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Role played by NBFCs in Indian Economy

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Abstract

Non-Banking Finance Companies (NBFCs) have played an important role in the Indian financial system by complementing and competing with banks, and by bringing in efficiency and diversity into financial intermediation. NBFCs have evolved considerably in terms of operations, heterogeneity, asset quality and profitability, and regulatory architecture. Going forward, the growing systemic importance and interconnectedness of this sector calls for regulatory vigil.

This study represents an impact of NBFC on Indian Economy. There was a total of 9680 NBFCs registered with the Reserve Bank of India as on 2022. The study is aimed to provide an holistic view of the NBFC Industry and its impact on Indian Economy. NBFC fulfills the financial gap by providing loan at a lower rate of interest.

It was found that at even at the time of the economic slowdown NBFC was more profitable. The industry is not tightly regulated as there are many regulatory bodies. Hence, there was an important need to study the NBFC as the industry plays an important role in the financial Services market of India.

Key Words: NBFC, Indian Economy, Financial system

Introduction

Non-banking financial companies (NBFCs) constitute an important segment of the financial system in India. NBFCs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit. They play an important role in channelizing the scarce financial resources to capital formation. NBFCs supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. NBFCs have a more flexible structure than banks. As compared to banks, they can take quick decisions, assume greater risks, tailor-make their

services and charges according to the needs of the clients. Their flexible structure helps in broadening the market by providing the saver and investor a bundle of services on a competitive basis.

Non-Banking Financial Companies constitute an important branch of the finance sector. They pioneer in their cash deployment, accessibility to the markets and others to count. NBFCs have played a significant role in the financial system. Many specialized services such as factoring, venture capital finance, and financing road transport were championed by these institutions.

Non-Banking Financial Institutions is defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

Non-Banking financial Company

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

LITERATURE REVIEW

(Akansha Goel) in her research paper mainly highlights the role of NBFCs in promoting economic growth of India. It also sets forth various strengths, opportunities, challenges and problems faced by this sector and the way forward. Financial intermediaries like non-banking financial companies (NBFCs) have a definite and very important role in the financial sector, particularly in a prospering economy like India. NBFCs play significant role in promoting inclusive growth in the country, by catering to the diverse financial needs of customers not served by the banks. Added, NBFCs often take lead role in providing advanced financial services to Micro, Small, and Medium Enterprises (MSMEs) most suitable according to their business requirements. NBFC have traditionally complemented the role of banking sector. They have catered the needs of those borrowers who were not considered suitable by the banks. A customer falling in low or middle income group may not be able to pass the credit worthiness test of bank. Those customers can avail financial services

provided by the NBFCs. Also banks play their role in semi urban and rural areas only for the purpose of accepting deposit or merely fulfilling the norms of RBI of meeting priority targets. NBFC are filling these unhealthy gaps left by bank in rural and semi urban areas. NBFC play there role of credit supply at much faster rate than banks.

(Mohan 2014) highlighted that traditionally, India has had a bank-dominated financial sector. Even so, there have always been NBFCs. These were in early times that small family used to run businesses for deposits acceptance and lending activities. Even today, the sector may be „small“ as compared to banking sector with a total asset size of just around 14 percent of that of scheduled commercial banks (other than RRBs) but there is no denying that the sector has grown tremendously over the years in size, form and complexity, with some of the NBFCs operating as conglomerates having business interests spread to sectors like insurance, broking, mutual fund and real estate. Concomitant with the above, interconnectedness and systemic importance of the NBFC sector also have increased. Financial Inclusion has been the main focus of the RBI since its inception. Financial inclusion has been defined as the “provision of affordable financial services” to those who have been left unattended or under-attended by formal agencies of the financial system.

The current paper analyses the need of NBFCs in Indian economy, their importance in the Financial Inclusion, what challenges do they face and what measures must be taken to enhance their effectiveness.

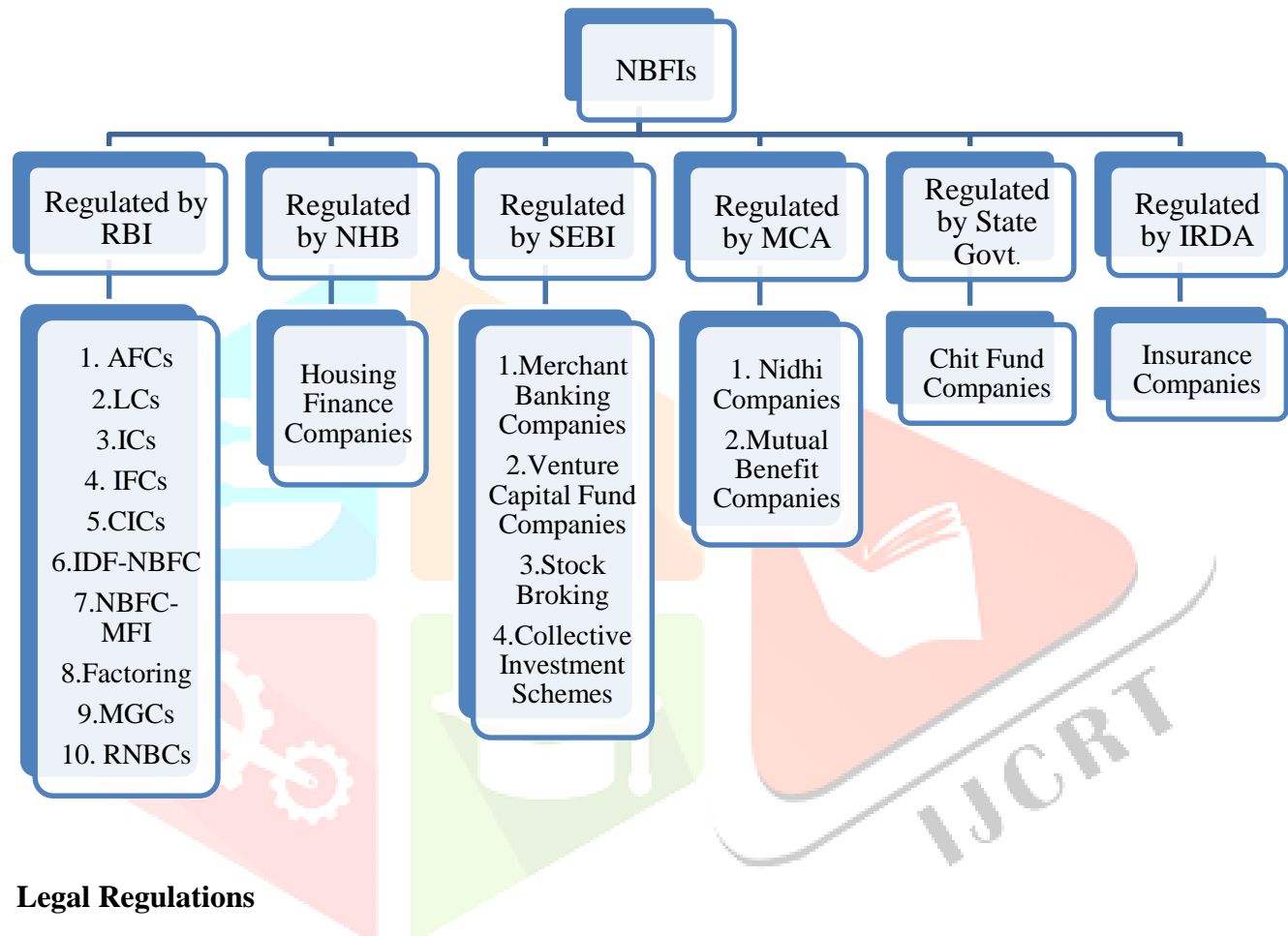
(Kaushal 2016) A robust banking and financial sector is critical for activating the economy and facilitating hire economic growth. Financial intermediaries like Non-Banking Financial Companies (NBFCs) have a definite and very important role in financial sector, particularly in a developing economy like India .They are a vital link in the system .After the proliferation phase of 1980's and early 1990's, the NBFCs witnessed consolidation and now number of NBFCs eligible to accept deposits in around 600, down from 40000 in early 1990's. The number of asset financing NBFCs would even be lower , around 350, the rest are investment and loan companies. Almost 90% of asset financing NBFCs are engaged in financial transportation equipment's and the balance are in financial equipment for infrastructure projects. Therefore the role of non-banking sector in both manufacturing and service sector is significant and they play the role of intermediary by facilitating the flow of credit to end customers particularly in transportation and other unorganized sectors.

The main objective of the research paper is to

- To study the role of NBFCs in the economic development.
- To analyze success factors of NBFCs and challenges faced by NBFCs

NBFI Universe

Non-banking Financial Institutions carry out financing activities but their resources are not directly obtained from the savers as debt. Instead, these Institutions mobilize the public savings for rendering other financial services including investment. All such Institutions are financial intermediaries and when they lend, they are known as Non-Banking Financial Intermediaries (NBFIs) or Investment Institutions.



Legal Regulations

Banks in India are regulated and supervised by the Reserve Bank of India (RBI) under the RBI Act of 1934, Banking Regulation Act, Regional Rural Banks Act, and the Cooperative Societies Acts of the respective state governments for cooperative banks.

NBFCs are registered under the Companies Act, 1956 and are governed under the RBI Act. There is no specific law catering to NGOs although they can be registered under the Societies Registration Act, 1860, the Indian Trust Act, 1882, or the relevant state acts. There has been a strong reliance on self-regulation for NGO MFIs and as this applies to NGO MFIs mobilizing deposits from clients who also borrow. This tendency is a concern due to enforcement problems that tend to arise with self-regulatory organizations. In January 2000, the RBI essentially created a new legal form for providing microfinance services for NBFCs registered under the Companies Act so that they are not subject to any capital or liquidity requirements if they do not go into the deposit taking business.

Difference between Banks and NBFC

Sr. No.	Parameter	Banks	NBFCs
1.	Acceptance of Demand and Term Deposits	Demand Deposits- Permitted Term Deposits- Permitted, subject to term restrictions	Demand Deposits-Not permitted Term Deposits- Permitted subject to limitations, but the term of deposit is at least one year
2.	Payment and Settlement Systems	Banks are a part of Payment and Settlement Systems also controlled by RBI	NBFCs cannot take part in Payment and Settlement Systems i.e. it cannot issue cheques drawn on itself
3.	Need for a license	Licensing norms are tightly controlled and generally, it is perceived to be quite difficult to get a license for a bank	It is comparatively much easier to get registration as an NBFC. Besides, there are NBFCs currently registered, many of which may be available for sale
4.	Deposit insurance facility of DICGC	Available for Banks	Not available for NBFC
5.	Establishment Act	Established under Banking Regulation Act 1949	Established under Companies Act 1956
6.	Foreign Investment	Upto 74% capital in banking companies may be acquired for foreign owners.	100% capital may be held by foreign owners subject of minimum capitalization requirements under FDI

NBFC 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:

- 1) It should be a company registered under Section 3 of the companies Act, 1956.
- 2) It should have a minimum net owned fund of ₹ 200 lakh. (The minimum net owned fund (NOF) required for specialized NBFCs like NBFC-MFIs, NBFC-Factors, CICs is indicated separately in the FAQs on specialized NBFCs).

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 (NBFC-NDSI and NBFC-ND) and c) by the kind of activity they conduct.

Depending upon their nature of activities, non-banking finance companies can be classified into the following categories:

- 1) Asset Finance Company (AFC):** An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipment, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.
- 2) Investment Company (IC):** IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,
- 3) Loan Company (LC):** LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.
- 4) Infrastructure Finance Company (IFC):** IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A' or equivalent d) and a CRAR of 15%.

5) Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:-

- (a) it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;
- (b) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets;
- (c) it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- (d) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
- (e) Its asset size is ₹ 100 crore or above and
- (f) It accepts public funds

6) Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

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

NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

- a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;
- b. loan amount does not exceed ₹ 50,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;
- c. total indebtedness of the borrower does not exceed ₹ 1,00,000;
- d. tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 15,000 with prepayment without penalty;
- e. loan to be extended without collateral;

f. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;

g. loan is repayable on weekly, fortnightly or monthly installments at the choice of the borrower

8) Non-Banking Financial Company – Factors (NBFC-Factors):

NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

9) Mortgage Guarantee Companies (MGC): MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.

10) NBFC- Non-Operative Financial Holding Company (NOFHC): NOFHC is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

11) Account Aggregator (NBFC-AA): Account Aggregator is collecting and providing the information of customers' financial assets in a consolidated, organized and retrievable manner to the customer or others as specified by the customer.

12) Non-Banking Financial Company - Peer to Peer Lending Platform (NBFC-P2P): Providing an online platform to bring lenders and borrowers together to help mobilize unsecured finance.

Contribution of NBFCs in the Economy of India

- Development of sectors like Transport & Infrastructure.
- Substantial employment generation
- Help & increase wealth creation.
- Broad base economic development.
- Irreplaceable supplement to bank credit in rural segments.
- Major thrust on semi-urban, rural areas & first time buyers / users.
- To finance economically weaker sections.
- Huge contribution to the State exchequer.

List of major products offered by NBFCs

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- Funding of commercial vehicles
- Funding of infrastructure assets
- Retail financing
- Loan against shares
- Funding of plant and machinery
- Small and Medium Enterprises Financing
- Financing of specialized equipment
- Operating leases of cars

Functions of NBFC

- Small loans, typically for working capital;
- Informal appraisal of borrowers and investments;
- Access to repeat and larger loans based on debt capacity and repayment performance;
- Secure savings products.
- To provide financing facilities, with or without collateral Security
- To accept deposits
- To encourage investments in such cottage industries and income generating projects for poor persons as maybe prescribed;
- To mobilize and provide financial and technical assistance and training to micro enterprises
- To invest in shares of anybody corporate, the objective of which is to provide microfinance services to poor persons.

Activities undertaken by the NBFCs for achieving inclusive growth:

1. Credit to MSMEs: Statistics based on 4th Census on MSME sector revealed that only 5.18% of the units (both registered and un-registered) had availed finance through institutional sources. 2.05% got finance from non-institutional sources the majority of units say 92.77% had no finance or depended on self-finance. The fact that a large segment in the micro and small industries sector does not have access to formal credit provides a window of opportunity for the NBFCs to design suitable innovative products.

2. Micro Finance Institutions: NBFC-MFIs provide access to basic financial services such as loans; savings, money transfer services, micro-insurance etc. to poor people and attempt to fill the void left between the mainstream commercial banks and money lenders. Over the last few years NBFC-MFIs have emerged as fast growing enablers in providing the financial services to the poor people by providing capital inputs to poor which generates self-employment, and thereby promotes inclusive growth. To encourage MFIs, as per the

Malegam committee recommendations, RBI has created separate category under NBFCs. As on date, around 33 MFIs have been registered with RBI.

3. Monetization of Gold: NBFCs provide loans against security of gold jewellery. Although banks are also involved in gold loan business, NBFCs' gold loans witnessed phenomenal growth due to their customer friendly approaches like simplified sanction procedures, quick loan disbursement etc. Gold loan NBFCs help in monetization of idle gold stocks in the country and facilitate in creating productive resources. Branches of gold loan NBFCs increased significantly during the last couple of years mostly housed at semi-urban and rural centers of the country.

4. Second Hand Vehicle Financing: Apart from providing loan against property, NBFCs also engage in financing used/ second hand vehicles, reconditioned vehicle, three-wheelers, construction equipment besides secured / unsecured working capital financing etc. Incidentally, in India except NBFCs no other financial sector player finance second hand vehicles; which are very popular with road transport operators essentially in the self-employed segment.

5. Affordable Housing: Another area where NBFCs are participating in the inclusive growth agenda is affordable housing. Large NBFCs are setting up units to extend small-ticket loans to home buyers targeting low-income customers across the country. Firms are offering loans of Rs. 2-6 lakh to borrowers with monthly income of Rs.6000 – 12000 who find it difficult to borrow from the commercial banks. Firms offer easier know-your customer (KYC) norms such as relaxation in documentation requirements to facilitate easy access to low-income borrowers. To sum up, NBFCs' role in financial inclusion as explained above, indicate the fact that they have been game changers in certain areas like financial inclusion especially micro finance, affordable housing, second-hand vehicle finance, gold loans and infrastructure finance.

Challenges Non-Banking Financial Company:

The NBFCs in India face some challenges which restrict them in achieving their objectives effectively. Some of the major challenges are as follows:

1. Customer Protection Issues: Protection of customers against unfair, deceptive or fraudulent practices has become top priority internationally after the crisis. Incidentally, the Bank has received and is receiving number of complaints against charging of exorbitant interest rates, raising of surrogate deposits under the garb of non-convertible debentures, various types of preference shares, Tier II Bonds, etc. Aggressive practices in repossessing of automobiles in the case of auto loans and improper/opaque practices in selling the underlying gold jewellery in the case of gold loans are the two categories in which relatively more complaints are being received by the Reserve Bank. NBFCs are often found not to practice Fair Practices Code(FPC) in letter and spirit. Developing a responsive and proper grievance redressal mechanism is the more important agenda in the context of this action point.

2. Camouflaging Public Deposits: NBFCs have been prone to adopt variety of instruments/ways of accepting camouflaged public deposits for resource mobilization viz., use of Cumulative Redeemable Preference Shares (CRPS)/ Convertible Preference Shares (CCPS) / NCDs / Tier 2 capitals. These instruments are generally marketed as any other deposit products mostly by agents. Furthermore, complaints are received that deposit receipts issued to customers reveal that the deposits are accepted on behalf of other group companies, whose operations are very opaque.

3. No Single Representative Body for the Industry: In the case of NBFCs, there are multiple representative bodies such as ‘Finance Industry Development Council (FIDC) for Assets Finance Companies’, ‘Association of Gold Loan Companies (AGLOC) for Gold Loan NBFCs’, etc. In addition, RBI has recently issued guidelines for ‘Self-Regulatory Organization for Micro Finance Institutions’. This leads to the unclear rules and regulations which hamper the growth trajectory of the NBFCs.

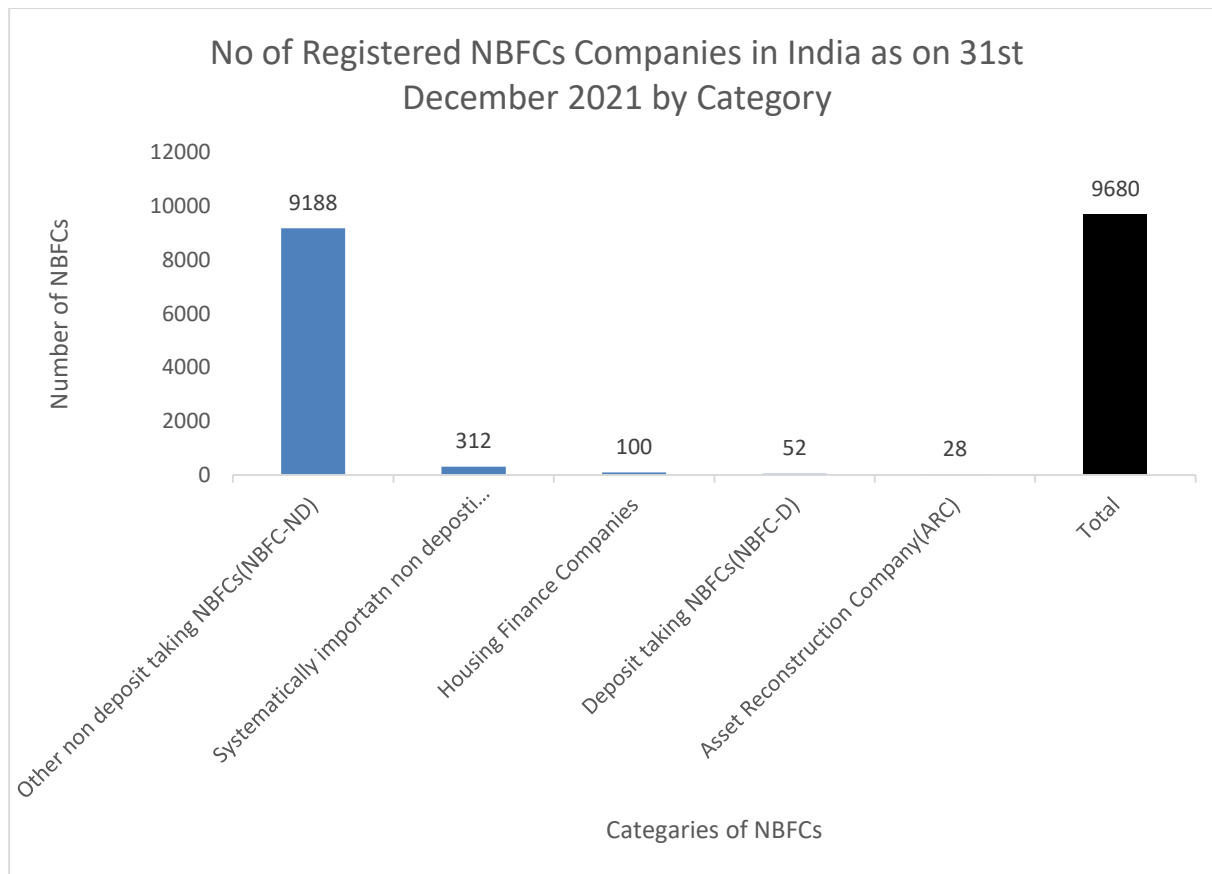
4. Less Asset Reconstruction Powers: NBFCs do not enjoy much power in the asset reconstruction framework. NBFCs are not covered by the SARFAESI Act.

5. Powers of Regulators: The regulators do not have sufficient power in regulating the NBFCs. NBFCs, as the entities, especially the unincorporated ones, can sprung in any nook and corner of the country and can operate with impunity unnoticed, but endangering their customers’ interest.

Contribution of NBFCs as components of the financial sector

A broad picture of the role of NBFCs and the interconnectedness they have in the financial sector can be gauged from the details given below:

The total number of NBFCs as on December 2021 are 9680 of which deposit taking NBFCs are 52, Systematically important NBFC-ND are 312 and other NBFC-ND are 9,188 .



Role of NBFCs in different sector

1. Role of NBFCs in financial inclusion

Financial inclusion has been defined as the provision of affordable financial services to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include payments and remittance facilities, savings, loan and insurance services. Micro finance has been looked upon as an important means of financial inclusion in India. Microfinance is not just provision of micro credit but also other services in small quantities to the poor i.e. providing essential financial services to the poor in an affordable way. Financial Inclusion also is aiming at the same by providing the poor with not only deposit accounts or credit but also insurance and remittance facility. NBFC-MFIs that form the significant part of the MFI sector have deeper reach in the rural areas. NBFC-MFIs do not formally figure in the bank led model of financial inclusion but they by their wider and deeper reach can be catalysts in providing the necessary handhold to the poor borrowers to gain access to essential financial services. The Mor Committee has observed that each of the channels, be they large National Banks, regional cooperative banks, or Non-Banking Financial Companies (NBFCs) have a great deal of continuing value to add by focusing on its own differentiated capabilities and accomplish the national goals of financial inclusion by partnering with others that bring complementary capabilities to bear on the problem.

2. Role of NBFCs in capital market

Investment activity of NBFC sector comprises around 16% of their total assets. These constitute mainly investments in capital market. There are specialized NBFCs that are exclusively engaged in capital market investment i.e. trading in securities. These NBFCs therefore help in giving liquidity to the capital market. Further, NBFCs also lend to investors for investing in capital market. Regulatory challenges in this regard might come in the form of probable overheating of the market, which could be addressed through appropriate regulatory measures including enhanced disclosures.

3. Role of NBFCs in factoring

Factoring as defined in the Factoring Regulation Act, 2011 involves acquisition of receivables (by a Factor) thereby getting entitled to undivided interest on the receivables or financing against the security interest over any receivables but does not include credit facilities provided by a bank in its ordinary course of business against security of receivables. Subsequent to the notification of the Factoring Regulation Act by the Government, Reserve Bank formed a new category of NBFCs called NBFC-Factors and issued directions to them. NBFC-Factors are almost exclusively engaged in providing factoring service. Factoring service which is perceived as complimentary to bank finance is expected to enable the availability of much needed working capital finance for the small and medium scale industries especially those that have good quality receivables but may not be in a position to obtain enough bank finance due to lack of collateral or credit profile. By having a continuous business relationship with the Factor in place, small traders, industries and exporters get the advantage of improving the cash flow and liquidity of their business as also availing ancillary services like sales ledger accounting, collection of receivables, credit protection etc. Factoring helps them to free their resources and have a one stop arrangement for various business needs enabling smooth running of their business.

4. Role of NBFCs in vehicle financing / second hand vehicle financing

Talking about the niche sectors that NBFCs cater to, vehicle financing especially second hand vehicles need special mention. Certain NBFCs that are classified as Asset Finance Companies have gained expertise in this segment and play a significant role in providing a livelihood to customers who are drivers. From the Reserve Banks side, to encourage the productive activity that these NBFCs are engaged in, we have accorded certain additional dispensations to them in the form of enhanced bank credit, higher exposure norm ceiling and provision of ECB under automatic route for leasing related to infrastructure.

5. Role of NBFCs in infrastructure financing Infrastructure

Finance Companies and Infrastructure Debt Funds are NBFCs exclusively into financing the infrastructure sector. Some of these companies have asset books running to lakhs of crores of rupees and are experts in long term project financing. Recognizing their significance, the Reserve Bank has given special dispensations in the form of enhanced bank credit, higher exposure norm ceiling and provision of ECB under automatic route for on-lending to infrastructure sector. The asset liability pattern however, is a matter of concern in the case of IFCs as these are lending long term against comparatively shorter term liabilities.

Success factors of NBFCs:

While the banking industry struggled to get rid of the rising pile of bad loans, their counterparts, better known as the Non-banking financial companies, improved their performance on most of the metrics. Indeed it is evident that the development of NBFCs segment within the overall financial system of India is picking up as a challenge for the other sectors - i.e., banks to innovate, to improve quality and competence. At times, in a number of un-treaded trajectories, NBFCs were the first to explore the market and develop before the banks entered the scene.

Their unique team of underwriting and credit delivery has gained much appreciation and credits for scaling up the finance provision for the small businesses while maintaining strong portfolio quality. The loans provisions provided by NBFCs further facilitate the small marketers with their occupational needs such as equipment purchase, business expansion, and technology up gradation and working capital requirements.

Below are few success factors for the growth of NBFCs:

- Stress on public sector units (PSUs).
- Latent credit demand.
- Digital disruption, especially for micro, small and medium enterprises (MSMEs) and small and medium enterprises (SMEs).
- Increased consumption.
- Distribution reach and sectors where traditional banks do not lend.
- Robust risk management capabilities to check and control bad debts.
- Proper comprehension of their customer segments.
- Ability to assess the clients' income.
- Superior product lines, low cost, broader and effective reach towards customer.
- Development of templates to gain a better insight of the margins and cash flows of local businesses.
- A strong in-house process of credit and security verification.

Findings

- NBFCs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit.
- NBFCs supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. NBFCs have a more flexible structure than banks.
- NBFCs have played a significant role in the financial system. Many specialized services such as factoring, venture capital finance, and financing road transport were championed by these institutions.
- NBFCs play significant role in promoting inclusive growth in the country, by catering to the diverse financial needs of customers not served by the banks.
- NBFCs often take lead role in providing advanced financial services to Micro, Small, and Medium Enterprises (MSMEs) most suitable according to their business requirements.
- The overall NBFC credit growth is expected to be relatively moderate at about 16-18 per cent for the current fiscal be driven by some key target asset classes, including SME credit, which is expected to witness some uptick in the second half of the fiscal, as the new taxation regime slowly stabilizes.
- NBFCs share in the unsecured consumer credit is likely to expand as more entities venture into this segment for product diversification and higher business yields.

CONCLUSION

NBFCs are gaining momentum in last few decades with wide variety of products and services. NBFCs collect public funds and provide loan able funds. There has been significant increase in such companies since 1990s. They are playing a vital role in the development financial system of our country. The banking sector is financing only 40 per cent to the trading sector and rest is coming from the NBFC and private money lenders. At the same line 50 per cent of the credit requirement of the manufacturing is provided by NBFCs. 65 per cent of the private construction activities was also financed by NBFCs. Now they are also financing second hand vehicles. NBFCs can play a significant role in channelizing the remittance from abroad to states such as Gujarat and Kerala.

NBFCs in India have become prominent in a wide range of activities like hire purchase finance, equipment lease finance, loans, investments, and so on. NBFCs have greater reach and flexibility in tapping resources. In desperate times, NBFCs could survive owing to their aggressive character and customized services. NBFCs are doing more fee-based business than fund based. They are focusing now on retailing sector-housing finance, personal loans, and marketing of insurance. Many of the NBFCs have ventured into the domain of mutual funds and insurance. NBFCs undertake both life and general insurance business as joint venture participants in insurance companies. The strong NBFCs have successfully emerged as 'Financial Institutions' in short span of time and are in the process of converting themselves into 'Financial Super Market'.

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