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Role of commercial banks and non-banking financial companies in Indian economy

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Abstract
The canvas of financial system in India portrays a picture of players of different hues and diverse opportunities to commercial banks both in public and private sector, foreign banks, public sector financial institute, regional rural banks, Non- banking financial institutions (NBFC's), co-operative, NGO/ trust purveying micro credit etc. all working within a broad & sturdy framework of the regulators. Banks and NBFC's play a vital role in the economic development of a country and are assisting in meeting the diverse financial needs of the economy. They accumulate the idle savings of the people and make them available for investment. In doing so banks & NBFC's have influenced the direction of saving and investment of the customers and the resultant capital formation has become essential for India's economic growth and development. They also create new demand deposits in the process of granting loans and purchasing investment securities. A well-organized banking system is the need of the day. At present there are 151 banks with 109811 branches and 12375 NBFC'c in India. If the banking system in a country is effective, efficient and disciplined; it brings about a rapid growth in the various sectors of the economy. As we know that the Agriculture, small and medium enterprise (SME) sector and growing micro finance are the major area of economy of any country like India. Research is based upon the secondary data which provide the findings on commercial banks & NBFC's and how it helpful in economic development. So this research will helpful in finding out that how commercial banks and NBFC's are helpful in credit flowing, employment generations in India and how it will contribute in development of Indian economy.

Keywords: NBFC's, micro credit, SME, micro finance, economic development

1. Introduction

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non- banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day. The banking system in India, should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits.

1.1 Non- Banking Financial Companies (NBFCs)

According to the Reserve Bank of India Amendment Act 1997 the Non-Banking Finance company was defined as under:-

- A financial institution which is a company,
- A non- banking institution which is a company and whose principal business is to receiving of deposits under any scheme/arrangement/in any other manner or lending in any manner and
- Other non-banking institutions/class of institutions as the RBI may specify.

The directions apply to a NBFC which is defined to include only non-banking institution, which is any hire-purchase finance, loan or mutual benefit financial company and an equipment leasing company but excludes an insurance company/stock exchange/stock 72 broking company/merchant banking company. The RBI (Amendment) Act, 1997 defines NBFC'S as an Institution or company whose principal business is to accept deposits under any scheme or arrangement or in any other manner, and to lend in any manner. As a result of this new definition, a number of loan and investment Companies registered under the Companies Act by Business houses for the purpose of making investments in group of companies are now included as NBFCs4. The Financial intermediaries in Indian Financial System are broadly characterized by Public owned, Monopoly or Oligopoly or Monopolistic market structure and are centralized. The Indian financial system has another part which comprises a large number of private owned, decentralized, and relatively small sized financial intermediaries and which makes a more or less competitive market. Some of them are fund based, and are called (NBFCs) and some are provide financial services (NBFSCs) Both NBFIs, NBFCs are (1) Loan companies (LCs) (2) Investment companies or ICs (3) Hire-Purchase finance companies or HPFCs (4) Lease finance companies or LFCs (5) Housing finance companies (or) HFCs (6) Mutual Benefit financial companies or MBFCs (7) Residuary non-banking companies or RNBCs (8) Merchant Banks (9) Venture capital funds (10) Factors (11) Credit Rating Agencies (12) Depositories and custodial services.

1.2 Functions of commercial banks & nbfc's

1.2.1 Commercial banks have to perform a variety of functions which are common to both developed and developing countries. These are known as 'General Banking' functions of the commercial banks. The modern banks perform a variety of functions. These can be broadly divided into two categories: (a) Primary functions and (b) Secondary functions.

Primary banking functions

1. Acceptance of deposits
2. Advancing loans
3. Creation of credit
4. Clearing of cheques
5. Financing foreign trade
6. Remittance of funds

Secondary functions

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows-

1. Issuing letters of credit, travellers cheque, etc.
2. Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
3. Providing customers with facilities of foreign exchange dealings.
4. Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order, demand drafts.
5. Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.
6. Collecting and supplying business information.
7. Providing reports on the credit worthiness of customers.
8. Providing consumer finance for individuals by way of loans on easy terms for purchase of consumer durables like televisions, refrigerators, etc.
9. Educational loans to students at reasonable rate of interest for higher studies, especially for professional courses.

1.2.2 NBFC'S

NBFCs like banks and other financial institutions act as intermediaries between the ultimate savers and the ultimate borrowers. The rationale of their existence derives from the fact that in an economy there are surplus units which save and deficit units which are in need of such savings and a mechanism is needed to bring the two together. Surplus units (savers) can lend to the deficit units (borrowers) directly. This, however, is normally inconvenient to both the savers and borrowers and is certainly not the most efficient means of flow of funds between the units. With the mediation of financial institutions, there is a reduction in the degree of risks involved and there is also a more efficient utilization of the resources in the economy. Financial intermediaries can provide a more economical service because of the economies of scale, their professional expertise and their ability to spread the risk over a large number of units. Thus, their operations give to the saver the combined benefits of higher return, lower risk and liquidity. The borrowers on the other hand also get a wider choice on account of intermediation of financial institutions. It may be of relevance to note that while the loans granted by commercial banks are, by and large, for industrial, commercial and agricultural purposes, those granted by NBFCs are generally for transport, trading, acquisition of durable consumer goods, purchase and repair of houses or just for plain consumption. Since their activities are not controlled by monetary authorities to the same extent as those of commercial banks, the credit extended by NBFCs may not necessarily be in consonance with national objectives and priorities. The major function of financial intermediaries is to transfer the savings of surplus units to deficit units; hence, they can play a useful role in the economyof the country. To the extent that they help in monetizing the economy and transferring unproductive financial assets into productive assets, they contribute to the country's economic development. In fact, the nature and diversity of financial institutions themselves have become measures of economic development of a country. The Reserve Bank of India expert committees identified the need of non-banking financial companies in the following areas:

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

1.3 Role of Banks & NBFC'S

The Indian banking sector, which exhibited considerable resilience in the immediate aftermath of the global financial crisis, has been impacted by the global and domestic economic slowdown over the last two years. During 2012-13 there was a decline in the growth of profits of SCBs as credit off-take slowed down and interest rates softened. Asset quality deteriorated, particularly for public sector banks. However, capital positions of Indian banks, including public-sector banks, remained strong and above the stipulated minimum.

Table 1

(In crore)

Items	2011-12	2012-13
Income	741628	861398
Interest Income	655284	763612
Other Income	86344	97787
Expenditure	659969	770233
Interest Expended	430356	513803
Intermediation Cost (Operating Expenses)	137572	156585
Provisions and Contingencies	92042	99845
Operating Profit	173700	191010
Net Profit	81658	91165
Net Interest Income (Spread)	224928	249809
Total Assets	8320890	9573334
Net Income	311272	347595

Source: RBI

During 2012-13 the overall growth in balance sheet of banks moderated further. The growth in the consolidated balance sheet of SCBs in 2012-13 was 15.1 per cent, lower than the 15.8 per cent in the previous year. The major source of this moderation was bank credit. The moderation in credit growth was partly reflective of the slowdown in real economic activity coupled with increasing risk aversion by banks. Although there was a moderation in the balance sheet of the banking sector, deposits - the largest component on the liabilities side—maintained their growth in 2012-13, primarily with the help of a revival in the growth of current and savings accounts (CASA). Consequently, the share of CASA was maintained at around 33 per cent. The credit-deposit ratio for all SCBs, on an outstanding basis, remained broadly unchanged at about 79 per cent.

The year 2012-13 was marked by a slowdown in the growth of credit to all productive sectors—agriculture, industry, and services. It was the sharpest for agriculture and allied activities. There was also a slowdown in the growth of credit to the infrastructure sector within industry. Further, a slowdown in credit to non-banking financial companies (NBFCs) was an important reason behind an overall slowdown in the growth of services-sector credit. Retail loans was the only segment that maintained its growth in 2012-13.

The growth in investments of banks increased to 17.0 per cent in 2012-13 from 16.1 per cent in 2011-12. During 2012-13, deceleration was witnessed in banks' investments in government securities
(G-Secs) compared to the previous year. As against this, banks' investments in non-approved securities witnessed an almost five-fold increase.

1.3.1Agricultural credit

The agriculture sector was disbursed ` 6,07,375.62 crore in 2012-13. Commercial banks, regional rural banks (RRBs), and cooperative banks extended credit to 152.77 lakh new farmers, increasing the total number of agriculture loan accounts financed as of March 2013 to 7.04 crore. As per the provisional figures available, as against the farm credit target of ` 7,00,000 crore for the year 2013-14, an amount of ` 7,30,766 crore was disbursed during the year. The majority of the credit was disbursed by SCBs but RRBs and commercial banks increased their share in disbursement in 2013-14.

Table 2: Growth in Priority-sector Deployment of Credit by sector (In percent)

	2012-13	2013-14
Agriculture & allied activities	7.9	13.5
Micro & small enterprises	12.8	33.6
Other priority sector	3.1	18.1

Source: RBI.

1.3.2 Non-banking financial institutions

Non-banking f inancial institutions (NBFIs) is a heterogeneous group of institutions that caters to a wide range of financial requirements and can broadly be divided into financial institutions (FIs) and Non-Bank Financial Companies (NBFCs).

1.3.3 Non-banking financial companies

NBFCs as a whole accounted for 13.0 per cent of bank assets as on 31 March 2013. With the growing importance assigned to financial inclusion, NBFCs have been regarded as important financial intermediaries particularly for the small-scale and retail sectors. There are two broad categories of NBFCs based on whether they accept public deposits, namely deposit taking NBFCs (NBFC-D) and non-deposit taking NBFCs (NBFC-ND). The total number of NBFCs registered with the RBI declined from 12,385 as
At the end of June 2012 to 12,225 as on 30 June 2013. The number of NBFC-Ds declined from 271 to 254 during the same period, systemically important non-deposit taking NBFCs (NBFC-ND-SI) increased from 370 to 417 during the same period.

Micro finance is considered as a separate sector under NBFC's with approximately 50 micro finance companies. Almost 50%population of India does not have access to banking services, MFIs have been able to create active borrower accounts of close to 15 million with outstanding portfolio of INR 14702 cores.

1.3.4 Employment growth in bank's

Table 3: All sheduled commercial banks (Amount in millions)

Items	2008-09	2009-10	2010-11	2011-12	2012-13
No. of banks	80	81	81	87	87
No. of offices	67562	72906	78215	85262	92114
No. of employees	954684	955990	1001096	1048520	1096984
Business per employee	73.98	86.23	99.03	109.95	121.33

Source: RBI

Conclusion

Any attempt to expand inclusive growth of indian economy is essentially small step in a longer journey and india needs to travel on this journey to became a global player. These goals will require further improvements in the efficiency of the banking sector, and the setting of loan and deposit interest rates at levels that reflect market realities. Other essential steps include a review of the statutory liquidity ratio
(SLR) system and priority sector lending, and the pramotion of financial inclusion. In Banks and nbfc's investment and retail loan sector are growing constantly. The above study revels that there are number of opportunities for

employment and incresing number of employees in banking sector. NBFCs have been playing a crucial role in terms of the macroeconomic perspective as well as strengthening the structure of the Indian financial system. Consolidation in the sector and better regulatory framework for NBFCs has helped them become more focused. By further developing its banking sector and building a strong financial system, India should be able to look forward to sustained high growth over many years.

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