

**ABSTRACT OF THE PhD THESIS ON
IMPACT OF NON-BANKING FINANCIAL INTERMEDIARIES ON
COMMERCIAL BANKS**

Abstract

Non –Banking Financial Intermediaries (NBFIs) are those institutions which are not commercial banks but engaged primarily in the business of accepting deposits and delivering credit. They fill up the credit gap which is not met by the organized financial sector. They are competitor as well as complementary to the banking sector. The present study being qualitative one deals with the competition between banks and non-banks and significance of non-banks in meeting credit requirement of the economy. Two commercial banks hailing from the region viz; Syndicate Bank, a leading Public Sector Bank and also the lead of the districts and Karnataka Bank Ltd, a leading private sector bank and 125 Unincorporated Bodies (UIBs) were taken for the study. Altogether, three types of questionnaires were prepared viz; one for the bank officials, second-for the officials of NBFIs and the third –for the customers of NBFIs. Sixty five bank officials, 125 officials of NBFIs and 500 customers of NBFIs were interviewed for the purpose of the study .The study has been carried in two districts of Karnataka State namely, Dakshina Kannada and Udupi.

Liberalization led economic boom resulted in mushroom growth of NBFIs in the Indian economy. The number of NBFIs which stood at 7,063 in 1981 increased to 55,995 in 1995. The liberal licensing policy and absence of comprehensive regulatory framework were the major reasons for the growth of NBFIs in leaps and bounds. During the same time some unscrupulous players entered the scene and hoodwinked deposits of thousands of depositors. The failure of CRB Capital Market Ltd had shown contagious effect on the whole NBFIs sector throughout the country. Thousands of depositors lost their lifetime savings.

The failure of the NBFIs sector resulted in the Amendment of RBI Act in the year 1997. Compulsory Registration, Minimum Net Owned Funds, limit on public deposits depending on the credit rating, asset classification, maintenance if liquid assets, income recognition Capital adequacy ratio etc; were introduced to NBFIs just like banks. Unincorporated Bodies were prohibited from accepting deposits except from specified relatives.

OBJECTIVES:

The study is carried out with the following objectives.

1. To study the competition between NBFIs and commercial banks and complimentary role played by the NBFIs in the economy.
2. To study the impact of failure of NBFIs on commercial banks and NBFIs sector in the late 1990s.
3. To identify and understand the problems faced by NBFIs while carrying out their business operations.

4. To ascertain and evaluate the perceptions of the customers of the NBFIs and officials of Commercial Banks regarding the services offered by them based on the empirical study.
5. To suggest measures to regulate the activities of NBFIs.

HYPOTHESIS:

The major hypotheses tested in the study are;

1. NBFIs are the major competitor to the commercial banks in the field of deposit mobilization and credit disbursement.
2. Services of NBFIs are superior to that of commercial banks.
3. Higher rate of interest on deposits offered by NBFIs is the main reason for the public to prefer NBFIs to commercial banks.
4. NBFIs are preferred to commercial banks for advances due to their speedy sanction and less procedural formalities.
5. NBFIs still have significant role to play in meeting the credit requirements of the economy.

The major findings of the study are;

- 1) NBFIs are competitors to the commercial banks in the field of deposit mobilization and credit provisioning.
- 2) Services of NBFIs are superior to that of commercial banks.
- 3) Higher rate of interest offered by NBFIs is the major reason for the depositors to prefer NBFIs to commercial banks.
- 4) NBFIs are preferred to commercial banks in the case of advances due to their speedy sanction and less procedural formalities.

Key Words: NBFIs, Commercial banks, Unincorporated Bodies, Deposits, Advances, Deposit Insurance, Competition and complementary role, fly-by-night companies.

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