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Review of Literature on the Nonbanking Financial Sector in India

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Abstract: *The term "financial system" refers to the interconnected network of financial products, platforms, and services. Specifically, this system is concerned with the distribution, marketing, and promotion of financial goods among the population, with the aforementioned financial institutions playing a central role. There are two main types of financial institutions in the country: banks and non-banking financial firms. Banks cater to the majority of the population, while non-banking financial organizations specialize in serving certain markets. For a long time, banks were the backbone of the global financial system. However, with the advent of liberalization, privatization, and globalization, the non-banking sector has become more important. In light of this, the current study builds on previous efforts to investigate several facets of the worldwide non-banking industry.*

Keyword: *Non-banking financial companies, literature on NBFCs, NBFCs-D, NBFCs-ND*

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I. INTRODUCTION

In spite of not having a banking license, a non-banking financial institution (NBFC) may nonetheless offer a wide range of banking-related services. While NBFCs don't normally accept deposits from the public, they do provide services governed by banking rules, such as loans, retirement planning, underwriting, and more. Over the last several years, a growing number of VC, retail, and industrial firms have joined the lucrative NBFC lending market, causing the total number of these firms to surge. Insurance companies, money changers, check cashing services, payday lenders, and pawn shops are all examples of non-bank financial institutions. Getting a loan is simplified by NBFCs. More people will be able to get loans since there will be more options to choose from besides traditional banks. Some NBFCs focus only on serving particular industries or clientele. Borrowers in urgent need of funds who have been turned down for a more conventional bank loan will find them particularly useful. However, NBFCs are riskier than conventional banks since they are subject to less oversight and fewer reporting requirements. A hefty interest rate is attached to their loans. Before signing up with an NBFC, borrowers should be aware of the terms and conditions associated with the loan.

They've mastered the art of providing a broad variety of services throughout time. Originally conceived to meet the requirements of savers and investors, NBFCs have evolved into organizations that may offer services comparable to banks. There are a number of reasons behind the expansion of NBFCs in India. Their services are customized for each customer. Some of the key reasons for the expansion of NBFCs have been the extensive regulation of the banking sector and the lack of or comparatively lesser degree of regulation over NBFCs. Some studies have shown a correlation between economic growth and the expansion of NBFCs. According to the World Development Report, financial institutions such as banks control a far larger proportion of total assets in developing nations than they do in industrialized ones. The expansion of non-bank financial companies (NBFCs) and the securities market is necessary for governments to meet the rising demand for financial services while also fostering greater levels of competition and efficiency in the sector.

On July 24, 1996, NBFCs were separated into two categories, a) equipment leasing and hire purchase firms (finance companies) and b) lending and investment companies, in an effort to reward the well-managed NBFCs. However, non-bank financial companies (NBFCs) have historically been subject to fewer rules and regulations than other parts of the financial sector. The Reserve Bank of India recognized the need to enhance restrictions for NBFCs in the wake of the CRB scandal and the failure of certain NBFCs to satisfy investors' demands for the recovery of money. Companies are considered NBFCs if their financial assets make up more than half of their total assets (after deducting intangible assets) and their financial assets generate more than half of their entire revenue, according the 8/4/99 guidelines. Bank credit limits for non-bank financial companies (NBFCs) whose primary business is equipment leasing, hire purchase, lending, or investment operations were lifted by the Reserve Bank of India in June 1999. In light of the measures taken by RBI, it is clear that the effective management of NBFCs is given top importance with the safety of investors in mind. One could want to look at various aspects of various types of NBFCs in light of the aforementioned regulatory framework.

II. LITERATURE SURVEY

Suresh and Deepak has made a thorough analysis of the expansion of the non-banking sector in India, including a discussion of the number of operating firms, the nature of the businesses conducted by NBFCs, the size of their assets, the regional distribution of NBFCs, the regulations that govern them, the challenges they face, and the opportunities they have ahead. According to the findings of the research, the expansion of NBFCs contributes to the accelerated expansion and increased profitability of the banking industry. The survey found that NBFCs face a number of issues, including difficulty in accepting open assets, customer communication and management, as well as a lack of clarity in RBI control directives and legislation. According to the findings of the research, non-bank financial companies (NBFCs) should be eligible for increased tax breaks.

Devendra has done an This study was conducted at a regional level and consisted of empirical research work on asset and liability management methods at two public sector banks, namely Andhra bank and Bank of India, as well as two private banks, HDFC and AXIS, throughout the period of 2007 to 2016. The assessment of interest rate risk analysis using GAP analysis has been the primary focus of the research, along with the identification of a link between NPA and asset liability structure. In addition to this, he investigated the effect that ALM procedures have on the efficiency of the banking industry. According to the findings of the research, in order to prevent issues caused by a shortage of cash, private banks maintained larger cash reserves than public sector banks. Throughout the whole of the research period, private sector banks were shown to have better returns from their operations than public sector banks. According to the findings of the research, the profitability position of banks in the private sector is much greater than that of banks in the public sector because of the high competency of their employees.

Sathyakala, a study that was conducted between 2006 and 2015 in India on seven new generation private sector banks to investigate the link between asset liability management techniques and financial situation found a correlation between the two. In order to conduct research, he made use of a wide variety of financial and statistical methods, including ratios (including spread, burden, and coverage ratios), growth rates, the t-test, the mean, the standard deviation, the coefficient of variance, and structural equation modelling. According to the findings of the survey, HDFC and Kotak Mahindra banks reported a better financial situation than the majority of other new generation banks over the time period covered by the study. In a similar vein, the asset and liability management methods of ICICI banks are consistent with industry norms when compared to those of other banks. According to the report, new generation banks need to reduce the maturity gap that exists between their assets and liabilities in order to avoid being exposed to liquidity risk.

Basappahas conducted an investigation on the asset and liability management procedures used by regional rural banks during the years 2011 and 2015, paying particular attention to Karnataka VikasGrammena Bank. Within the scope of the research, he investigated the methods of risk management used by Karnataka Bank with regard to the areas of credit risk, interest rate risk, and liquidity risk. According to the findings of the research, the level of capital adequacy ratio in Tier II of KVGB was inadequate in comparison to Tier I. The research also discovered that there was a considerable difference in the asset-liability gap and the interest gap throughout the course of the study period. But the maturity gaps for very short and short periods revealed a negative gap in the first three years and a positive gap in the following two years, while the maturity gaps for lengthy periods discovered a positive gap during the whole research period. This suggests that the company had a healthy liquidity position throughout the course of the investigation.

Jayanthihas used the CAMEL methodology to conduct an analysis of the efficacy of asset liability management in a variety of commercial banks throughout the period of 2003–2012. Statistical cost accounting and multiple regression analysis were two of the methods that were used in this research to investigate the influence that ALM management has on the profitability of banks. According to the findings of the research, ALM procedures in the banking industry are noticeably distinct from one another. During the time period under review, the risk management capabilities of certain Indian banks were much lower than that of international banks. However, the findings of the research indicate that the banking industry is making progress toward the efficient application of ALM via the use of novel and sophisticated methods such as duration gap, simulation, and Value at Risk.

Rayganihas conducted a comparative analysis on the credit and liquidity risk management procedures of two Indian banks throughout the period of 2007 to 2013; these banks are SBI and ICICI. Nevertheless, this analysis did not take into account additional dangers that the banking industry faces, such as those caused by fluctuations in interest rates and currency rates, amongst others. In the study, he measured the liquidity risk of banks using various ratios, such as the Ratio of Core deposits to Total assets, the Ratio of Total loans to Total deposits, the Ratio of Time Deposits to Total Deposits, the Ratio of Liquid Assets to Total Assets, the Ratio of Prime Assets to Total Assets, the Ratio of Short Term Liabilities to Liquid Assets, the Ratio of Market

Liabilities to Total Assets In a similar fashion, credit risk is evaluated using ratios such as NPA to TL, risk adjusted margin, TL to TA, TL to TD, TE to TA, TL to TE, TA to GDP, and so on. According to the findings of the research, both SBI and ICICI banks were exposed to credit and liquidity risk throughout the time period under investigation; however, the level of exposure was comparable in the case of liquidity risk but different in the case of credit risk. In the course of the research, he made use of t-tests as well as multiple regression analyses.

Rosy Karla has conducted an analysis of the performance of 20 different asset-based and core investment non-banking financial organizations between the years 2006 and 2015. The research looked at how certain NBFCS fared in terms of their increase in physical assets and how well they performed. According to the findings of the study, the company's assets and investments have been steadily growing throughout the course of the research period, which is indicative of an increasing industry contribution to the financial sector.

III. STRUCTURE OF THE NBFIS SECTOR IN INDIA

The "Reserve Bank regulates and supervises three categories of NBFIs, viz. All-India financial institutions (AIFIs), primary dealers (PDs) and NBFCs. Based on deposit mobilisation, NBFCs are classified into two major categories: NBFCs-D (deposit taking) and NBFCs-ND (non-deposit taking).In view of the phenomenal increase in their number and deposits, a comprehensive legislative framework for NBFCs-D was introduced in 1997 to protect the interests of depositors. A conscious policy was pursued to discourage acceptance of deposits by NBFCs so that only banks accept public deposits. Hence, no new license has been given to NBFCs-D after 1997. NBFCs-ND were sub-divided into two categories in 2006 - Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI) and other Non-Deposit taking NBFCs (NBFCs-ND) based on asset size.NBFCs with an asset size greater than `1 billion were considered as NBFC-ND-SI. The threshold for recognition of NBFCs-ND-SI was increased to `5 billion in 2014. This classification was made in order to ensure greater regulatory control over NBFCs-NDSI, which were expected to pose greater systemic risks on account of their larger size. NBFCs-ND-SI, as a result, were subjected to stricter prudential regulations as compared to NBFCs-ND".

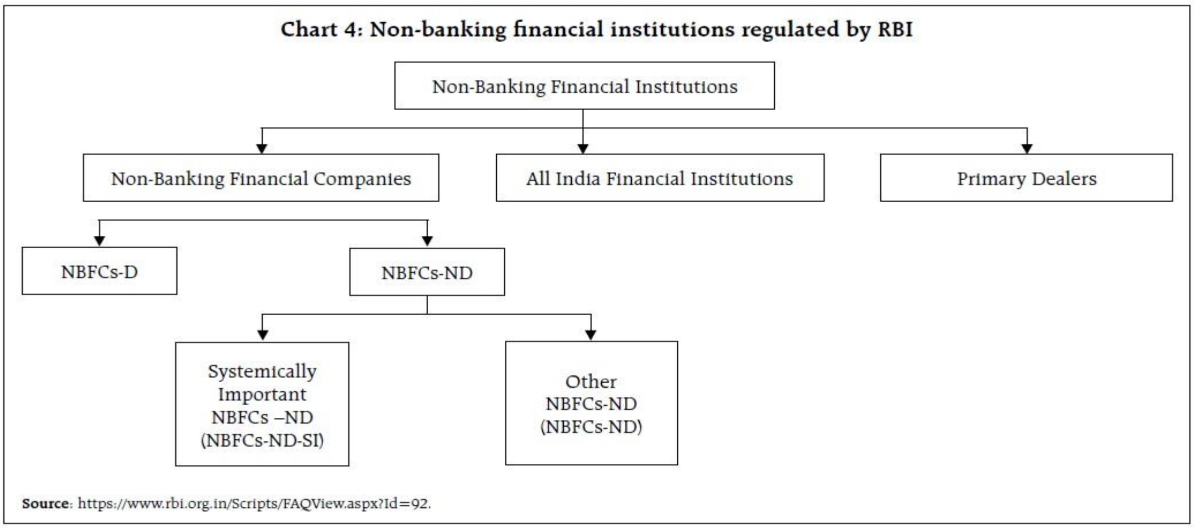

Figure 1: Structure of Non-Banking Financial Institutions

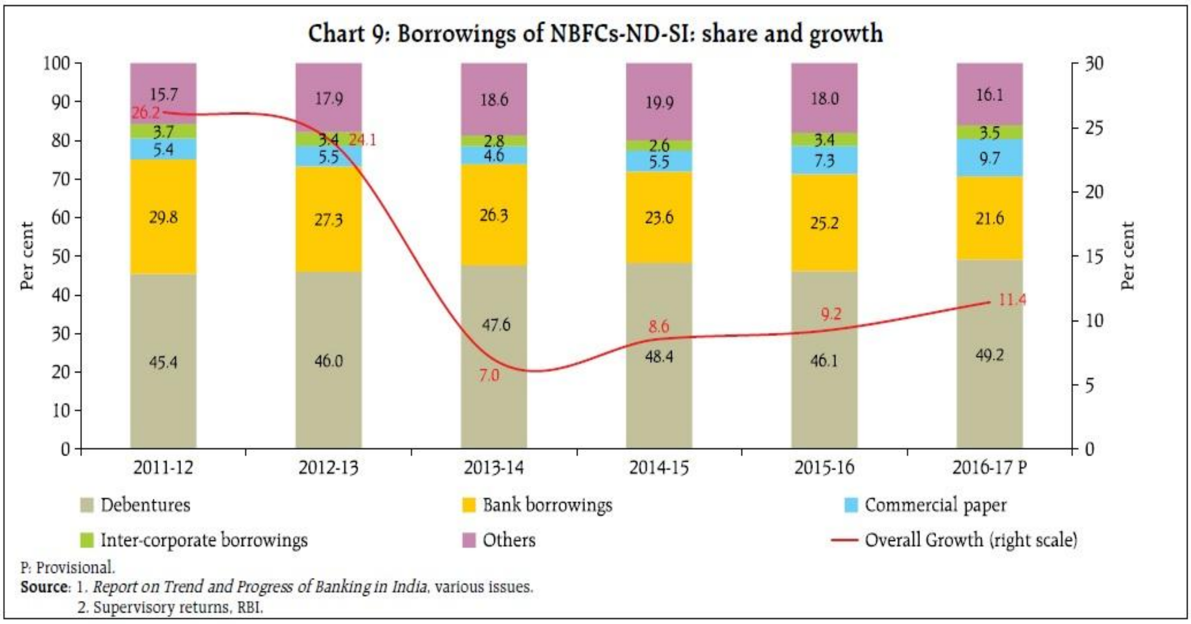

Figure 2: Borrowings of NBFCs-ND-SI: share and growth

IV. CONCLUSION

NBFCs have been playing a significant role, not only from a macroeconomic point of view but also in terms of the structure of the Indian Financial System. When it comes to satisfying a company's numerous financial needs, they are seen as an ideal replacement for traditional banking institutions, and in some cases even as a superior choice. The services that are provided are ones that are both quick and effective, and they do not need the customer to go through the laborious processes that are typical of traditional banking formalities. Nevertheless, in order to remain in business and continue expanding, NBFCs must concentrate on strengthening their fundamental capabilities while also addressing any areas of weakness. In addition to this, in order for them to thrive in an increasingly competitive market for financial services and goods, they need to be very dynamic and make it a point to look for new options all the time. It should be pointed out that the rules imposed by the Reserve Bank of India are the primary reason why NBFCs are not giving additional loans at this time. The interest rate on loans provided by NBFCs should be lowered, since this would make it easier for small businesses to meet the various capital needs they have, according to a suggestion made to the credit policy of NBFCs. All of the chosen NBFCs have ratios that are quite different from one another and are very different from one another. As a result of this, it has come to our attention that the ratios of NBFCs are, in general, distinct from one another. When it comes to making judgments about their finances, NBFCs might benefit from having guidance in the form of an analysis of variance that also includes information on average ratios.

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