owned by a private organization or an individual or a group of people
- **Foreign Banks** - The banks with their headquarters in foreign countries and branches in our country, fall under this type of bank
- **Regional Rural Banks -** Regional Rural Banks or RRBs, simply put, serve the rural areas and agricultural sectors with basic banking and adequate financial services.

Examples of Commercial Banks:

Commercial Banks in India		
Public Sector Banks	**Private Sector Banks**	**Foreign Banks**
State Bank of India	Catholic Syrian Bank	Australia and New Zealand Banking Group Ltd.
Allahabad Bank	City Union Bank	National Australia Bank
Andhra Bank	Dhanlaxmi Bank	Westpac Banking Corporation
Bank of Baroda	Federal Bank	Bank of Bahrain & Kuwait BSC
Bank of India	Jammu and Kashmir Bank	AB Bank Ltd.
Bank of Maharashtra	Karnataka Bank	HSBC
Canara Bank	Karur Vysya Bank	CITI Bank
Central Bank of India	Lakshmi Vilas Bank	Deutsche Bank
Corporation Bank	Nainital Bank	DBS Bank Ltd.
Dena Bank	Ratnakar Bank	United Overseas Bank Ltd
Indian Bank	South Indian Bank	J.P. Morgan Chase Bank
Indian Overseas Bank	Tamilnad Mercantile Bank	Standard Chartered Bank
Oriental Bank of Commerce	Axis Bank	There are over 40 Foreign Banks in India
Punjab National Bank	Development Credit Bank (DCB Bank Ltd)	
Punjab & Sind Bank	HDFC Bank	
Syndicate Bank	ICICI Bank	
Union Bank of India	IndusInd Bank	
United Bank of India	Kotak Mahindra Bank	
UCO Bank	Yes Bank	
Vijaya Bank	IDFC	
IDBI Bank Ltd.	Bandhan Bank of Bandhan Financial Services.	

Objectives of commercial Banks:

(i) To promote savings and accelerate the rate of capital formation.

(ii) To provide source of finance and credit for trade and industry of a country.

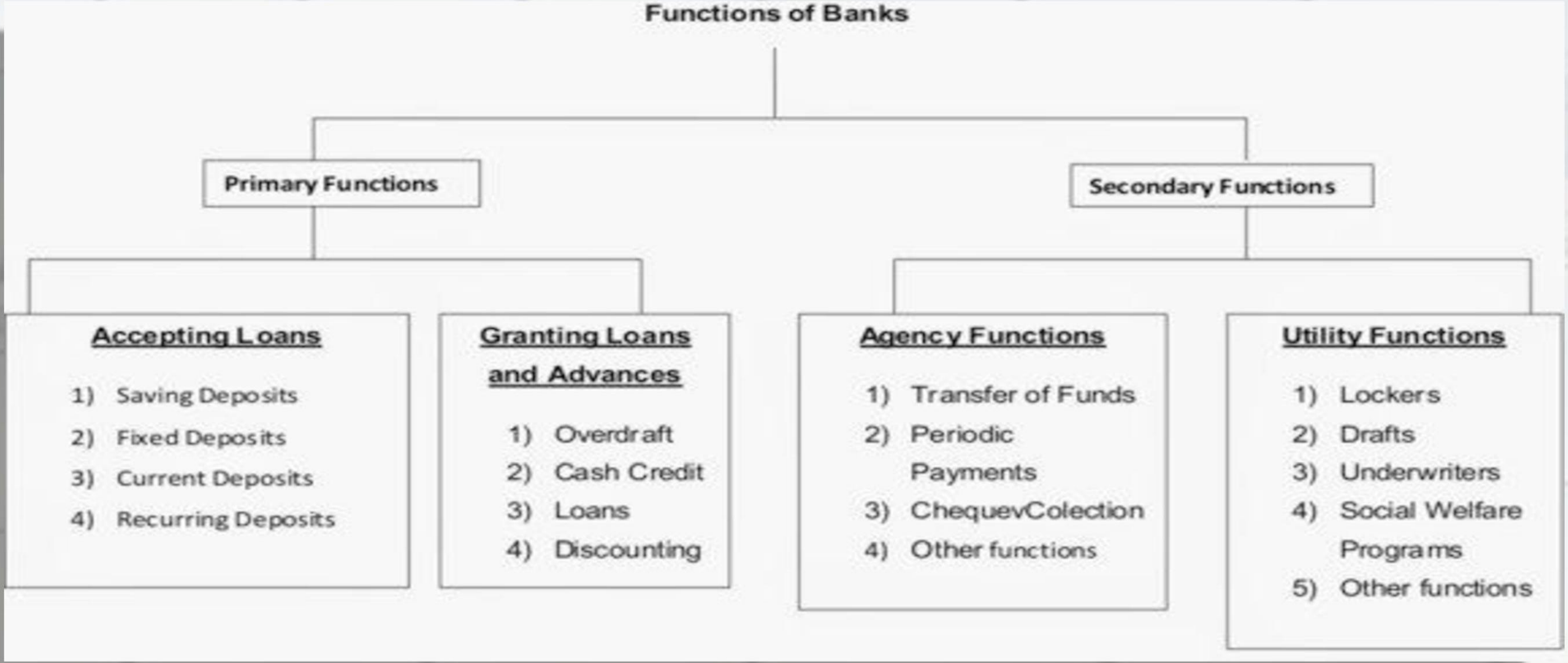
(iii) To promote balanced regional development by opening branches in backward and remote areas of a country.

(iv) To innovate (Bank credit enables entrepreneurs)and invest in the large and small scale industries which accelerate the process of economic development of a country.

(v) To help in encouraging large-scale production and growth of priority sectors such as agriculture, small-scale industry, retail trade and export.

(vi) To help commerce and industry of a country to expand their field of operation.

Functions Of A Commercial Bank



Function of Commercial Bank:-

The functions of commercial banks are classified into two main divisions.

(a) Primary functions

- **Accepts deposit :** A bank is to accept deposits from those who can save but cannot profitably utilize this saving by themselves. The surplus balances collected from the firm and individuals are lent to the temporary requirements of the commercial transactions. To attract savings from all sorts of individuals, the bank maintain different types of accounts: *(i) Fixed deposit account, (ii) Current deposit account, (iii) Saving deposit account, (iv) Recurring deposit account, (v)Home safe account.*

- **Provides loan and advances :** Another critical function of this bank is to offer loans and advances to the entrepreneurs and business people. After keeping certain cash reserves, the banks lend their deposits to the needy borrowers and collect interest. Before advancing loans, the banks satisfy about the credit worthiness of the borrowers. For every bank, it is the primary source of making profits. Various types of loans granted by the banks are : *(i) Money at call, (ii) Cash credit, (iii) Overdraft, (iv) Discounting of bills of exchange, (v) Term loan, (vi) Personal loan, (vii) Credit cards.*

- **Credit creation:** A unique function of bank is to create credit. When a bank advances a loan to its customer, it does not give cash but open an account in the borrower's name and credits the amount of bank deposit. Creation of such deposit is called credit creation which results in a net increase in the money stock of the economy. Banks have the ability to create credit many times more than the deposits and this ability of multiple credit creation depends upon the CRR of banks.

- **Promoting Cheque System:** Banks also create a very useful medium of exchange in the form of cheques. Through a cheque, the depositor direct the bankers to make payment to the payee.

(b) Secondary functions

- **Discounting bills of exchange:** It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.
- **Purchasing and selling of the securities:** The bank offers you with the facility of selling and buying the securities.
- **Locker facilities:** A bank provides locker facilities to the customers to keep their valuables or documents safely. The banks charge a minimum of an annual fee for this service.
- **Paying and gathering the credit :** It uses different instruments like a promissory note, cheques, and bill of exchange.

Public and Private Sector Bank:-

A. Public Sector Banks:

Public Sector Banks are a major type of government owned banks in India, where a majority stake (i.e. more than 50%) is held by the Ministry of Finance of the Government of India or State Ministry of Finance of various State Governments of India. The shares of these government-owned-banks are listed on stock exchanges. Their main objective is social welfare. Public sector banks are known for their better organizational structure and greater penetration in the customer base. The work environment is also relatively less competitive as compared with privately-owned banks and professionals often do not have to focus on meeting targets and being the best performer in a team. There is typically greater stress on providing necessary training to their personnel in order to help update their knowledge and skills to be a better performer in the long run. Job security is much higher as compared to private sector banks and for some, this could be the prime attraction for building a long-term career.

Example: Allahabad Bank, Punjab National Bank, State Bank of India (SBI) are some of the state owned banks.

B. Private Sector Banks:

Majority of the stake is held by private individuals. Private sector banks are usually known for their highly competitive outlook and technological superiority. As a result, careers in private sector banking also tend to be more competitive where professionals are required to meet stiff targets and perform above par to ensure good career growth. A risk-reward component is also higher and remuneration could be better but job security may not be on par with publicly-owned banks. Private Sector Bank is a type of commercial bank where the ownership is private to individuals and businesses and they own a majority of the share capital. All private banks are considered as limited liability businesses.

Example: Axis Bank Limited, Bandhan Bank Limited, HDFC Bank Limited, ICICI Bank Limited are some of the Indian Private Sector banks.

C. **Foreign Banks:**

Foreign banks are those banks which are operating in foreign land through branches.

For Example: Australia and New Zealand Banking Group Ltd., National Australia Bank, AD Bank Limited, Mizuho Bank Ltd. are some of the foreign banks.

D. **Regional Rural Banks:**

Regional Rural Banks (RRBs) in India are **the scheduled commercial banks that conduct banking activities for the rural areas at the state level**. ... The main objective of the RRBs is to provide credit and other banking facilities to the small, marginal farmers, agricultural laborers, small artisans, etc. Examples: Arunachal Pradesh Rural Bank, Baroda Gujarat Gramin Bank, Nagaland Rural Bank, Telangana Grameena Bank etc.

Cooperative Bank:-

The word ‘co-operative’ originated from the Latin word ‘cooperari’ or ‘cooperat’ which means worked together, it basically means that individuals come together and help each other for their similar interests. Likewise, co-operative banks are a kind of associations of members who have a common belief in which they come together and cooperate with each other.
Co-operative banks got registered under the Co-operative Societies Act, 1912 and they are governed under the Banking Regulation Act, 1949 and under the Banking Laws (Co-operative Societies) Act, 1965. The RBI regulates and monitors all the co-operative banks.

Co-operative banks are the banks in which the owners are the customers of the bank because of their common interest and common concern. Co-operative banks provide a huge range of financial services to its members. This type of bank is a retail, there are no large scale transactions handled in a co-operative bank, it is largely meant for retail individual customers to the extent it is highly retail and commercial banking is organized in the co-operative manner. Mutual help is the principle of Co-operative Banks.

Definition Of Co-operative Banks

A co-operative bank is known as to be one of the financial entity which belongs to their members and at the same time they are its owners and also are the customers of the bank.

History Of Co-operative Banks

Co-operative Banking started to established in India when the Co-operative Societies Act, 1904 got passed and the main objective of the Act passed was to help in establishing the co-operative credit societies in the country.
The community comes together and purchase shares of capital of the co-operatives. India is known for the co-operative Banks, we have had several success stories of co-operative banks in capturing the needs of the retail customers in a particular area but they do not have any national level branches.

Objective Of Co-operative Banks

It helps those people who have been less resources or whoever not financially strong. It also promotes a habit of thrift, savings and mutual help. The main focus of co-operative banks is to come up with a low cost financially on the basis of the principal of mutual help.

Earning profit is not a taboo however its motive is non-profit, the motive can not be the profit earning, however, there is no restriction on gaining the profit out of the activities and facilities provided by the Co-operative banks to its customers.

Functions Performed By The Co-operative Banks

Co-operative banks work and function only on one simple rule "One member one vote". It is more democratic than the commercial banks, co-operative banks perform all the basic functions that a commercial bank performs. Co-operative banks have a federal structure.

Co-operative banks act as an agent to its customers, it accepts cheques and draft from their customers, lends money to other co-operative societies and banks at comparatively less interest rate.

Following are the functions performed by the co-operative banks:

1. Primary Urban Co-operative Bank (PUCBs)

This type of Co-operative banks provide their services to mainly urban areas of India, they mainly provide advances in shares and debentures to the small businessmen and also provide these small businessmen loans with extension in credit facilities.

2. District Central Co-operative Bank (DCCBs)-

These type of banks provide their services to the district or local area. They make and implements the policies at a district level and also provide credit facilities to the PACs and PUBCs.

3. Primary Agriculture Credit Society (PACs)-

PACs are a type of Co-operative bank which provides loans to its customers with less complexity, they also motivate their customers to learn to save their money through deposits. It also provides the benefits and development of the large society.

4. State Co-operative Banks (SCBs)-

SCBs are governed by NABARD and acts as supervisor to the DCCBCs.

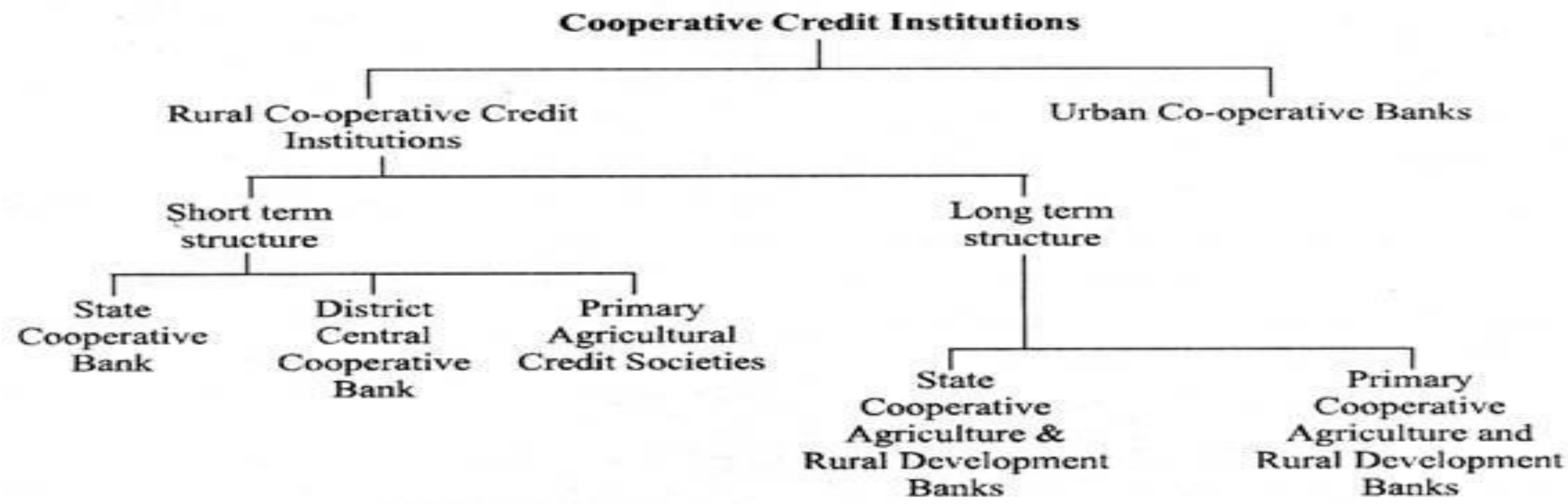
5. Land Development Banks (LDBs)-

These banks help in fulfilling the needs and requirements of the agricultural sector and provide credit in local areas and also perform all the general and basic functions of a bank. This type of bank motivates and helps in the increase in agricultural production in our country.

Conclusion

Therefore, co-operative banks play an integral role in our society. They perform all the basic activities that a commercial bank performs but this type of banks help in easy credit facilities to the small businesses and focus on increasing agriculture production.

Co-operative banks are a federal structure and work in more of a democratic way. It believes in equality and not on vote as per share. It has only one motive just to lend their services to the masses.



International Banking:-

International banking is just like any other banking service, but it takes place across different nations or internationally. To put in another way, international banking is an arrangement of financial service by a residential bank of one country to the residents of another country. Mostly multinational companies and individuals use this banking facility for transacting.

Example

Suppose Microsoft, an American company is functioning in London. It is in need of funds to meet its working capital requirements. In such scenario, Microsoft can avail the banking services in form of loans, overdraft or any other financial service through banks in London. Here, the residential bank of London shall be giving its services to an American company. Therefore, the transaction between them can be said to be part of international banking facility.

Features and Benefits of International Banking

1. *Flexibility:* International banking facility provides flexibility to the multinational companies to deal in multiple currencies. The major currencies that multinational companies or individuals can deal with include euro, dollar, pounds, sterling, and rupee. The companies having headquarters in other countries can manage their bank accounts and avail financial services in other countries through international banking without any hassle.

2. *Accessibility:* International banking provides accessibility and ease of doing business to the companies from different countries. An individual or MNC can use their money anywhere around the world. This gives them a freedom to transact and use their money to meet any requirement of funds in any part of the world.

3. *International Transactions:* International banking allows the business to make international bill payments. The currency conversion facility allows the companies to pay and receive money easily. Also, the benefits like overdraft facility, loans, deposits, etc. are available every time for overseas transactions.

4. *Accounts Maintenance:* A multinational company can maintain the records of global accounts in a fair manner with the help of international banking. All the transactions of the company are recorded in the books of the banks across the globe. By compiling the data and figures, the accounts of the company can be maintained.

Banking Innovation:-

INTRODUCTION The term “Innovation” means ‘to make something new’ Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market.

INDIAN BANKING SECTOR From the time bank of Bengal(1806), qualitative and quantitative changes taken place With 1935 regulation, the RBI was proclaimed the central bank of India

In the 1990s, greater emphasis being placed on technology and innovation

New concept like personal banking, retail banking, total branch automation, etc were introduced.

Types of Innovative Banking

1. **E-BANKING** Enables people to carry out most of their banking transaction using a safe website which is operated by their respected bank

Advantage:

a) Faster & more convenient transaction
b) No longer required to wait in long queues
c) Opening of account
d) Simple & easy Apply for bank loan
e) Cost effective for banker side
f) Fund transfer become faster & convenient
g) Stock trading, exchanging bonds & other investment

2. CORE BANKING

a) Depositing and lending of money,
b) Core banking solution,
c) Knowing customers needs.

3. CORPORATE BANKING

Financial services to large corporate & MNCs Services:

a) Overdraft facility
b) Domestic and international payments
c) Funding Channel financing Letters of guarantee
d) Working capital facility for domestic & international trade

4. INVESTMENT BANKING Professional sales person providing advice on stock trading.

5. RURAL BANKING It provides & regulates credit services for the promotion & development of rural sector mainly agriculture, SSI, cottage and village industries, handicrafts and many more. Examples Of Regional Rural Banks are NABARD, HARYANA STATE COPERATIVE APEX BANK LIMITED, SYNDICATE BANK, UNITED BANK OF INDIA, KIOSK BANKING

6. NRI BANKING This facility is designed for diverse banking requirements of the vast nri population spread across the globe. NRE (Non Resident External Account) NRO (Non Resident Ordinary Account) FCNR (Foreign Currency Non Resident Account)

7.RETAIL BANKING It refers to banking in which banks execute transaction directly with individual , rather than corporate banks. It is also known as 'One stop shop'.

Services: 1.) Saving and checking accounts 2.) Mortgage Housing Finance 3.) Auto Finance Consumer Durable Loans, 4.) Personal Loans 5.) Educational Loans, 6.)Credit Cards

Type of Electronic Systems

1.ATM

It stands for 'Automatic teller machine' In simple words, it is ' simple to use self service solution Value added services like recharge their mobile, pay the utility bills, mutual fund transactions, etc.

2. RTGS

It stands for 'Real time gross settlement system It is a fund transfer mechanism where transfer of money takes place from one bank to another on a 'real time' and on 'gross basis'. This is the fastest possible money transfer system through the banking channel. It is different from EFT and NEFT It is primarily for large volume transaction The time taken for effecting funds transfer from one account to another is normally 2 hours.

3. FINACLE

This system transformation services provides the holistic and integrated approach, complete with solutions and Finacle solutions addresses the requirements of retail, corporate and universal banking worldwide like Core banking solution E-banking solution Mobile banking solution Wealth management CRM requirements, etc.

TYPES OF PRODUCTS & SERVICES

1.TOTAL BRANCH AUTOMATION Speed up bank transactions and less error More customer friendly and flexible Towards paperless transactions.

2. ANY BRANCH BANKING It is a facility for customers to operate their account from any of the same banks network branch.

Facilities available: Cash withdrawal & Cash deposits Account statement Facility to issue multi- city cheques Fund transfer Balance enquiry Purchase of demand drafts pay order Repayment of loan account.

3. DEMAT SERVICES It offers secure and convenient way to keep track your securities and investment over a period of time without the hassle of handling physical documents It provide facility of online trading.

4. MICROFINANCE It refers to a movement that envisions a world in which low income households have permanent access to a range of high quality financial service to finance their income producing activities, build assets, stabilize consumption and protect against risks.

5. PLASTIC MONEY Plastic money are the alternative to the cash or standard money, Convenient to carry, Generic term for all types of bank cards, debit cads, credit cards, smart cards.

6. MOBILE BANKING The account that can travel with you. Facility one can bank from anywhere, at any time, & in any condition or any how.

Facilities are: • Balance enquiry • Fund transfer • Cheque-book request, etc.

Non-performing Asset (NPA):-

A non-performing asset (NPA) is a classification used by financial institutions for loans and advances on which the principal is past due and on which no interest payments have been made for a period of time. In general, loans become NPAs when they are outstanding for 90 days or more, though some lenders use a shorter window in considering a loan or advance past due.

Significance of NPAs

- It is important for both the borrower and the lender to be aware of performing versus non-performing assets. For the borrower, if the asset is non-performing and interest payments are not made, it can negatively affect their credit and growth possibilities. It will then hamper their ability to obtain future borrowing.

- For the bank or lender, interest earned on loans acts as a main source of income. Therefore, non-performing assets will negatively affect their ability to generate adequate income and thus, their overall profitability. It is important for banks to keep track of their non-performing assets because too many NPAs will adversely affect their liquidity and growth abilities.

- Non-performing assets can be manageable, but it depends on how many there are and how far they are past due. In the short term, most banks can take on a fair amount of NPAs. However, if the volume of NPAs continues to build over a period of time, it threatens the financial health and future success of the lender.

How NPAs Work

- Loans, are not switched into the NPA category until a considerable period of non-payment has passed. Lenders consider all of the factors that may make a borrower late on making interest and principal payments and extend a grace period.
- After a month or so, banks typically consider a loan overdue. It is not until the end of the grace period (typically, 90 days of non-payment) that the loan then becomes a non-performing asset.
- Banks may attempt to collect the outstanding debt by foreclosing on whatever property or asset has been used to secure the loan. For example, if an individual takes out a second mortgage and that loan becomes an NPA, the bank will generally send notice of foreclosure on the home because it is being used as collateral for the loan.

Types of Non-Performing Assets (NPA)

- Although the most common nonperforming assets are term loans, there are other forms of nonperforming assets as well.
- Overdraft and cash credit (OD/CC) accounts left out-of-order for more than 90 days
- Agricultural advances whose interest or principal installment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops
- Expected payment on any other type of account is overdue for more than 90 days

Recording Non-Performing Assets (NPA)

- Banks are required to classify nonperforming assets into one of three categories according to how long the asset has been non-performing: ***sub-standard assets, doubtful assets, and loss assets.***
- ***A sub-standard asset is an asset classified as an NPA for less than 12 months.***
- ***A doubtful asset is an asset that has been non-performing for more than 12 months.***
- ***Loss assets are loans with losses identified by the bank, auditor, or inspector that need to be fully written off.***
- They typically have an extended period of non-payment, and it can be reasonably assumed that it will not be repaid.

Non-Banking Financial Company:

NBFCs are companies established under the Companies Act. These companies get NBFC License with the Reserve Bank of India (RBI). NBFCs are intermediaries engaged in the business of finances. NBFC accepts deposits, delivers credit, and plays an important role in channelizing the scarce financial resources towards the creation of wealth. They supplement the organized banking sector in meeting the increasing financial requirements of the corporate sector, delivering credit to the unorganized sector and small local borrowers. However, they cannot finance any agricultural activity, industrial activity, sale, purchase, or construction of an immovable property.

NBFC focuses on activities related to loans and advances, acquisition of shares, stock, bonds, debentures, securities issued by the government/local authority or other similar marketable securities, leasing, hire-purchase, insurance business, etc. The financial services offered by NBFCs include disbursement of finances and loans, acquisition of stocks, shares or bonds, etc.

Example: Muthoot Finance Limited, Aditya Birla Capital Ltd, Bajaj Finance Limited, Tata Capital etc.

- **What are the requirements for registration with RBI?**

A company incorporated under the Companies Act, 1956 and desirous of commencing business of non-banking financial institution as defined under Section 45 I(a) of the RBI Act, 1934 should comply with the following:

i. it should be a company registered under Section 3 of the companies Act, 1956

ii. It should have a minimum net owned fund of ₹ 200 lakh.

- **Every NBFC should be registered with RBI?**

In terms of Section 45-IA of the RBI Act, 1934, no Non-banking Financial company can commence or carry on business of a non-banking financial institution without

a) Obtaining a certificate of registration from the Bank and without having a Net Owned Funds of ₹ 25 lakhs (₹ Two crore since April 1999). However, in terms of the powers given to the Bank, to obviate dual regulation, certain categories of NBFCs which are regulated by other regulators are exempted from the requirement of registration with RBI viz. Venture Capital Fund/Merchant Banking companies/Stock broking companies registered with SEBI, Insurance Company holding a valid Certificate of Registration issued by IRDA, Nidhi companies as notified under Section 620A of the Companies Act, 1956, Chit companies as defined in clause

b) Section 2 of the Chit Funds Act, 1982,Housing Finance Companies regulated by National Housing Bank, Stock Exchange or a Mutual Benefit company.

List of Top 10 NBFC Finance Companies in India:-

1. Bajaj Finance Ltd
2. Shriram Transport Finance Company Ltd
3. Aditya Birla Capital Ltd
4. L&T Finance Holdings Ltd
6. Edelweiss Financial Services Ltd
7. Cholamandalam Investment & Finance Company Ltd
8. Muthoot Finance Ltd
9. Manappuram Finance Ltd
10. Sundaram Finance Ltd

- **What is difference between banks & NBFCs?**

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

i. NBFC cannot accept demand deposits;

ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

iii. deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of bank

The different types/categories of NBFCs registered with RBI?

NBFCs are categorized

a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs,

b) non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies

c) by the kind of activity they conduct. Within this broad categorization the different types of NBFCs are as follows:

I. Asset Finance Company (AFC) :

II. Investment Company (IC) :

III. Loan Company (LC):

IV. Infrastructure Finance Company (IFC):

V. Core Investment Company (CIC-ND-SI):

VI. Infrastructure Debt Fund:

VII. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI):

VIII. Non-Banking Financial Company – Factors (NBFC-Factors):

IX. Mortgage Guarantee Companies (MGC)

X. NBFC- Non-Operative Financial Holding Company.

Objectives of the NBFC Sector

- The key goal of setting up this prestigious sector has not been profitability.
- These institutions work with the sole aim of making financial services accessible to one and all.
- The unique objective set them apart from the banks and made them the prime drivers of growth.
- NBFC sector plays an extremely crucial role in the development of the country’s core infrastructure. By offering quicker funds and credit to the Indian trade and commerce industry, these entities are enabling the nation-wide growth of large infrastructure projects.
- Furthermore, small businesses, start-ups, and MSMEs/SSIs are dependent on funds offered by NBFCs. As these small businesses expand their operations, their need for skilled and unskilled labor goes up to fulfill the increase in operations.
- Thus, indirectly, each new NBFC registration creates more job opportunities at the macro-economic level.

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Thank You…