

Introduction

Non Banking Financial Company also known as NBFC company, functioning as per the Indian Companies Act, giving loans and advances to the public. An NBFC company can acquire shares, stocks, bonds, debentures and securities from Government as well as local authority or any other marketable securities.

The Local Area Bank Scheme was introduced in August 1996 pursuant to the announcement of the then Finance Minister. In his budget speech, the Finance Minister referred to the setting up of new private local banks with jurisdiction over two or three contiguous districts. He observed that this would enable the mobilization of rural savings by local institutions and make them available for investments in the local areas. The Local Area Banks (LABs) were expected to bridge the gaps in credit availability and strengthen the institutional credit framework in the rural and semi-urban areas.

Following this, guidelines for setting up of LABs in the private sector were announced by the Reserve Bank of India (RBI) on 24th August 1996. Over a period of about five and a half years, as many as 227 applications for establishment of LABs in the private sector had been received by the RBI of which 214 applications were rejected while 'in-principle' approvals for establishment of 10 LABs were issued and 3 applications are under examination. However, due to the inability of the promoters to fulfill the conditions stipulated in the 'in-principle' approvals, 4 such approvals were withdrawn. 5 banks were licensed under Section 22 of the Banking Regulation Act 1949. Of these, only 4 LABs are functioning at present. 1 application is pending.

As no comprehensive review of the scheme had been made since the issuance of guidelines in 1996, the RBI appointed a Review Group in July 2002 to study and make recommendations on the LAB Scheme. The Review Group comprised the following:

Marketing securities are considered to be leasing, hire purchase, insurance brokerage, chit fund etc. An NBFC Company mainly accepts deposits in various schemes -it may be a lump-sum amount or multiple installments in order to roll their business active.

Though NBFC company lend and make investments with public just like what a commercial banks do, there are some apparent restrictions to them issued by RBI mainly as given below:

1. NBFC company should keep away from accepting demand deposits from any sources.
2. NBFC company can't issue cheques drawn on itself.
3. NBFC Company can't form part of the payment and settlement system.
4. Depositors of a NBFC company cannot have facilities like deposit insurance scheme.