

Economic Development in India with Special Reference to Non-Banking Financial Companies- A Review

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ABSTRACT

Financial sector of our country needed to be strong to cater the needs of all the sections of the economy so that the overall development of the economy can be made especially in developing country like India. In this paper mainly the significance and recent growth of NBFC's is explained. As the NBFC are the intermediary who plays very important role in the development of any economy like in India. As the financial needs of corporate as well as the unorganized sectors are increasingly day by day and in this respect NBFC provides the best services to all these sectors. NBFC are especially not covered under the banking scenario but these are regulated by central Government and reserve bank of India, so that their functioning can be properly managed and regulated. Their structure is so flexible so the amendments regarding up gradation can be introduced. The paper titled "Economic development in India with special reference to NBFC" presents the recent growth of Indian economy due to flow of credit with latest technology by NBFC and how their growth affect the long term growth of Indian economy.

Keywords: NBFCs, Economic Development, Financial Credit, Financial Intermediary.

I INTRODUCTION

NBFC is playing a very significant role by offering various direct/indirect financial supports to meet the various credit needs of all the sectors of the economy. Their numbers are increasing day by day as every investor in their field want to expand its operations and for it they need credit facility. NBFC provides many credit assistances by introducing flexible credit schemes and policies according to the needs of the entrepreneurs which help the investors in fulfilling their dreams of growth which came into existence and convert into reality. They contribute to the Indian economy's growth by supplementary to banks and other financial institutions.

In present study the development of Indian economy through the role and performance of NBFC is studied. NBFC helps in development of developing country especially like in India by providing facilities for development in the areas of capital formation, employment generation, rural credit, and infrastructure sector.

Over the last 3 years NBFC provides the double the housing loans in India. Market share of NBFC in MSME rose to 18% in 2017 from 8% five year ago. NBFC mainly contributing 60 percent of credit facility to the small, medium and large entrepreneurs which helpful in increasing the output of the nation and GDP.

NBFCs are regulated by the RBI under the RBI Act, 1934. The principle business is receiving of deposits under any scheme of arrangement or in any other manner or lending in any other manner. The regulation of NBFC falls under the preview of RBI. The first regulation framework was introduced by the

Shah Committee in 1992 & the by the Khanna Group in 1997.

The RBI (Amendment) Act, 1997 provides for compulsory registration with the Reserve Bank of all NBFCs, irrespective of their holding of public deposits, for commencing and carrying on business, minimum entry point norms, maintenance of a portion of deposits in liquid assets, creation of Reserve Fund and transfer of 20 Percent of profit after tax annually to the fund. RBI Issued directions to companies on acceptance of public deposits, prudential norms like capital adequacy, income recognition, asset classification, provision for bad and doubtful debts, exposure norms and other measures to monitor the financial solvency and reporting by NBFCs.

As per section 45I (a) of the RBI Act, 1934 the NBFC Should be comply the following provisions to act as a NBFC in India:-

- (i) It must be registered under section 3 of the Companies Act , 1956
- (ii) Net worth of the NBFC should be 200 lacs minimum.

Different Categories of NBFCs are:-

- Loan companies
- Insurance companies
- Investment companies
- Hire purchase finance companies
- Equipment leasing companies
- Housing finance companies
- Residuary NBC

RBI- regulates the NBFC through-

- Mandatory registration

- Minimum owned funds
- Only RBI authorized NBFC can accept deposits
- RBI prescribes the interest rate and Investment policies for the NBFCs
- RBI prescribes the period of deposits
- RBI prescribes the prudential norms regarding the better utilization of the funds.

II REVIEW OF LITERATURE

Brij Mohan, Non-Banking Financial Companies In India: types, needs, challenges and importance in Financial Inclusion, (2014) have observed in his study that the financial institutes and NBFCs are playing a vital role and now more dominated than banks in Indian financial sector. As they are intermediary between the savers and the investors, they meet the credit needs of all the sectors whether it is small, medium or large enterprises. Their profitability has been studied with the help of tables showing increase in loans, advance, assets etc they provide to economy.

H.R. Kaushal, Impact of Non –Banking Financial Companies In India Economy Growth, (2016) explained in their study the role and growth of the NBFC, players in the Indian Financial economy and presented various information for the growth of NBFCs in India. They study that NBFCs are playing as an intermediary by facilitating the flow of credit to end customers.

Shewta Singh, the Role & Regulations of NBFCs in India: The Structure and status profile (2016), said that more flexible rate in credit policy helps the invertors to get different types of the loans. NBFC meets different capital requirement of all types of invertors. There is always some more scope to improve the performance of NBFC in India.

P. Sravan Kumar, Growth & Development of NBFC in India, (2016) studied and stated in his paper that NBFC are emerging as an alternative to mainstream banking. They are emerged as the internal part of the Indian Financial System & contribute development of Indian Economy by development of major sectors of the economy like road transport and infrastructure.

S. K. Das, Performance and Growth of Non-Banking Financial Companies as compared to Banks in India, (2016) has studied and concluded that the scope of NBFC in India much more as compared to the other financial institutions in India in future. In his study he observed that the risk arising from regulatory gaps should be minimized. NBFC provided better services towards the infrastructure sector than banks in present as well as in future. Overall the NBFC contribute capital formation as

well as overall economy growth at the higher rate than other financial institutions in India

K. Ranjan Singh, Growth & Development of NBFC in India, (2016) concluded that NBFCs enjoy more flexible structure than banks in organized sector. NBFCs growth cannot be neglected as their role in economy development is very significant. RBI must make more relevant polices for the development of the NBFC as well as for the investors protection.

III OBJECTIVES OF THE STUDY

- (a) Role of NBFC towards the growth of Indian Economy.
- (b) To determine the present scenario & future prospects of NBFCs
- (c) Presence of NBFCs is a boom for the development of the national.

IV RESEARCH METHODOLOGY

Present study is based on secondary data, hence it is descriptive. Data has been collected from the published records/ periodicals /publications. In addition to this the data collected from various statistics based reports issued by economy survey of India, newspapers, magazines, books, websites, and journals etc.

V GROWTH AND DEVELOPMENT OF NBFC

Well developed & efficient financial system is important for economic growth. In India at present NBFCs are more popular as they provides wide range of activities to their clients like risk absorber, quicker decision maker and works according to the needs of their client. NBFCs help in reduction the degree of risk involved and there is also a more efficient utilization of the resources in the economy. They provide benefits of higher returns, lower risk and liquidity. On an average it grows 22 percent every year.

Between 2014 & 2017, the share of NBFCs in total loans is estimated to have increased from 21 % to 44 %. NBFC had the maximum market share of 49% in the total loan financial.

For safety and security purpose in 2017, RBI has issued a notification master direction-Information Technology Framework for the NBFC sector .through these directions on IT Framework for the NBFC sector are expected to enhance safety, security, efficiency in processes leading to benefits to their customers.

At present in India, most developed and best services provided NBFC are:-

- HDFC
- Mahindra and Mahindra Financial Services Limited
- L&T Finance
- Reliance Capital
- Bajaj Finserv

Some others Information about NBFC in India as on November 30, 2017 (as per the RBI Bulletin)

- NBFC-MFI registered with RBI as on November 30, 2017- **84**
- Asset Finance Companies registered with RBI as on November 30, 2017- **399**

- Core Investment Companies registered with RBI as on November 30, 2017- **50**
- Non Deposit Accepting NBFCs as on November 30, 2017- **11284**

NBFC helps in the growth of Indian Economy in the followings ways:-

- Capital formation
- Provides employment
- Provides long term loans to different sectors.
- Development of financial markets
- Helps the invertors to convert their saving into investments.
- Stability to financial sector

Table 1
Numbers of different types of NBFCs in India (as on end March position)

Year	NBFC-D	NBFC-ND-SI	NBFC-ND	Total
2012	273	375	12010	12385
2013	254	418	11553	12225
2014	241	465	11323	12029
2015	220	420	11202	11842
2016	202	209	11271	11682
2017 P	178	218	11126	11522

P: Provisional

Sources: 1. Report of trend and progress of Banking in India
2. Supervisory returns, RBI

Table 1 show that numbers of different types of NBFCs in India. There is tremendous progress in numbers of NBFC recorded. In the last 5 years there number is varies between 220-260 under NBFC-D

and 11100-11500 under NBFC-ND, but there is steady growth in both the NBFC-D as well as in NBFC-ND.

Table 2
Credit Growth of NBFCs and banks

Year	NBFCs-ND-SI	Banks	(per cent)	
			Private Sector Banks	Public Sector Banks
2011-12	30.5	16.08	21.08	16.4
2012-13	23.7	14.0	18.5	12.0
2013-14	8.8	14.2	16.1	13.09
2014-15	15.0	9.3	18.6	7.8
2015-16	12.4	10.9	25.7	1.4
2016-17 P	13.0	5.4	17.1	0.6

P: Provisional

Sources: 1. Report of trend and progress of Banking in India
2. Supervisory returns, RBI

Table 2 shows the credit growth of NBFCs and banks during the last five years from 2011 to 2017. A figure in percentage indicates that there is tremendous growth of credit by NBFCs than banks in financial sector. It indicates that NBFCs are more favorable credit & finance option opted by different

sectors of the economy as they provides attractive rates of return on deposits and flexibility and timeliness in meeting the credit needs of specified sectors.

Many initiatives have been taken by Government of India and RBI to fascinate the development of

NBFCs services. In India after 1996 there is a rapid growth of NBFCs as its contribution towards the economic development shows positive response. Central bank of India i.e RBI is continuously monitoring their services and functions towards the each and every area so that they cannot be prove threat to ant part of the economy especially financial stability.

In the recent scenario to cope with the increase of competition, the RBI and Government of India take a step to introduce the IT Governance in the area of financial sector. The main motive is behind this is to provide transparent services to the customers and others.

VI RESULTS AND DISCUSSION

It is clearly found out that NBFCs is playing a vital role in the development of Indian economy. As the services and schemes provides by NBFC and the number of NBFC is increasing day by day, and at the same time the users of the NBFC is also increasing, so it has to be known about why the customers using their services, what are the mains future prospects and challenges for NBFC etc. Measures should be adopted in such a way that the frauds and risk associated with the use latest technology should be minimize if any. The study concludes that the NBFCs are the very convenient mode of provides finances/ credit to the society and the nation which helps in the really development of Indian economy with the faster way. NBFCs are the starters to develop strong financial sector in the India, as the time passes their existence will be shown the great results in the development and growth of the economy.

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