UNIT 1

Banking Financial Institutions

Financial institutions, otherwise known as banking institutions, are corporations that provide services as intermediaries for different types of financial monetary transactions. A financial institution is responsible for the supply of money to the market through the transfer of funds from investors to the companies in the form of loans, deposits, and investments. The main difference between other financial institutions and banks is that other financial institutions cannot accept deposits into savings and demand deposit accounts, while the same is the core businesses for banks.

In today's financial services marketplace, a financial institution exists to provide a wide variety of deposit, lending, and investment products to individuals, businesses, or both.

10 Types of Financial Services:

- Banking.
- Professional Advisory.
- Wealth Management.
- Mutual Funds.
- Insurance.
- Stock Market.
- Treasury/Debt Instruments.
- Tax/Audit Consulting.

Bank

A bank is a financial institution that accepts deposits from the public and creates a demand deposit while simultaneously making loans. Lending activities can be directly performed by the bank or indirectly through capital markets. It is governed by federal and state laws and regulations. Banks make loans, pay checks, accept deposits, and provide other financial services.

Public and Private Sector

Definition. Public Sector refers to the part of the Country's overall economy which is controlled by the Government or various Government bodies. The private Sector refers to the part of the Country's overall economy which is controlled by Individuals or Private Companies ownership.

Examples of companies in the private sector

- **Sole proprietorships:** Plumbers, technicians, contractors, developers and designers.
- **Partnerships:** Legal, accounting, tax and dentistry.
- **Privately owned corporations:** Hospitality, retail and food.

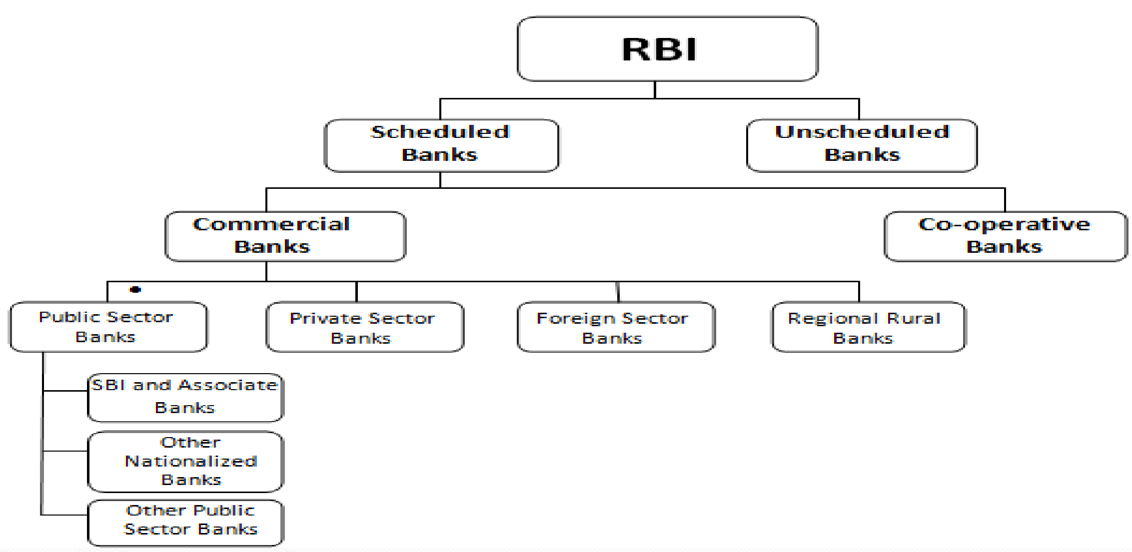
Examples of companies in the public sector

Public goods and governmental services such as the military, law enforcement, infrastructure, public transit, public education, along with health care and those working for the government itself, such as elected officials.

Difference between the private and public sectors of our economy

The public sector is the part of the economy, where goods and services are provided by the government or local authorities carrying out the task instead. The private sector consists of business activity that is owned, financed and run by private individuals.

Structure of Banking System



Meaning of Scheduled Bank and Non Scheduled Bank:

Scheduled banks are those banks that are listed under Schedule II of the Reserve Bank of India Act, 1934. The bank's paid-up capital and raised funds must be at least Rs. 5 lakh to qualify as a scheduled bank. These banks are liable for low interest loans from the RBI.

Non-scheduled banks by definition are those which are not listed in the 2nd schedule of the RBI act, 1934. Banks with a reserve capital of less than 5 lakh rupees qualify as non-scheduled banks.

Commercial Bank

A commercial bank is a financial institution which accepts deposits from the public and gives loans for the purposes of consumption and investment to make profit. The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses.

Meaning of public sector banks

Public sector bank is a bank in which the government holds a major portion of the shares. For example, SBI is public sector bank, the government holding in this bank is 58.60%. Similarly PNB is a public sector bank, the government holds a stake of 58.87%.

Examples of Public Sector Banks are Punjab National Bank, state bank of India and Central Bank of India, etc. 3. Regional Rural Banks (RRB): The Regional Rural Banks were owned by the Central Government, the State Government, and the Sponsor Bank.

Private Sector Banks

Private Sector Banks are those banks in which the majority of the stake is held by shareholders of the bank and not by the government. RBL bank, HDFC Bank, ICICI Bank, Yes Bank, etc. are the private sector banks in India. They provide all the banking products and services to the customers.

Examples of 12 private sector banks in India

- Bank of Baroda. 1908. Vadodara, Gujarat.
- Bank of India. 1906. Mumbai, Maharashtra.
- Bank of Maharashtra. 1935. Pune, Maharashtra.
- Canara Bank. 1906. Bengaluru, Karnataka.
- Central Bank of India. 1911. Mumbai, Maharashtra.
- Indian Bank. 1907. Chennai, Tamil Nadu.
- Indian Overseas Bank. 1937. Chennai, Tamil Nadu.
- Punjab and Sind Bank. 1908.

Foreign Bank

A foreign bank is a type of International Bank headquartered in a different country with branches in India. A foreign bank is obligated to follow the regulations of both the home and host countries. Currently, as many as 46 foreign banks operating in India as per the RBI.

List of Foreign Banks in India

- Citi Bank. Citibank, formerly known as City Bank of New York, is a multinational bank with its roots in New York (USA) from as early as 1812. ...
- HSBC India. ...
- Deutsche Bank. ...
- Royal Bank of Scotland (NatWest Markets PLC) ...
- DBS Bank. ...
- Barclays Bank. ...
- Bank of America. ...
- Bank of Bahrain and Kuwait.

Regional Rural Banks:

Regional Rural Banks (RRBs) are government owned scheduled commercial banks of India that operate at regional level in different states of India.

Examples

- Andhra Pradesh Grameena Vikas Bank- Telangana
- Andhra Pragathi Grameena Bank- Andhra Pradesh
- Arunachal Pradesh Rural Bank- Arunachal Pradesh
- Aryavart Bank- Uttar Pradesh

Co-operative banks

Co-operative banks are financial entities established on a co-operative basis and belonging to their members. This means that the customers of a co-operative bank are also its owners. These banks provide a wide range of regular banking and financial services. the banks whose main objective is to provide financial assistance to economically weaker sections of the society. such banks are registered under the cooperative societies act.

Types of Co-operative Banks:

They are primary credit societies, central cooperative banks and state co-operative banks. These banks are organized at three levels, village or town level, district level and state level.

Commercial bank

The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. Commercial banks are typically defined as institutions that make commercial loans and issue transactions deposits.

List of Commercial Banks In India (2021)

- SBI (State Bank of India)
- HDFC Bank.
- ICICI Bank.
- Axis Bank.
- PNB (Punjab National Bank) ...
- Kotak Mahindra Bank.
- Canara Bank.
- IndusInd Bank.

Banking innovation

Innovation means something new or something which had not been done before. The same goes for banking section as well. Thus, to increase the business avenues and capture the new market banks are resorting to innovation.

The list of these various innovations in banking and financial sector are ECS, RTGS, EFT, NEFT, ATM, Retail Banking, Debit & Credit cards, free advisory services, payments of utility bills, fund transfers, internet banking, telephone banking, mobile banking, selling insurance products, issue of free cheque books, travel etc.,

UNIT 2

Non – Banking Financial Institutions

Nonbank financial companies (NBFCs), also known as nonbank financial institutions (NBFIs) are entities that provide certain bank-like and financial services but do not hold a banking license. NBFCs are not subject to the banking regulations and oversight by federal and state authorities adhered to by traditional banks.

Examples of nonbank financial institutions include insurance firms, venture capitalists, currency exchanges.

Functions of NBFC

- Hire Purchase Services.
- Retail Financing.
- Trade finance.
- Infrastructural Funding.
- Asset Management Company.
- Leasing Services.
- Venture Capital Services.
- Micro Small Medium Enterprise (MSME) Financing.

Difference between Banks & NBFCs

The basic difference between banks & NBFCs is that NBFC cannot issue cheques and demand drafts like banks. Banks take part in country's payment mechanism whereas Non-Banking Financial Companies are not involved in such transactions.

Mutual Funds

"Mutual Fund" means a fund established in the form of a trust to raise money through the sale of units to the public or a section of the pubic under one or more schemes for investing in securities, money market instruments, gold or gold related instruments, real estate assets and such other assets and instruments as may be specified by the Board from time to time.

In simple terms, a mutual fund is essentially a common pool of money in which investors put in their contribution. This collective amount is then invested according to the investment objective of the fund.

The money could be invested in stocks, bonds, money market instruments, gold, real estate and other similar assets. These funds are operated by money managers or fund managers, who by investing in line with the specified investment objective attempt to create growth or appreciation of the amount for investors.

Some common categories of mutual funds are:

> **Equity funds** - funds that invest only in stocks and other equity related instruments

> **Debt funds** - funds that invest only in fixed income instruments

> **Money market funds** - funds that invest in short-term money market instruments

> **Hybrid funds** - funds that divide investments between equity and debt to create a balance

Benefit of investing in mutual funds

- Every investor (even with a small investment) gets access to professional money management and expertise.
- Each investor participates proportionally in the return the scheme generates.
- Each unit gets a proportional share of gain (or bears loss) from the fund.
- There is a portfolio report generated for each investor, which tracks all investments and the returns generated by the mutual fund.

Growth of mutual fund industry in India

Phase 1: Formation and Growth of UTI (1964 to 1987) The phase 1 witnessed the incorporation and introduction of Unit Trust of India by passing an Act by Parliament. The incorporation of UTI was done by Reserve Bank of India. Post its incorporation, it was the only institution that accepted investments and offered mutual fund units. The first scheme launched by UTI was the Unit Scheme in the year 1964. Later in the years of 70s and 80s, UTI introduced various schemes as per the needs of Indian investors. The first ULIP (Unit Linked Insurance Plan) was introduced by UTI in the year 1971, while the 1st Indian Offshore Fund was launched in the year 1986. In this phase i.e. from the date of inception to the year 1987, the growth of UTI multiplied tremendously.

Phase 2: Establishment of Public Sector Funds (1987 to 1992) The year 1987 witnessed the establishment of public sector funds i.e. other public sector institutions like banks and NBFCs were allowed to start mutual fund houses. This resulted in opening up of economy and State Bank of India was the first bank to establish a mutual fund company in the year 1987. The footsteps of SBI were then followed by various other institutions like Canbank, Life Insurance Corporation of India, Indian Bank, Bank of India, General Insurance Corporation of India and Punjab National Bank introducing their own mutual fund companies. During this period, the asset under management under this sector increased from Rs. 6700 Crores to a whooping Rs. 47004 Crores as investors in India showed great interest in this financial tool and started investing a large part of their salary in Mutual funds.

Phase 3: Introduction of Private Sector Funds (1992 to 1997) After the successful introduction of Public Sector Funds, the mutual fund industry opened up and witnessed the establishment of private sector funds from the year 1993, giving Indian investors the extensive opportunity to choose mutual funds from public and private sector. On the other hand, it increased the competition for Indian mutual fund companies.

Phase 4: Growth and introduction of SEBI regulations (1997 to 1999) As the mutual fund sector was witnessing and achieving newer heights, it was important to create a body that created comprehensive rules and regulation for this industry and creating a responsible organisation to overlook the working of this sector. This gave birth to incorporation of SEBI Regulation in 1996. SEBI introduced standardization and set uniform rules and regulations for all funds. It was during this phase that SEBI and AMFI launched an awareness scheme for investors of mutual funds.

Phase 5: Emergence of a Large and Stable Industry (1999 to 2004) This phase witnessed the integration of the entire industry with a similar set of rules and regulations. The uniform and standardized operations and regulations made it easier for investors to invest in various mutual fund companies resulting in increase of asset under management from Rs. 68000 crores in previous phase to over Rs. 1.50 lakh crores during this phase.

Phase 6: Amalgamation and Growth (2004 onwards) The mutual fund industry has seen immense growth and globalisation since the day of its incorporation. From the year 2004, this industry witnessed integration as there were many mergers, demergers and acquisitions of companies and schemes like Allianz Mutual Fund taken over by Birla Sun Life, PNB mutual fund by Principal etc. Thus, since the year 2004, this industry is coping and integrating new players, dealing with mergers and acquisitions and continuing its journey towards growth.

Structure of Mutual Funds in India

The structure of mutual funds in India is designed by SEBI, thus determining it to be very well crafted and regulated. The regulations laid by SEBI has made the operations and working of this industry very transparent and SEBI working closely towards protecting the investor's interest. The mutual fund industry operates on 4 tier structure as under:

Sponsor: A sponsor is a corporate body acting alone or with another corporate body who establishes the mutual fund. This sponsor must contribute to 40% to the asset management companies' net worth.

Board of Trustees: Board of trustee is an independent third-party board who are responsible to working towards protecting the interest of the unit-holders by holding and overlooking the property owned by the mutual fund.

Asset Management Company (AMC): The AMC are the fund managers of the investor. This body is responsible to invest the investor's money in various capital market instruments.

Custodian: The SEBI regulation specifies that all mutual funds must park their securities with SEBI registered custodian bank.

Objectives of AMFI

The Association of Mutual Funds in India (AMFI) is a self-regulatory body formed by the fund houses and asset management companies (AMCs) in India. If you have a concern regarding a mutual fund investment and your fund house is not responding adequately, then AMFI is your next stop. It is a non-profit government organisation and a regulator under the purview of SEBI.

A mutual fund is still a comparatively untapped financial sector. Initially, there was a lot of ambiguity and myths around them, and people were reluctant to invest. Therefore, statutory bodies like SEBI and AMFI have a massive role in keeping investors informed.

Role of AMFI in creating investor awareness

The AMFI were instrumental in setting ethical and transparent regulations in the Indian mutual fund arena. In the last two decades, it has contributed immensely to protect the interests of investors as well as fund houses. They make investments more accessible and transparent to attract more people.

Hence, every fund house, advisers, trustees and agents (intermediaries) must register with AMFI, which you can find on the government website. It currently has 44 members, which includes 42 SEBI-registered Asset Management Companies. Their Ads explain the advantages of mutual funds without ignoring the risk factors, which says a lot about their transparency.

Association of Mutual Funds in India

a. To outline ethical and uniform professional standards in all mutual funds operating under the association.

b. To encourage members and investors to maintain ethical business practices and regulations.

c. To get AMCs, agents, distributors, advisories and other entities involved in the capital market or financial service fields to comply with their guidelines.

d. To network with SEBI and comply with their mutual fund regulations.

e. To represent the Finance Ministry, RBI, and SEBI on everything related to the industry.

f. To spread awareness across the country on safe mutual fund investments.

g. To distribute information on mutual fund sector and conduct research and workshops on various funds.

h. Keep a check on Code of Conduct of everyone included and take disciplinary action in case of rule violations.

i. Investors can approach AMFI to air their grievances and register complaints against a fund manager or a fund house.

j. Safeguards the interest of investors and asset management companies

AMFI Registration Number or ARN

AMFI Registration Number (ARN) is a unique number assigned to mutual fund agents, distributors, and brokers. Only those whom clear NISM Certification can get one. Also, if you are a senior citizen, passing the CPE (Continuing Professional Education) is mandatory for the same. Without this number, you cannot sell a mutual fund or even recommend one.

AMFI issues ARN ID card to companies and individuals engaged in mutual fund trading. Remember, NISM certificate is valid only for three years. It entails name of the AMC, a photo of the cardholder, ARN number, the address of the corporate and validity (three years). Therefore, it is easier for investors to cross-check.

Why is ARN important to investors?

Brokers, agents, and intermediaries play a crucial role in luring investors to invest in mutual funds. To ensure that only qualified people sell funds to prospective investors, AMFI authorises only people or entities with ARN Number. All third-party agents must register and pass a qualification test to become AMFI-registered advisers.

These people are well-versed with mutual funds, market trends and the reasoning behind. Please do not entertain any entity without ARN when it comes to mutual fund investing. Always double-check the registration number before investing. However, if you wish to invest directly, always specify the ARN code of AMC, and not that of the distributor in the 'direct' box. You can also drop applications at Registrar & Transfer Agency like CAMS and Karvy with ARN of the fund house.

How do you register or renew ARN?

a) Online registration and renewal of ARN

i. For ARN registration or renewal, link your Aadhaar and registered mobile number

ii. In case, you have not submitted the Aadhaar details, apply manually

iii. Pay the fee to register or renew ARN via online banking

iv. There is no need to provide your NISM passing certificate to register/renew as CAMS can import it directly from NISM

v. Once they verify the documents uploaded on AMFI portal, you get a new ARN license instantly

b) Steps to register/renew ARN offline

i. Visit the official AMFI portal and log in with your credentials

ii. ARN number will be the user id, and the password is sent to your email by CAMS

iii. After authentication, AMFI gets your info directly from NISM

iv. Once you clear the NISM certification/CPE completion, pay the fee online (net banking or debit/credit card) or directly at the fund house

v. The registration/renewal of ARN/EUIN happens immediately In a nutshell, AMFI is responsible for making mutual funds a trusted and transparent investment vehicle over the years.

Therefore, if you face any dispute or disagreement with an AMC regarding a scheme, you can file a complaint with AMFI. ClearTax Save is a distributor that offer well-researched and hand-picked mutual funds after careful study. Investing with us is convenient and rewarding. It's never too late to start.

Insurance Companies

Insurance is a legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. It's called a contingency because there's an uncertainty regarding happening of the event. The insured pays a premium in return for the promise made by the insurer.

In India, the insurance industry plays a vital role in the country's economic well-being. It significantly enhances an individual's investment prospects, protects his/her future, and assists the insurance industry in creating a large pool of funds. Thus, the government introduced the IRDA Act 1999 to regulate the insurance sector.

Insurance Regulatory and Development Authority (IRDA)

The Insurance Regulatory and Development Authority is the main organization or supervisory body that regulates the insurance sector in the country. It sets rules and regulations for the functioning of the insurance industry. Its sole purpose is to protect the interest of policyholders and to develop the industry on the whole.

The IRDA or IRDAI regularly issues advisories to insurance companies in case of changes to the rules and regulations. The regulator guides the insurance industry in promoting the efficiency in the conduct of insurance business all the while controlling the rates and other charges related to insurance. This article dwells on the functioning of the IRDA, features and benefits as well as answers to frequently asked questions at the end of this reading.

Establishment of IRDA

The Government of India was the regulator for the insurance industry until 2000. However, to institute a stand-alone apex body, the IRDA was established in 2000 following the recommendation of the Malhotra Committee report in 1999. In August 2000, the IRDA began accepting applications for registrations through invites and allowed companies from other countries to invest up to 26% in the market.

The IRDA has outlined several rules and regulations under Section 114A of the Insurance Act, 1938. Regulations range from registration of insurance companies for operating in the country to protecting policyholder's interests. As of September 2020, there are 31 General Insurance companies and 24 Life Insurance companies who are registered with the IRDA.

Objective of IRDA:

- To protect the interest and fair treatment of the policyholder.

- To regulate the insurance industry in fairness and ensure the financial soundness of the industry.
- To regularly frame regulations to ensure the industry operates without any ambiguity.

Important Role of IRDA in the Insurance Sector in India:

The insurance industry in India dates back to the early 1800s and has grown over the years with better transparency and focus on protecting the interest of the policyholder. The IRDA plays an integral role in emphasizing the importance of policyholders and their interest while framing rules and regulations.

Here are the important roles of the IRDA:

- To protect the policyholder's interests.
- To help speed up the growth of the insurance industry in an orderly fashion, for the benefit of the common man.
- To provide long-term funds to speed up the nation's economy.
- To promote, set, enforce and monitor high standards of integrity, fair dealing, financial soundness and competence of the insurance providers.
- To ensure genuine claims are settled faster and efficiently.
- To prevent malpractices and fraud, the IRDA has set up a grievance redress forum to ensure the policyholder is protected.
- To promote transparency, fairness and systematic conduct of insurance in the financial markets.
- To build a dependable management system to make sure high standards of financial stability are followed by insurers.
- To take adequate action where such high standards are not maintained.
- To ensure the optimum amount of self-regulation of the industry.

Functions of IRDA:

- Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.
- Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy.
- Specify code of conduct, qualifications and training for intermediary or insurance agents.
- Specify code of conduct for loss assessors and surveyors.
- Levying fees and charges for carrying out the provisions of the Act.

Features & Benefits of IRDA:

- Acts as a regulator for the insurance industry.
- Protects the policyholder's interests.
- Rules and regulations are framed by the apex body under Section 114A of the Insurance Act, 1938.
- It is entrusted under the Insurance Act to grant the certificate of registration to new insurance companies to operate in India.
- Oversees the insurance industry's activities to ensure sustained development of insurers and policyholders.

UNIT 3

Fund Based Financial Services

Fund Based Financial Services(FBFS) are financing method that is driven by the assets of companies. Assets include current assets such as account receivables, inventory and fixed assets such as plant and machinery.

Examples of financial services: Leasing, credit card services, factoring, portfolio management, financial consultancy services.

Lease finance:

Lease financing is one of the important sources of medium- and long-term financing where the owner of an asset gives another person, the right to use that asset against periodical payments. The owner of the asset is known as lessor and the user is called lessee.

The periodical payment made by the lessee to the lessor is known as lease rental. Under lease financing, lessee is given the right to use the asset but the ownership lies with the lessor and at the end of the lease contract, the asset is returned to the lessor or an option is given to the lessee either to purchase the asset or to renew the lease agreement.

Different Types of Lease:

i. Finance Lease:

It is the lease where the lessor transfers substantially all the risks and rewards of ownership of assets to the lessee for lease rentals. In other words, it puts the lessee in the same condition as he/she would have been if he/she had purchased the asset. Finance lease has two phases: The first one is called primary period. This is non-cancellable period and in this period, the lessor recovers his total investment through lease rental. The primary period may last for indefinite period of time. The lease rental for the secondary period is much smaller than that of primary period.

ii. Operating Lease:

Lease other than finance lease is called operating lease. Here risks and rewards incidental to the ownership of asset are not transferred by the lessor to the lessee. The term of such lease is much less than the economic life of the asset and thus the total investment of the lessor is not recovered through lease rental during the primary period of lease. In case of operating lease, the lessor usually provides advice to the lessee for repair, maintenance and technical knowhow of the leased asset and that is why this type of lease is also known as service lease.

Advantages and Disadvantages of Lease Financing:

Advantages:

a. To Lessor:

The advantages of lease financing from the point of view of lessor are summarized below

Assured Regular Income:

Lessor gets lease rental by leasing an asset during the period of lease which is an assured and regular income.

Preservation of Ownership:

In case of finance lease, the lessor transfers all the risk and rewards incidental to ownership to the lessee without the transfer of ownership of asset hence the ownership lies with the lessor.

Benefit of Tax:

As ownership lies with the lessor, tax benefit is enjoyed by the lessor by way of depreciation in respect of leased asset.

High Profitability:

The business of leasing is highly profitable since the rate of return based on lease rental, is much higher than the interest payable on financing the asset.

High Potentiality of Growth:

The demand for leasing is steadily increasing because it is one of the cost efficient forms of financing. Economic growth can be maintained even during the period of depression. Thus, the growth potentiality of leasing is much higher as compared to other forms of business.

Recovery of Investment:

In case of finance lease, the lessor can recover the total investment through lease rentals.

b. To Lessee:

Use of Capital Goods:

A business will not have to spend a lot of money for acquiring an asset but it can use an asset by paying small monthly or yearly rentals.

Tax Benefits:

A company is able to enjoy the tax advantage on lease payments as lease payments can be deducted as a business expense.

Cheaper:

Leasing is a source of financing which is cheaper than almost all other sources of financing.

Technical Assistance:

Lessee gets some sort of technical support from the lessor in respect of leased asset.

Inflation Friendly:

Leasing is inflation friendly, the lessee has to pay fixed amount of rentals each year even if the cost of the asset goes up.

Ownership:

After the expiry of primary period, lessor offers the lessee to purchase the assets— by paying a very small sum of money.

ii. Disadvantages:

a. To Lessor:

Unprofitable in Case of Inflation:

Lessor gets fixed amount of lease rental every year and they cannot increase this even if the cost of asset goes up.

Double Taxation:

Sales tax may be charged twice:

First at the time of purchase of asset and second at the time of leasing the asset.

Greater Chance of Damage of Asset:

As ownership is not transferred, the lessee uses the asset carelessly and there is a great chance that asset cannot be useable after the expiry of primary period of lease.

b. To Lessee:

Compulsion:

Finance lease is non-cancellable and even if a company does not want to use the asset, lessee is required to pay the lease rentals.

Ownership:

The lessee will not become the owner of the asset at the end of lease agreement unless he decides to purchase it.

Costly:

Lease financing is more costly than other sources of financing because lessee has to pay lease rental as well as expenses incidental to the ownership of the asset.

Understatement of Asset:

As lessee is not the owner of the asset, such an asset cannot be shown in the balance sheet which leads to understatement of lessee's asset.

Consumer credit:

Consumer credit often referred to as consumer debt is the debt taken by an individual to buy goods and services. Consumer credit can be in the form of a credit card or any type of personal loan.

Understanding Consumer Credit

In simple words, consumer credit is the term used to define an unsecured debt that was taken to purchase goods and services. However, debts taken for the purchase of a plot or house are not included under consumer credit.

Consumer credits are generally offered by financial institutions or banks to help customers buy everyday goods and services at any instant. In return, the consumers are charged interest over the time taken to repay the debt.

Classification of Consumer Credit

Revolving Credit: It is also referred to as the revolving line of credit. It offers customers an open line of credit, which can be utilized to deplete the maximum limit offered by the lender repeatedly. Consumers will be required to repay the minimum prescribed payments regularly to keep the line of credit open. However, since the revolving credit is an unsecured debt, it generally attracts a comparatively higher rate of interest. The remaining debt after making the minimum payments will attract interest with every month the line of credit is available.

Installment Credit: This type of credit is generally issued in the case of specific purposes. They can be the purchase of furniture, vehicle, or home appliances, among others. In the case of installment credit, the payments are made in the form of equated monthly installments for a predefined period. Unlike the revolving credit, installment credit attracts a lower rate of interest as it is a secured debt. Here, the goods purchased serves as collateral if the consumer defaults on repayment.

Hire purchase

Hire purchase is a method of financing of the fixed asset to be purchased on future date. Under this method of financing, the purchase price is paid in installments. Ownership of the asset is transferred after the payment of the last installment.

Features of Hire Purchase:

1. The hire purchaser becomes the owner of the asset after paying the last installment.
2. Every installment is treated as hire charge for using the asset.
3. Hire purchaser can use the asset right after making the agreement with the hire vendor.

4. The hire vendor has the right to repossess the asset in case of difficulties in obtaining the payment of installment.

Advantages of Hire Purchase:

i. Financing of an asset through hire purchase is very easy.

ii. Hire purchaser becomes the owner of the asset in future.

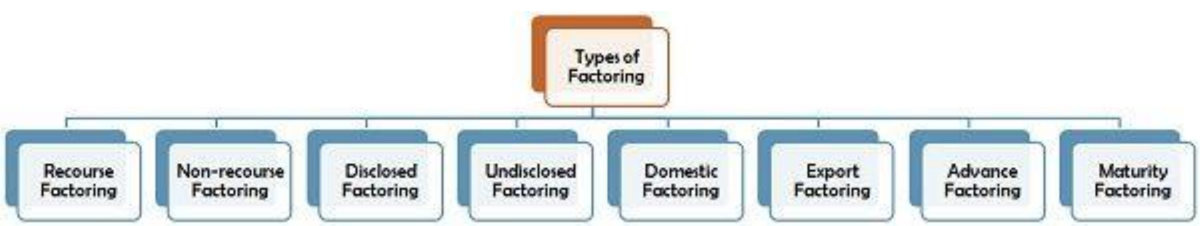
iii. Hire purchaser gets the benefit of depreciation on asset hired by him/her.

iv. Hire purchasers also enjoy the tax benefit on the interest payable by them.

Factoring

Factoring implies a financial arrangement between the factor and client, in which the firm (client) gets advances in return for receivables, from a financial institution (factor). It is a financing technique, in which there is an outright selling of trade debts by a firm to a third party, i.e. factor, at discounted prices. Factoring is a financial alternative, in financing and management of account receivables. It states the terms and conditions of the sale in the factoring agreement.

In finer terms factoring is a relationship between the factor and the client, in which the factor purchases the client's account receivables and pay up to 80% (sometimes 90%) of the sum immediately, at the time of entering into the agreement. The factor pays the balance sum, i.e. 20% of the amount which includes finance cost and operating cost, to the client when the customer pays the obligation.



- **Recourse and Non-recourse Factoring:** In this type of arrangement, the financial institution, can resort to the firm, when the debts are not recoverable. So, the credit risk associated with the trade debts are not assumed by the factor.

  On the other hand, in non-recourse factoring, the factor cannot recourse to the firm, in case the debt turn out to be irrecoverable.

- **Disclosed and Undisclosed Factoring:** The factoring in which the factor's name is indicated in the invoice by the supplier of the goods or services asking the purchaser to pay the factor, is called disclosed factoring.

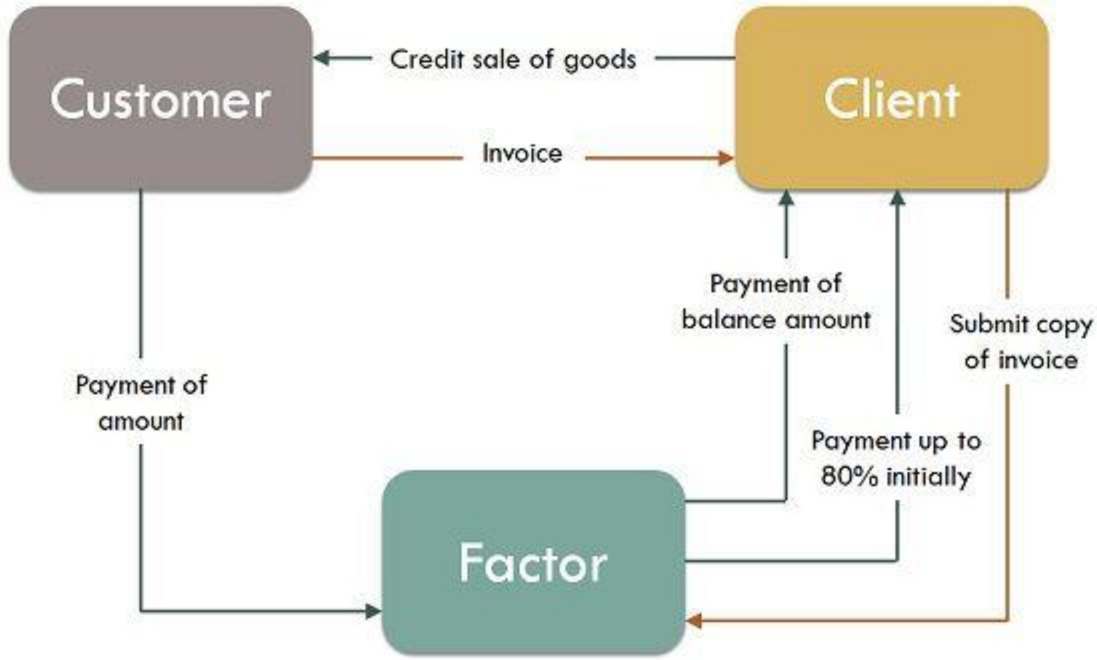
  Conversely, the form of factoring in which the name of the factor is not mentioned in the invoice issued by the manufacturer. In such a case, the factor maintains sales ledger of the client and the debt is realized in the name of the firm. However, the control is in the hands of the factor.

- **Domestic and Export Factoring:** When the three parties to factoring, i.e. customer, client, and factor, reside in the same country, then this is called as domestic factoring.
- **Export factoring,** or otherwise known as cross-border factoring is one in which there are four parties involved, i.e. exporter (client), the importer (customer), export factor and import factor. This is also termed as the two-factor system.

- **Advance and Maturity Factoring:** In advance factoring, the factor gives an advance to the client, against the uncollected receivables.

  In maturity factoring, the factoring agency does not provide any advance to the firm. Instead, the bank collects the sum from the customer and pays to the firm, either on the date on which the amount is collected from the customers or on a guaranteed payment date.

  Based on the factoring type, the collection of the debt is performed by the factor or the client, as the case may be.



1. Borrowing company or the client sells the book debts to the lending institution (factor).
2. Factor acquires the receivables and extend money against the receivables, after deducting and retaining the following sum, i.e. an adequate margin, factor's commission and interest on advance
3. Collection from the customer is forwarded by the client to the factor and in this way, the advance is settled.
4. Other services are also provided by the factor which includes:

- Finance
- Collection of debts
- Maintenance of debts
- Protection of Credit Risk
- Maintenance of debtors ledger

Advantages of Factoring

Immediate Cash Inflow

This type of finance shortens the cash collection cycle. It provides swift realization of cash by selling the receivables to a factor. Availability of liquid cash sometimes becomes a deciding factor for grabbing an opportunity or losing it. The cash boost provided by factoring is readily available for capital expenditures, securing a new order or meeting an unforeseen condition.

Attention towards Business Operations and Growth

By selling off invoices, business managers can feel stress-free of the task of collection from the customers. Resources employed in the receivables department can be directed towards business operations, financial planning, and future growth.

Evasion of Bad Debts

Factoring is of two types – with recourse and without recourse. Under without recourse factoring, in case of bad debts, the loss is borne by the factor. Hence, the seller is under no obligation to the factor once it sells off its receivables.

Speedy Arrangement of Finance

Factors provide funds more rapidly than banking companies. Factoring companies offer quicker application, lesser documentation and swifter realization of funds as compared to other financial institutions.

No Requirement of Collateral

The advances are extended on the basis of the strength of accounts receivables and their credit healthiness. Unlike cash credit & overdraft, factors do not require any collateral security to be pledged/hypothecated. New businesses, startups can easily avail the advances provided they have strong receivables.

Sale Not Loan

Factoring transaction is a transaction of sale, not a loan. Unlike other types of finances, factoring does not result in an increase in liabilities of the business. Hence, there are no adverse impacts on the financial ratios as well. It just involves the conversion of book debts into liquid cash.

Customer Analysis

Factors provide valuable advice and insights to the seller regarding the credit strength of the party from whom receivables are pending. It helps in negotiating better terms between the parties in future contracts.

Disadvantages of Factoring

Reduction of Profit

The factor deducts a certain discount from the value of accounts receivable as fees for the services offered. Moreover, in certain cases, the factor also charges interest on the advance made. Consequently, profit of an entity is reduced by a significant margin.

Reliability of Customer's Credit

The factor assesses and evaluates credit wellness of the party who owes bills receivables. This is a critical factor which is outside the control of the seller. A factor may refuse to extend advances due to poor credit ratings of the concerned party.

Exhausting of Collateral Security

Factoring exhaust bills receivables of an entity as the entity is no longer entitled to receive payments from them. The seller is no longer holding any control over the book debts. Hence, they can not be provided as collateral security while obtaining any other type of finance.

Presence of Contingent Liability

The liability of the seller is not completely waived in case of with recourse factoring. If a party fails to pay its debts to the factor, the factor is legally entitled to recover it from the seller. Thus, the seller is contingently liable to the factor for paying the debts in future in case of default.

Higher Finance Charges

Factors usually deduct 2% to 4% of the total amount involved as their fees for the duration of 45-60 days. Computing it annually, the cost of finance turns out to be around 18% to 24% p.a. which is very higher than other sources of finance.

Functions of Factoring:

Maintaining Accounts: Preparing and updating sales ledger and providing periodic reports with useful information

Providing advisory services: Advices the client regarding credit worthiness of a buyer, potential customers etc.,

Providing short term finance: Provide money in advance up to 80% of the receivables

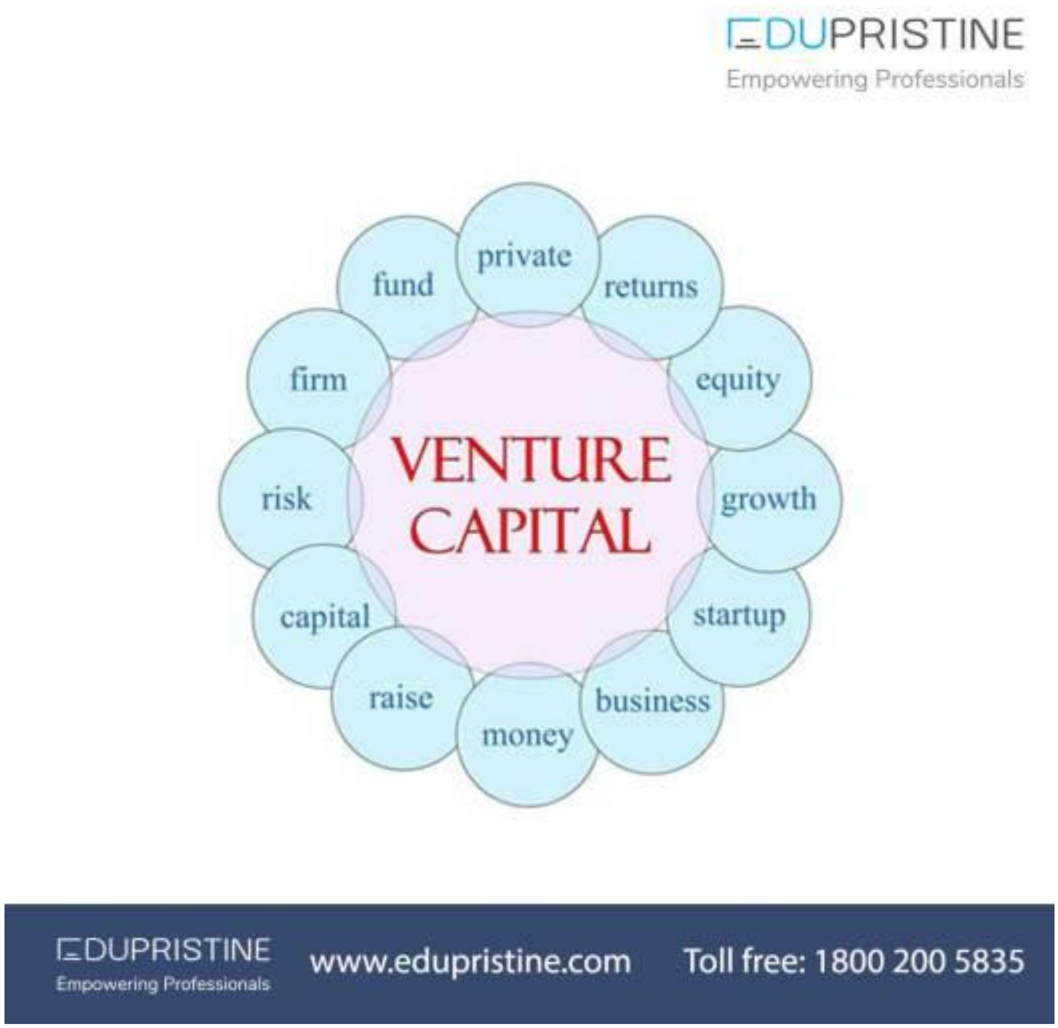
Providing Credit Protection: Protects the clients against bad debts

Providing collection facilities: Collect money on behalf of the client and remits the money back after deducting his charges.

Venture Capital

It is a private or institutional investment made into early-stage / start-up companies (new ventures). As defined, ventures involve risk (having uncertain outcome) in the expectation of a sizeable gain. Venture Capital is money invested in businesses that are small; or exist only as an initiative, but have huge potential to grow. The people who invest this money are called venture capitalists (VCs). The venture capital investment is made when a venture capitalist buys shares of such a company and becomes a financial partner in the business.

Venture Capital investment is also referred to risk capital or patient risk capital, as it includes the risk of losing the money if the venture doesn't succeed and takes medium to long term period for the investments to fructify.



Features of Venture Capital investments

- High Risk
- Lack of Liquidity

- Long term horizon
- Equity participation and capital gains
- Venture capital investments are made in innovative projects
- Suppliers of venture capital participate in the management of the company

Methods of Venture capital financing

- Equity
- participating debentures
- conditional loan

The venture capital funding process typically involves four phases in the company's development:

- Idea generation
- Start-up
- Ramp up
- Exit

Step 1: Idea generation and submission of the Business Plan

- There should be an executive summary of the business proposal
- Description of the opportunity and the market potential and size
- Review on the existing and expected competitive scenario
- Detailed financial projections
- Details of the management of the company

Step 2: Introductory Meeting

Once the preliminary study is done by the VC and they find the project as per their preferences, there is a one-to-one meeting that is called for discussing the project in detail. After the meeting the VC finally decides whether or not to move forward to the due diligence stage of the process.

Step 3: Due Diligence

The due diligence phase varies depending upon the nature of the business proposal. This process involves solving of queries related to customer references, product and business strategy evaluations, management interviews, and other such exchanges of information during this time period.

Step 4: Term Sheets and Funding

If the due diligence phase is satisfactory, the VC offers a term sheet, which is a non-binding document explaining the basic terms and conditions of the investment agreement. The term sheet is generally negotiable and must be agreed upon by all parties, after which on completion of legal documents and legal due diligence, funds are made available.

Types of Venture Capital funding

- **Seed money:** Low level financing for proving and fructifying a new idea
- **Start-up:** New firms needing funds for expenses related with marketing and product development
- **First-Round:** Manufacturing and early sales funding
- **Second-Round:** Operational capital given for early stage companies which are selling products, but not returning a profit
- **Third-Round:** Also known as Mezzanine financing, this is the money for expanding a newly beneficial company
- **Fourth-Round:** Also called bridge financing, 4th round is proposed for financing the "going public" process.

Advantages of Venture Capital

- They bring wealth and expertise to the company
- Large sum of equity finance can be provided
- The business does not stand the obligation to repay the money
- In addition to capital, it provides valuable information, resources, technical assistance to make a business successful

Disadvantages of Venture Capital

- As the investors become part owners, the autonomy and control of the founder is lost
- It is a lengthy and complex process
- It is an uncertain form of financing
- Benefit from such financing can be realized in long run only

Unit 4

Fee Based/Advisory Services

Stockbroking:

Stockbroking is the professional activity of buying and selling stocks and shares for clients. The role of a stock broker is to facilitate the buying and selling of stocks at the stock markets, on behalf of investors. There are many prominent stock brokerage firms in India through which you can trade in stock exchanges. The three most common types of stock brokers are full-service brokers, discount brokers, and online brokers. Nowadays, there are many online brokerages that offer commission-free trading.

What is a Stockbroker?

A stockbroker is a regulated representative of the financial market who enables the buying and selling of securities on behalf of financial institutions, investor clients, and firms. A stockbroker is also called a registered representative or a broker. The trading or purchase or sale of stocks on the national stock exchanges are usually executed through a stockbroker.

Stockbrokers handle transactions for both institutional and retail customers. The primary job of a stockbroker is to obtain buy and sell orders and execute them. Many market participants depend on stockbrokers' knowledge and expertise regarding the dynamics of the market to invest in securities. A stockbroker can work either individually or with a brokerage firm. Sometimes, broker-dealers and brokerage firms are also called stockbrokers.

Types of Stockbrokers

Full-Service Stockbroker

A full-service stockbroker offers a variety of financial services to clients. Usually, clients are assigned individual licensed stockbrokers. The brokerage firms employ research departments providing analyst recommendations and access to initial public offerings (IPOs). Full-service stockbrokers also provide services like financial planning, business and personal home loans, banking services, and asset management. Clients can either contact their personal stockbroker for trading options or use mobile and online platforms.

However, stockbrokers offering trading functions and online access charge higher commissions. Moreover, as the online platforms of full-service stockbrokers usually cater to long-term investors, the platforms provide fewer indicators and tools for day trading investors.

Discount Stockbroker

Discount stockbrokers provide financial products, access to mutual funds, banking products, and other services. A discount stockbroker offers many products and services that are similar to a full-service stockbroker, but with smaller commissions. Hence, swing traders and day traders who are more active may find discount stockbrokers appealing. Moreover, the platforms serve active day traders and investors; hence, they provide more research tools and trading options than full-service platforms.

Online Stockbroker

Also called a direct access stockbroker, an online stockbroker offers services to active day traders with the smallest commission – usually priced on a per-stock basis. Online stockbrokers offer direct access platforms with capabilities of routing and charting, and access to multiple exchanges, market makers, and electronic communication networks (ECN). Also, online stockbrokers offer the advantages of access and speed, allowing executions of orders on point-and-click. The platforms also enable the placing of complex options and stock orders. The access to heavy-duty platforms usually comes with a monthly fee consisting of software and exchange fees; however, the software fees can be discounted or waived depending on the actual number of shares traded monthly by the client.

Qualifications of a Stockbroker:

Education

An undergraduate degree in finance or business administration is required if a stockbroker seeks to work with an institutional client. Additionally, an understanding of accounting methods, financial forecasting and planning, and related laws and regulations is preferred.

Experience

A stockbroker can start working with a brokerage firm in any role, even as a college intern, and gain experience on the job. However, to be a stockbroker, he/she must show a strong understanding of accounting standards and regulations of the financial market.

UNIT 5

Infrastructure Financing

Financing is distinct from funding infrastructure: funding is how taxpayers, consumers or others ultimately pay for infrastructure, including paying back the finance from whichever source government or private owners choose. There are two broad ways to finance infrastructure – publicly or privately. But these work differently for infrastructure that is publicly owned (flood defences, the rail network), compared to privately-owned infrastructure (communications and utilities). Not all privately-financed infrastructure is privately owned since publicly-owned infrastructure can be privately financed as well.

1. Public finance

Public finance for infrastructure comes from a variety of sources, principally taxation but also public borrowing. Public finance for infrastructure projects will appear on the public sector balance sheet in measures of public sector net debt.

2. Private finance

Private financing for public infrastructure projects involves government borrowing money from private investors to pay for specific projects.

Infrastructure loan" means a credit facility extended by NBFCs to a borrower for exposure in the following infrastructure sub-sectors:

Sl.No.	Category	Infrastructure sub-sectors
1.	Transport	i. Roads and bridges ii. Ports iii. Inland Waterways iv. Airport v. Railway Track, tunnels, viaducts, bridge vi. Urban Public Transport (except rolling stock in case of urban road transport)
2.	Energy	i.Electricity Generation ii. Electricity Transmission iii. Electricity Distribution iv. Oil pipelines v. Oil/Gas/Liquefied Natural Gas (LNG) storage facility vi. Gas pipelines
3.	Water & Sanitation	i. Solid Waste Management ii. Water supply pipelines iii. Water treatment plants iv. Sewage collection, treatment and disposal system v. Irrigation (dams, channels, embankments etc) vi. Storm Water Drainage System
4.	Communication	i. Telecommunication (Fixed network) ii. Telecommunication towers

Credit Syndication

Credit Syndication is the process where a bunch of banks and lenders fund various fragments of a loan of an individual borrower. Loan Syndication happens when a borrower requires a loan amount which is too big for a single bank to provide. Thus, a bunch of banks come together to form a syndicate and provide the necessary loan amount to the borrower.

Stages of Credit syndication process

There are 3 stages of credit syndication process. We will list down each of them below:

Stage 1

The first stage of the loan syndication process is the pre-mandate stage which is initiated by the borrower. The stage involves the borrower either liaison with a single lender or inviting competitor bids from multiple lenders. The borrower has to mandate to the lead bank. After the lead lender has been chosen, they will start the appraisal process. The lead bank will see to the needs of the borrower and will design a loan structure for the borrower and develop a credit proposal.

Stage 2

The next stage involves the lender placing the loan and disbursement. The lead lender initiates selling the loan at the marketplace for which it will prepare an information memorandum, term sheet, and a legal documentation. The lead bank will then approach other banks for participation. Once the loan contract is finalized, the loan amount is disbursed.

Stage 3

The final stage is the post-closure stage which involves monitoring through an escrow account. Escrow account is nothing but the account in which the borrower will deposit the revenue. It’s the agent’s responsibility to ensure that the repayment of loan is the top priority and the payment is done before making payments to any other parties. In the post-closure stage, it’s the job of the agent to manage the operating and running of the loan facility on a regular basis.

Participants in a Syndicated Loan

1. Arranging bank

The arranging bank is also known as the lead manager and is mandated by the borrower to organize the funding based on specific agreed terms of the loan. The bank must acquire other lending parties who are willing to participate in the lending syndicate and share the lending risks involved. The financial terms negotiated between the arranging bank and the borrower are contained in the term sheet.

2. Agent

The agent in a syndicated loan serves as a link between the borrower and the lenders and owes a contractual obligation to both the borrower and the lenders. The role of the agent to the lenders is to provide them with information that allows them to exercise their rights under the syndicated loan agreement. However, the agent has no fiduciary duty and is not required to advise the borrower or the lenders. The agent's duty is mainly administrative.

3. Trustee

The trustee is responsible for holding the security of the assets of the borrower on behalf of the lenders. Syndicated loan structures avoid granting the security to the individual lenders separately since the practice would be costly to the syndicate. In the event of default, the trustee is responsible for enforcing the security under instructions by the lenders. Therefore, the trustee only has a fiduciary duty to the lenders in the syndicate.

Advantages of a Syndicated Loan

1. Less time and effort involved

The borrower is not required to meet all the lenders in the syndicate to negotiate the terms of the loan. Rather, the borrower only needs to meet with the arranging bank to negotiate and agree on the terms of the loan. The arranger then does the bigger work of establishing the syndicate, bringing other lenders on board, and discussing the loan terms with them to determine how much credit each lender will contribute.

2. Diversification of loan terms

Since a syndicated loan is contributed to by multiple lenders, the loan can be structured in different types of loans and securities. The varying loan types offer different types of interest, such as fixed or floating interest rates, which makes it more flexible for the borrower. Also, borrowing in different currencies protects the borrower from currency risks resulting from external factors such as inflation and government laws and policies.

3. Large amount

Loan syndication allows borrowers to borrow large amounts to finance capital-intensive projects. A large corporation or government can borrow a huge loan to finance large equipment leasing, mergers, and financing transactions in telecommunications, petrochemical, mining, energy, transportation, etc. A single lender would be unable to raise funds to finance such projects, and therefore, bringing several lenders to provide the financing makes it easy to carry out such projects.

4. Positive reputation

The participation of multiple lenders to finance a borrower's project is a reinforcement of the borrower's good market image. Borrowers that have successfully paid syndicated loans in the past elicit a positive reputation among lenders, which makes it easier for them to access credit facilities from financial institutions in the future.

In-House Financing

In-House financing refers to when a company extends a loan to customers in order to allow them to purchase goods and services. Banks and third-party institutions are eliminated through in-house financing. ... This method is great for customers as it encourages purchase among them.

In-house financing is financing in which a firm extends customers a loan, allowing them to purchase its goods or services. In-house financing eliminates the firm's reliance on the financial sector for providing the customer with funds to complete a transaction.

In-house financing simply means that you borrow money from your car dealership. You then make loan and interest payments to the dealership. Financing directly with your car dealership offers Gretna drivers a number of benefits. Your dealership wants you to drive home in the car you really want, so they'll work harder to customize a lease agreement that fits your budget. In-house advantages include:

- Easier pre-approval
- Extended warranties
- Flexible interest rates
- Credit-building opportunity

Even dealers that don't order direct financing generally work with multiple lenders to help you get the best deal.

Pros and Cons of In-House Financing

Pros

- **Streamlined application process:** Since you apply online or in person and get your decision directly through the seller, in-house financing may be quicker than going through a financial institution. Once approved, you can simply purchase your product or service and make payments to the seller.
- **Easier approval if you have bad credit:** Since the seller decides whether to offer you financing, this allows for leniency when it comes to your credit history. Whether the seller skips the credit check or considers other factors besides your score, you may have an easier time getting approved for in-house financing. The new credit line may also help improve your credit score as long as you pay it as agreed.

Cons

Limitations on purchase options**:** Since sellers only offer in-house financing for their products and services, this will limit your purchasing options. Further, car dealerships offering in-house financing might restrict you to using the loan for a certain type of vehicle, such as new or used.

Insurance Service

Insurance:

Insurance is a legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. It's called a contingency because there's an uncertainty regarding happening of the event. The insured pays a premium in return for the promise made by the insurer.

Types of insurance available in India:

Life insurance

As the name suggests, life insurance is insurance on your life. You buy life insurance to make sure your dependents are financially secured in the event of your untimely demise. Life insurance is particularly important if you are the sole breadwinner for your family or if your family is heavily reliant on your income. Under life insurance, the policyholder's family is financially compensated in case the policyholder expires during the term of the policy.

Health insurance

Health insurance is bought to cover medical costs for expensive treatments. Different types of health insurance policies cover an array of diseases and ailments. You can buy a generic health insurance policy as well as policies for specific diseases. The premium paid towards a health insurance policy usually covers treatment, hospitalization and medication costs.

Car insurance

In today's world, a car insurance is an important policy for every car owner. This insurance protects you against any untoward incident like accidents. Some policies also compensate for damages to your car during natural calamities like floods or earthquakes. It also covers third-party liability where you have to pay damages to other vehicle owners.

Education Insurance

The child education insurance is akin to a life insurance policy which has been specially designed as a saving tool. An education insurance can be a great way to provide a lump sum amount of money when your child reaches the age for higher education and gains entry into college (18 years and above). This fund can then be used to pay for your child's higher education expenses. Under this insurance, the child is the life assured or the recipient of the funds, while the parent/legal guardian is the owner of the policy. You can estimate the amount of money that will go into funding your children's higher education using Education Planning Calculator.

Guaranteed mortgage

Mortgage Guarantee (MG), also known as mortgage insurance, is a credit default guarantee taken by lenders of mortgage loans against any payment defaults committed by borrowers. The guarantee amount becomes payable when a concerned loan becomes non-performing in nature, that is, overdue by 90 days.

Lenders such as banks, Housing Finance Companies (HFC) and Non-Banking Finance Companies (NBFC) purchase mortgage guarantee products from a Mortgage Guarantee Company (MGC) to mitigate lending risks. This allows such companies to explore a higher number of lending opportunities across geographies and price segments, during which their loan portfolio risk is transferred to the MGC.

This product was introduced in India only a couple of years ago. Established in June 2012, the India Mortgage Guarantee Corporation (IMGC), which is a joint venture between the National Housing Board (wholly owned by the Reserve Bank of India), Asian Development Bank, the International Finance Corporation, and Genworth Financial, is the single provider of these products in the Indian mortgage guarantee market. The two basic types of MG products are the loan-by-loan and the on-book guarantees. The former is offered at the time of loan origination, and the homebuyer usually bears the cost. The latter is the guarantee provided on a group of loans that have already been originated and the fees, in this case, is paid by the lender.

MG products are already prevalent in a few developed international markets with market penetration in the United States and Canada being 15 percent and 22 percent, respectively. For instance, MGCs in the United States paid up to $39 billion worth of claims during and after the 2008 global financial crisis. The market for such products in India is also growing slowly but steadily with market penetration being between five to 20 percent across various lenders, who predominantly use the same for affordable housing loans and that too mostly in deeper geographies.

Benefits of mortgage guarantee products

MG products aid lenders in boosting their risk propensity as they have a guarantee for backup. Therefore, lenders can tap prospects in evolving borrower sections present in newer locations. The overall portfolio risk of lenders is reduced as well since the insured credit risk gets transferred from the lender's balance sheet to the MGC's balance sheet.

Customers of MGCs can improve their cash flows during times of loan defaults, as the MGC clears the overdue amount (consisting of principal and interest), and makes payment of the housing loan's Equated Monthly Instalments (EMI) to its customers until the earlier of either takes place: the settlement of incurred loss post collateral disposal is complete, or the borrower resumes paying their EMIs.

Microfinance

Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups. These loans are generally issued to finance entrepreneurs who run micro-enterprises in developing countries. Examples of micro-enterprises include basket-making, sewing, street vending and raising poultry. The average global interest rate charged on micro-loans is about 35%. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. As of May 2021, the Reserve Bank of India (RBI) had registered 94 non-banking financial companies (NBFC) to run microfinance institutions (MFI). Chennai, Mumbai, and New Delhi had been the cities with the most companies. MFIs enable individuals or small businesses from poor strata of society to lend money.

Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services.

The provision of small loans (microcredit) to poor people to help them engage in productive activities or grow very small businesses. The term may also include a broader range of services, including credit, savings.

- *Microfinance is non-governmental and non-profit.*

- *Microfinance works with groups of people, not individuals*.
- *Microfinance clients are poorer.*
- *Microfinance institutions operate in a business-like way.*

Commercial banks Banks with a full banking license. In some countries, the term "universal banks" or other terms may be used. Majority government- and stateowned banks should be included in this category to the extent that they perform a broad set of retail banking functions and are regulated and supervised in the same manner as privately owned banks.

Cooperatives, credit unions, and mutuals Financial institutions that are owned and controlled by their members (customers), regardless of whether they do business exclusively with their members or with members and nonmembers.

Specialized state financial institutions Specialized state-owned institutions are extensions of the government whose main purpose is to lend support to economic development and/or to provide savings, payment, and deposit services to the public. They include postal banks, government savings banks, SME lending facilities, agriculture banks, and development banks.

Microfinance institutions Institutions whose primary business model is to lend to (and possibly take deposits from) the poor, often using specialized methodologies such as group lending.

There are various types of microfinance companies operating in India.

- Joint Liability Group (JLG)
- Self Help Group (SHG)
- The Grameena Bank Model.
- Rural Cooperatives.