



A Comparative Study between Non-Banking Financial Companies (Nbfcs) and Cooperative Banks in Delhi

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Abstract

The Indian financial system consists of several institutions that support credit delivery and financial inclusion. Among them, Non-Banking Financial Companies (NBFCs) and cooperative banks play an important role in providing financial services to individuals, small businesses, and underserved communities. This study aims to examine the structural, operational, and regulatory differences between NBFCs and cooperative banks in Delhi. The research evaluates aspects such as regulatory framework, financial services offered, accessibility, lending practices, and customer outreach. The study finds that NBFCs are more flexible in lending and focus on faster credit delivery, whereas cooperative banks emphasize community-based banking and deposit services. Both institutions contribute significantly to financial inclusion but operate with different institutional frameworks and regulatory structures.

Keywords: NBFC, Cooperative Banks, Financial Institutions, Financial Inclusion, Delhi

1. Introduction

The financial sector plays a crucial role in economic development by facilitating the mobilization and allocation of funds. In India, financial institutions include commercial banks, cooperative banks, and Non-Banking Financial Companies (NBFCs). While commercial banks dominate the banking sector, NBFCs and cooperative banks provide alternative channels for financial services.

NBFCs have emerged as important institutions that provide credit to individuals, micro, small and medium enterprises (MSMEs), and sectors that may have limited access to traditional banking. On the other hand, cooperative banks operate under the cooperative movement and primarily serve members within local communities.



In a metropolitan region like Delhi, both NBFCs and cooperative banks play an important role in meeting the financial needs of small businesses, traders, and households. This study attempts to analyze and compare their functions, regulatory frameworks, and impact on financial accessibility.

2. Objectives of the Study

The main objectives of the study are:

1. To examine the concept and operational structure of NBFCs and cooperative banks.
 2. To analyze the regulatory framework governing these financial institutions.
 3. To compare the services provided by NBFCs and cooperative banks in Delhi.
 4. To evaluate their role in promoting financial inclusion and credit accessibility.
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3. Research Methodology

This research is based on **secondary data analysis**. Information has been collected from published reports, research papers, government publications, and official websites of regulatory institutions.

Sources of Data

- Reports of the Reserve Bank of India (RBI)
- Government publications and financial sector reports
- Academic journals and research articles
- Books and online financial databases

The data collected were analyzed using descriptive and comparative approaches.

4. Conceptual Framework

4.1 Non-Banking Financial Companies (NBFCs)

NBFCs are financial institutions registered under the Companies Act that provide various financial services such as loans, asset financing, leasing, and investment activities. Although they perform functions similar to banks, they do not possess a full banking license and therefore cannot accept demand deposits or operate savings and current accounts.

NBFCs are regulated by the Reserve Bank of India under the provisions of the RBI Act, 1934.



4.2 Cooperative Banks

Cooperative banks are financial institutions that operate under the cooperative principles of mutual assistance and democratic management. These banks are owned and managed by their members, who are both customers and shareholders.

Cooperative banks provide basic banking services such as deposits, loans, and payment facilities, primarily focusing on local communities, small businesses, and agricultural sectors.

5. Regulatory Framework

The regulatory environment for NBFCs and cooperative banks differs significantly.

NBFCs are regulated primarily by the Reserve Bank of India under the RBI Act, 1934. They are required to comply with capital adequacy norms and prudential regulations but are not subject to certain banking regulations such as Cash Reserve Ratio (CRR) requirements applicable to banks.

Cooperative banks operate under a dual regulatory structure. While their banking activities are supervised by the Reserve Bank of India, their management and administrative matters are governed by the respective State Cooperative Societies Act or the Multi-State Cooperative Societies Act.

This dual regulatory structure sometimes creates administrative complexity in the functioning of cooperative banks.

6. Comparative Analysis of NBFCs and Cooperative Banks

Basis	NBFCs	Cooperative Banks
Legal Structure	Registered under Companies Act	Registered under Cooperative Societies Act
Ownership	Owned by shareholders	Owned by members
Regulator	RBI	RBI + State Cooperative Authority
Deposit Services	Limited deposit acceptance	Accepts savings, current, and fixed deposits
Payment Services	Limited	Full banking services
Target Customers	Individuals, MSMEs, corporates	Members, farmers, small traders
Lending Process	Flexible and faster	More structured and regulated
Deposit Insurance	Not generally available	Available through deposit insurance schemes



7. Role in Financial Inclusion

NBFCs and cooperative banks play a significant role in extending financial services to sectors that may not have easy access to traditional banking institutions.

NBFCs contribute by providing credit to small businesses, consumer finance, vehicle loans, and microfinance services. Their flexible lending practices allow them to serve customers with limited credit history.

Cooperative banks contribute to financial inclusion by offering deposit facilities, small loans, and banking services to local communities. They often support small traders, cooperative societies, and low-income households.

In urban centers like Delhi, cooperative banks often cater to market traders and residential societies, whereas NBFCs focus on consumer lending and small business financing.

8. Challenges Faced

NBFCs and cooperative banks are important components of India's financial system, but both sectors face significant structural, regulatory, and operational challenges. These challenges influence their financial stability, growth potential, and capacity to support financial inclusion.

8.1 Challenges for NBFCs

1. Limited Ability to Accept Deposits

One of the major structural limitations of NBFCs is the restriction on accepting demand deposits such as savings and current accounts. Unlike commercial and cooperative banks, most NBFCs cannot mobilize low-cost deposits from the public. Consequently, NBFCs depend heavily on market borrowings, bank loans, debentures, and commercial paper to raise funds.

This funding structure makes NBFCs vulnerable to liquidity shocks. A prominent example is the **2018 crisis of Infrastructure Leasing & Financial Services (IL&FS)**, which triggered a liquidity crunch across the NBFC sector and exposed systemic weaknesses in funding models and risk management practices. The collapse led regulators to strengthen supervision and tighten regulatory norms for NBFCs.

2. Higher Cost of Borrowing Compared to Banks

NBFCs typically face higher borrowing costs because they rely on wholesale funding sources instead of retail deposits. Commercial banks can mobilize large amounts of funds through savings and current accounts at relatively low interest rates, whereas NBFCs must access capital markets or borrow from banks at comparatively higher rates.



During periods of financial stress or rising interest rates, the cost of funds for NBFCs increases further. This higher cost of capital often results in higher lending rates for customers, which can reduce their competitiveness against banks.

3. Exposure to Credit Risk

NBFCs frequently serve customers who may not qualify for traditional bank loans, such as small businesses, informal workers, and borrowers with limited credit histories. While this expands financial inclusion, it also increases exposure to credit risk.

Because NBFC portfolios often include unsecured loans or loans to high-risk segments, fluctuations in economic conditions can lead to higher loan defaults and rising non-performing assets (NPAs). Managing credit risk therefore remains a key challenge for NBFCs, requiring stronger credit evaluation systems and risk management frameworks.

4. Regulatory Tightening and Compliance Burden

Following major financial disruptions in the sector, regulators have introduced stricter regulatory frameworks to strengthen financial stability. The Reserve Bank of India (RBI) has implemented enhanced capital adequacy requirements, liquidity coverage norms, and stricter supervision for large NBFCs after the IL&FS crisis.

Although these reforms aim to improve sector stability, they also increase compliance costs and operational complexity for NBFCs, particularly smaller institutions. In recent years, the RBI has also introduced changes to support risk management and collaboration with fintech platforms, including regulatory adjustments related to default loss guarantees in digital lending partnerships.

8.2 Challenges for Cooperative Banks

1. Weak Governance Structures

Governance challenges remain a significant issue in the cooperative banking sector. Cooperative banks are owned and managed by members, and in some cases the management boards lack professional banking expertise. Political influence, inadequate oversight, and weak internal controls have occasionally led to financial irregularities.

A well-known example is the **Punjab and Maharashtra Cooperative (PMC) Bank crisis**, where large loans were extended to a single real-estate company and concealed through fictitious accounts, resulting in severe financial distress for the bank.



Such governance failures have raised concerns about transparency and accountability within some cooperative banking institutions.

2. Limited Technological Advancement

Many cooperative banks lag behind commercial banks and fintech-enabled NBFCs in terms of digital banking infrastructure. Limited financial resources and smaller operational scale restrict their ability to invest in advanced technologies such as mobile banking platforms, automated risk management systems, and digital payment services.

Reports indicate that some cooperative banks still rely on outdated software systems and manual record-keeping, which increases operational inefficiencies and the risk of fraud.

This technological gap reduces their competitiveness, particularly in urban markets where customers increasingly prefer digital financial services.

3. Capital Constraints

Cooperative banks generally have limited access to capital compared with commercial banks and NBFCs. Their capital base primarily consists of member contributions and retained earnings, which restricts their ability to expand operations or absorb financial losses.

According to recent estimates, India had around **1,457 urban cooperative banks with assets of approximately ₹7.38 trillion and deposits of ₹5.84 trillion as of March 2025**, but many smaller institutions face difficulties in mobilizing additional capital for growth and modernization.

These capital constraints often limit lending capacity and technological investment.

4. Dual Regulatory Control

Another structural challenge for cooperative banks is the dual regulatory framework under which they operate. Their banking operations are supervised by the Reserve Bank of India, while their management and administrative matters are regulated by state governments through the Registrar of Cooperative Societies.

This dual system can create regulatory overlaps, delays in decision-making, and gaps in supervision. Structural weaknesses linked to this regulatory arrangement have contributed to financial distress in several cooperative banks.



Between **2014 and 2023, more than 60 cooperative banks in India were shut down**, highlighting the vulnerabilities in governance and supervision within the sector.

9. Findings

The study highlights several important observations:

1. NBFCs have greater operational flexibility compared to cooperative banks.
2. Cooperative banks offer more comprehensive banking services, including deposits and payment systems.
3. NBFCs play a crucial role in providing credit to underserved borrowers.
4. Cooperative banks contribute significantly to community-based financial services.
5. Both institutions complement each other in strengthening the financial ecosystem in Delhi.

10. Conclusion

NBFCs and cooperative banks are integral components of the Indian financial system. While NBFCs focus primarily on credit delivery with flexible lending models, cooperative banks provide traditional banking services rooted in cooperative principles. Both institutions contribute to improving financial inclusion and expanding access to credit in urban areas such as Delhi.

The study suggests that strengthening regulatory oversight, improving governance standards, and promoting technological adoption can enhance the efficiency and sustainability of both NBFCs and cooperative banks.

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