

UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Non-Banking Financial Institutions - UPSC Economy Notes

The non-banking financial institutions are the organizations that facilitate bank-related financial services but does not have banking licenses.

Non- Banking Financial Institutions – Types

Mutual Funds

- Mediators between people and stock exchange
- Money collected from people by selling their units is called corpus
- Oldest Mutual Fund company in India is UTI (Unit Trust of India)
- Mutual Funds nearly provides all the considerations

Insurance Companies

- Collect money from the public through the sale of insurance policies
- There are two types of Insurance – Life Insurance and General Insurance
 - General Insurance includes Loss of property, car, house etc.
 - It also includes Health Insurance

IRDA Act, 1999 – [Insurance Regulatory and Development Authority](#) Act Insurance companies were opened up for private companies Objective was to promote competition FDI was allowed upto 26% (Recently increased to 49%) IRDA was established as the regulator of the insurance sector

1. LIC – Life Insurance Corporation

- Set up in 1956 by the government by nationalising all the existing private sector life insurance companies
- This was done due to large scale defaults

2. GIC – General Insurance Corporation

- It was established in 1973
- Subsidiaries of GIC are:-
 - NICL – National Insurance Company of India Limited
 - United India Insurance Company Limited
 - Oriental Insurance Company of India Limited
 - New India Insurance Company of India Limited

1. ULIP – Unit Linked Insurance Plans

- A mixture of Insurance and Mutual Funds

Hedge Funds

- These are mutual funds for rich investors
- Funds are raised through sale of their unit to High net worth Individuals and Institutional Investors
- Units of these are usually sold in chunks/groups
- There is a lock –in period for Hedge funds before which funds cannot be withdrawn
- Corpus is an investment in risky instruments with a long term perspective

Venture Capital Firms/ Companies

- They provide finance and technical assistance to firms which undertake a business project based on innovative ventures
- They provide finance for the commercial application of new technology

Merchant banks (Investment Banks)

- Merchant banks provide financial consultancy services
- They advise firms on fundraising, manage IPO of firms, underwrite new issues and facilitate demat trading.

Finance Companies (Loan Companies)

- Financial Institutions raise funds from the public for lending purpose
- e.g. – Muthoot Finance, Cholamandalam

Micro Finance Institutions (MFI)

- Raise funds from the public for lending to weaker sections
- In India, they mainly raise funds from banks
- e.g. – Basix, Bandhan, SKS Micro Finance.

To know more about [micro-finance in India](#), check the linked article.

Vulture Funds

- These funds buy stocks of companies which are nearing bankruptcy at a very low price.
- After purchasing such stocks they initiate the recovery process to increase the price of shares and sell it at a later point of time

Islamic Banks

- These banks provide loans on the basis of Islamic laws called Sharia.
- In the law of Sharia Interest cannot be charged on the loans

Leasing Companies

- They purchase equipment and machinery and provide the same to companies on a lease.
- These companies charge rent on these machinery which is similar to EMI

