

Non Banking Financial Company - Study Notes for SSC & Bank Exams

Non Banking Financial Company (NBFC) is an important topic, when it comes to RRB SSC and bank exams. This article will help you update your information about what is NBFC, its types and how are they different from banks. It is important for you to have sound knowledge about NBFCs as question based on this may appear in many Banking, Competitive or Government Exams. Read this article to know all about NBFCs and prepare yourself for the questions in the General Knowledge section.

Non Banking Financial Company

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.
- It is engaged in the business of loans and advances, acquisition of stocks/bonds/debentures issued by Government or local authority.
- A non-banking institution which is a company and has principal business of receiving deposits in one lump sum or in installments is also a non-banking financial company (Residuary non-banking company).

Categorisation of Non Banking Financial Company

NBFC's are categorized into 3 types

- In terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs,
- Non deposit taking NBFCs by their size into systematically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND)





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- By the kind of activity they conduct.

Types of Non Banking Financial Company

Asset Finance Company (AFC) :

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.

Investment Company (IC) :

IC means any company which invest money on behalf of their clients who, in return, share in the profits and losses.

Loan Company (LC) :

LC means any company which is providing finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC) :

- a) It deploys at least 75 per cent of its total assets in infrastructure loans.
- b) It has a minimum Net Owned Funds of ₹ 300 crore
- c) It has a minimum credit rating of 'A' or equivalent.
- d) It has a CRAR of 15%.

Infrastructure Debt Fund (IDF) :

Can be termed as Infrastructure Debt Fund - NBFC

- a) IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt

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into infrastructure projects.

b) IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity.

c) Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

Mortgage Guarantee Companies (MGC) :

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.

NBFC- Non-Operative Financial Holding Company (NOFHC) :

a) A financial institution through which promoter / promoter groups will be permitted to set up a new bank.

b) 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 to the extent permissible under the applicable regulatory prescriptions.

Non Banking Financial Company Vs. Scheduled Banks

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

1. NBFC cannot accept demand deposits.
2. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
3. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.
4. An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.)





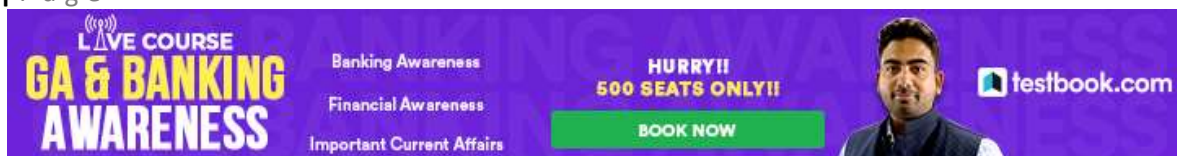
5. An NBFC cannot indulge Primarily in Agricultural, Industrial Activity, Sale-Purchase, Construction of Immovable Property
6. Foreign Investment allowed up to 100%.

Top 10 Non Banking Financial Companies in India

There are a huge number of NBFCs operating in our country but here's a look at the current top 10 NBFCs in India.

1. Power Finance Corporation Limited
2. Shriram Transport Finance Company Limited
3. Bajaj Finance Limited
4. Mahindra & Mahindra Financial Services Limited
5. Muthoot Finance Limited
6. HDB Financial Services
7. Cholamandalam Investment and Finance Company
8. Tata Capital Financial Services Limited
9. L&T Finance Limited
10. Aditya Birla Finance Limited

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