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A Comparative Study on Banking and Non Banking Financial Institutions with Special Reference To State Bank of India and Muthoot Fincorp

ARCHANA M
Assistant Professor
Christ Nagar College
Trivandram

ABSTRACT

Finance refers to funds required to carry out production activities. Funds are needed for meeting current necessities or day to day expenses and for buying capital goods. Institutions that meet all such requirements of finance are called financial institutions. These institutions are classified into banking and non banking financial institutions. Banks are the financial institutions authorised by the government to conduct banking activity like accepting deposits, granting credit, managing withdrawals, pay interest, clearing cheques and providing general utility services to the customers. Non banking financial company is a company registered under the Companies Act, 1956 and regulated by the Central Bank i.e., Reserve Bank of India under RBI Act 1934. As both these institutions perform different functions, it is necessary to do a comparative study for determining the customer perception towards Bank and NBFC. The study also envisages to compare the level of satisfaction of services by the customers in Bank & NBFC. The study focused on SBI and Muthoot Fincorp of TVM city and find out that both the institutions have their own merits and demerits. So it is highly necessary to take measures for the improvement of service facilities provided by these institutions because they are essential for the overall development of the society.

Keywords: Financial Institutions, Bank and NBFC, Customer Perception,

INTRODUCTION

Indian financial system assists in transfer of funds through financial institutions, financial markets, financial instruments and services. Financial institutions play the role of mediator to accumulate savings and put those funds into use by way of credit or finance. In addition to this, they also provide various financial services by acting as intermediaries between savers and investors. Financial institutions are further classified into banking and non banking enterprises. The difference between the two is that the former is the creator of credit and the latter as mere purveyor of credit.

In a country like India with huge population, it is impossible for banks to cater all sections of the society. The reason is that many areas are inaccessible and remote. Also to provide banking facilities to illiterate and poor, finance institutions that work on similar lines are required. This requirement has traditionally been fulfilled by NBFC or non banking financial company. As the name suggests, NBFC is not a bank though it performs many functions similar to that of banks. So this project intends to compare the major differences between NBFC and banks with special reference to State Bank of India and Muthoot Fincorp. As finance is the basic requirement of individuals and business, banks alone cannot cater all the sections of the society. That is why NBFC came into being, both in public and private sector, to complement banks in providing finance to people. Therefore it is highly essential to study the service facilities provided by the Bank and NBFC in this modern competitive world.

Statement of the Problem

The encouraging growth of Banking Institutions as compared to other businesses in the state shows that customer have incredible trust in Bank. But, in a country like India with a huge population, it is impossible for banks to provide financial assistance to all sections of the society, but also non-banking financial companies (NBFCs) play a significant role. These firms offer a wide array of financial services like loans, chit-funds etc., and are different from banks. NBFCs cater to a wide variety of customers – both in urban and rural areas. They finance projects of small-scale companies, which is important for the growth in rural areas. They also provide small-ticket loans for affordable housing projects. All these help to promote inclusive growth in the country. So, in this study a comparison is done about banking and non banking institutions with special reference to State Bank of India and Muthoot Fincorp.

Scope of the study

The study mainly focuses on the services provided by the Bank and NBFC to its customers. The NBFC sector has continuously played a critical role in encouraging growth of the Indian economy and hence needs to be nurtured appropriately. NBFC's have also had a major impact in developing small business in rural India through local presence and strong customer relationships. Usually the loan officers in such NBFC's know the end customer or have a strong 'informal' understanding of the credibility of the borrower and are able to structure their loans

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appropriately. The comparative study based on these institutions helps to understand the real differences between them. Moreover the major features of SBI & Muthoot Fincorp can be recognized under this study. Both have their pros and cons, it's simply a matter of personal preference. The process of liberalization initiated by the Indian government has thrown open several business opportunities. Opening up of the economy and financial reforms have given tremendous impact to the financial service sector. So it is highly relevant to understand the perception of customers regarding Bank and NBFC in this modern competitive world.

Review of literature

(Islam & Osman, 1997) empirically examined and reported that the development impact of Non-Bank Financial Intermediaries on economic growth in Malaysia using time series data over the period spanning 1974 to 2004. The study employed bounds testing approach to cointegration and error correction mechanism to investigate the existence of a long run equilibrium relationship between NBFIs and economic growth. The study found evidence of a long run cointegrating relationship between NBFIs and real per capita income. The empirical results indicated that the development of NBFIs positively and significantly influences per capita income in Malaysia. In addition, the CUSUM and CUSUMSQ tests confirm the stability of the model.

(BASU, 1961) **According to S.K.Basu 1)** A Non-Banking Financial Company (NBFC) is a company incorporated under the companies Act, 1956, and conducting the financial business as its principal business. In India, the Non-Banking Financial sector comprises a multiplicity of institutions, which are defined under section 45 I (a) of the Reserve Bank of India Act, 1934.

(The RBI reports in Trend and Progress of Banking in India, 2008) indicates that even after the four decades of banks' nationalization, country's 41 per cent adult population remained outside the banking system but is surmised to be covered by the NBFCs wise Chit Funds'.

Dr.Jafor Ali Akhan (2009) stated that the Non-Banking Financial Companies (NBFCs) have been playing a very significant role in the present day rigorous money-market conditions. They are serving the nation by supporting the economic reconstruction and giving a booster to industrial production. They are engaged into the business of providing loans and advances of

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small amounts for a short-period to small borrowers. The Non-Banking Financial Companies (NBFCs) play an important role in channelizing these savings into investment. They have supplemented the role played by the banks.

Objectives of the study

1. To study the various schemes of Bank and NBFC.
2. To compare the level of satisfaction of services by the customers in Bank & NBFC.
3. To study the various aspects of services that improvement required.

Methodology

This study has been conducted to analyse customer perception with regard to the services and products provided by the financial institutions.

- **Research Design**
  The present study is descriptive in nature and uses both primary data and secondary data.
- **Data source**
  Primary Data was obtained from respondents by administering the questionnaire. The personnel interview was also conducted with a few respondents from SBI and Muthoot Fincorp. *Secondary data* have been collected from various journals, articles, magazines, population, internet etc.
- **Population**
  The study was conducted among the customers of SBI and Muthoot Fincorp in Trivandrum district.
- **Sample size**
  The sample size of the study was 50.which consists of 50 customers from SBI and Muthoot Fincorp of Trivandrum district.
- **Sampling technique**
  The sampling technique used in this study is purposive sampling. A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study. Purposive sampling is also known as judgmental, selective, or subjective sampling.
- **Tools used for analysis**
  Statistical package for the social science (SPSS) is used to analyse the data.

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Services of State Bank of India

1. PERSONAL BANKING

a) Deposit scheme

One of the most important primary functions of a commercial bank is accepting deposits of various kinds. A major portion of the deposits accepted are repayable on demand. The deposit scheme includes:

- Current/ Demand deposit
- Fixed/ Time deposits
- Recurring/ Cumulative deposits
- Savings deposits
- Term deposits
- Savings plus account
- Endowment deposits
- Miscellaneous deposits

b) Personal Finance

State Bank of India has a variety of schemes under Personal Finance to satisfy varying needs of the public. The bank offers the following schemes with attractive rates of interest.

- Housing loan
- Personal gold loan

Services of Muthoot Fincorp Ltd

1. Gold Loan

Gold is one of the most liquid precious metals and gold loans have merged as one of the best means of raising quick, short term capital or to meet emergency requirement of retail customers.

2. Business Loan

- **Suvidha Loan**

- **SME Loan**

3. Home Loan

Muthoot Housing Finance Company Ltd. (MHFL) is a subsidiary of Muthoot Fincorp Ltd. and is registered with the National Housing Bank. MHFL caters mainly to the housing finance requirements of customers in the middle and lower income category.

4. FOREX

- **Foreign Exchange**

Muthoot Fincorp Ltd. is a pioneer in Foreign exchange, as they have Authorised Dealer Category II License from RBI. They buy foreign currencies & travellers cheques from resident Indians, Non-Resident Indians and Foreigners through our wide and vast network branches.

- **Foreign Demand Drafts**

Muthoot Fincorp is permitted by RBI to issue demand drafts in foreign currencies. This will be issued by verifying supporting documents from the customer. They can issue DDs in the name of foreign universities for higher studies, for Subscription of journals, for booking stalls abroad, for participating events abroad.

5. Pan Card

Permanent Account Number (PAN)is the identifier of Indian income tax payers in the form of AAAPL1234C. It is unique, 10-character alpha-numeric identifier, issued to all juristic entities identifiable under the Indian Income Tax Act 1961.

6. Demat a/c

Muthoot Fincorp's Demat Services offers Safe mode to keep track of our investments. Demat account is an account wherein investors can hold shares/ debentures and other securities in the dematerialised (electronic) form and can access it for transactions by logging into their demat account.

7. Mutual Fund

A Mutual Fund is a corporate body registered with the Securities and Exchange Board of India (SEBI) that pools up the money from individual /corporate investors and invests the same on behalf of the investors /unit holders, in equity shares, Government securities, Bonds, Call money markets, etc., and distributes the profits.

8. **Travel Services**

Muthoot Fincorp Ltd. brings Travel Services through My Travel at Muthoot. They offer end-to-end solutions for our travel needs.

9. **Domestic money transfer**

Muthoot Fincorp offers Instant Real Time Money Transfer with fast, easy and secure transfer. The service providers have licensed from RBI for sending money to bank account through IMPS and NEFT. Money can be transferred to the bank account by either adding beneficiary or without adding any beneficiary.

10. **Prepaid popup services**

Mobile Recharges and DTH recharges are the main popup services provided by Muthoot Fincorp**.**

ANALYSIS AND DISCUSSION

Level of satisfaction regarding the financial services

8.1 Level of satisfaction regarding the financial services of SBI

Table 8.1Mean opinion score of the respondents from SBI based on the level of satisfaction

One-Sample Statistics				
SBI	Mean	Std. Deviation	t	Sig. (2-tailed)
Telegraphic cash transfer	2.14	1.143	-5.320	.000
Payment of insurance etc	2.26	.876	-5.972	.000
Locker facilities	2.60	1.050	-2.694	.010
Collection of cheques	2.50	.974	-3.629	.001
Overall Service	3.42	.992	2.995	.004

Source: Primary data

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The mean opinion score of the respondent shown in Table 4.8.1 reveals that customers are not much satisfying with the services of SBI as the mean opinion score is below the theoretical mean 3.00. There is no significant difference in the opinion of the respondents about the locker facilities (mean opinion score = 2.60), the collection of cheques (mean opinion score = 2.50), payment of insurance (mean opinion score = 2.26), and telegraphic cash transfer (mean opinion score = 2.14), as the level of significance is below 0.05. But the level of satisfaction about overall service facilities of SBI reveals that they are satisfied as the mean opinion score (3.42) is above the theoretical mean 3.00. There is no significant difference in the opinion regarding the overall financial services as the significance level of one sample test is below 0.05

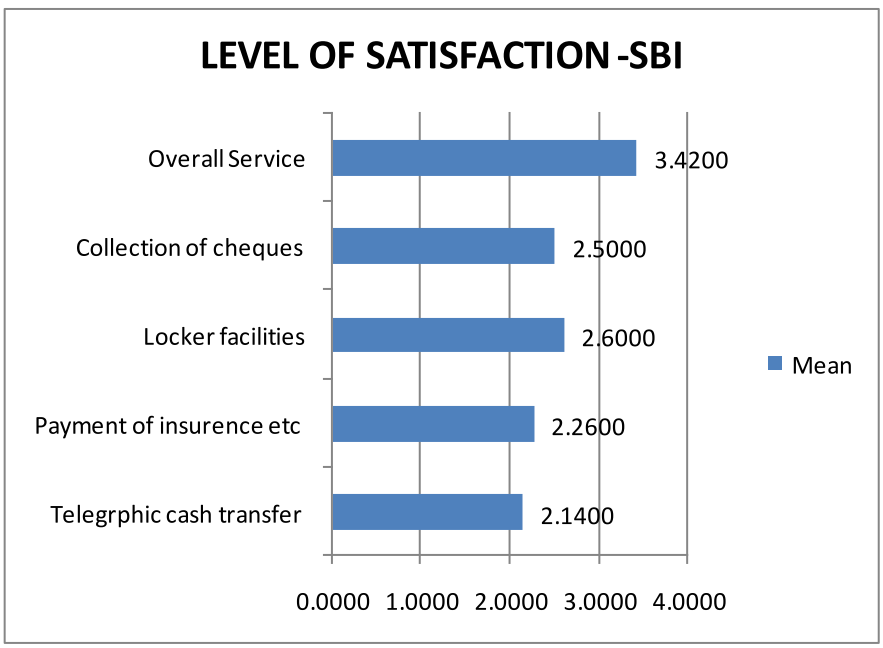

Figure 1: Mean opinion score of the respondents from SBI based on the level of satisfaction

8.2 Level of satisfaction regarding the financial services in MUTHOOT

Table 8.2 Mean opinion score of respondents from Muthoot Fincorp based on the level of satisfaction – One *sample test*

One-Sample Statistics				
MUTHOOT	Mean	Std. Deviation	t	Sig. (2-tailed)

Telegraphic cash transfer	2.26	1.208	-4.328	.000
Payment of insurance etc	2.66	.626	-3.839	.000
Locker facilities	2.36	.631	-7.170	.000
Collection of cheques	2.08	.944	-6.890	.000
Overall Service	2.48	1.147	-3.205	.002

Source: Primary data

Table no 8.2 shows that the mean opinion score of the respondents about the services of Muthoot Fincorp. The highest mean opinion score (2.66) obtained to the aspect of *payment of insurance premium* is 2.66. All the aspects viz, *local facilities* (mean opinion score = 2.36), *Telegraphic cash transfer* (mean opinion score = 2.50). *The collection of cheques (*Mean opinion score =2.08. including overall service (mean opinion score = 2.48), shows comparatively less satisfaction level as they lie below the theoretical mean 3.00. There is no significant difference in the opinion of the respondents as the significance level of one sample test is below 0.05

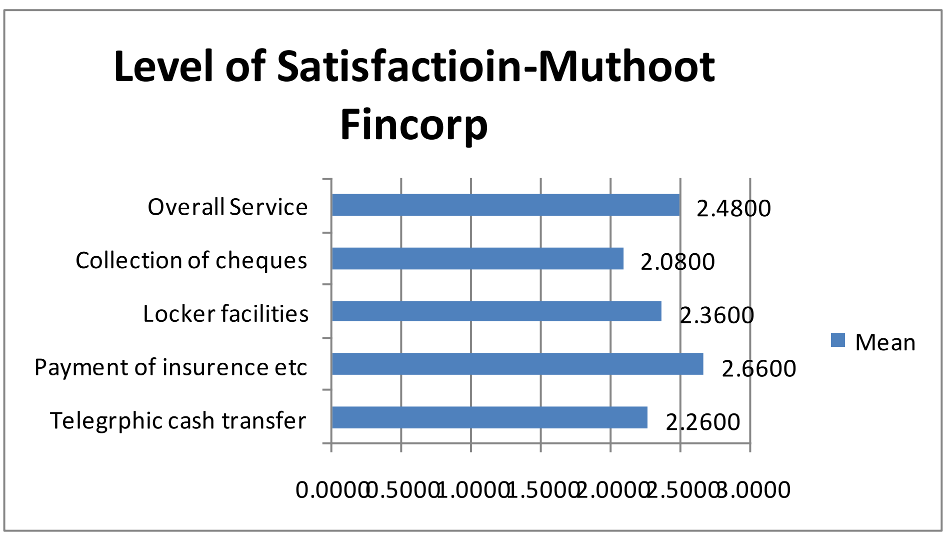

Figure 2: Mean opinion score of respondents from Muthoot Fincorp based on the level of satisfaction

Various aspects of services that improvement required

Table no 8.3 Classification of respondents based on the various aspect of services that need improvement

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	SBI		Muthoot Fincorp	
Improvement Requirements	Frequency	Percent	Frequency	Percent
Reduction in waiting time	15	30.0	8	16.0
E-Banking services	10	20.0	7	14.0
Customer service in General	25	50.0	35	70.0
Total	50	100.0	50	100.0

Source : Primary data

Table no 8.3 shows that out of 50 respondents from SBI 30% of the respondents need improvement in reduction time, 20% of the respondents require improvement in E-banking facilities, 50% call for improvement in customer service in general. It reveals that majority of the customer need to improve the overall customer service of SBI. It shows that out of 50 respondents from Muthoot Fincorp 16% of the respondents need improvement in reduction time, 14% of the respondents require improvement in E-banking facilities, 70% call for improvement in customer service in general. It identifies that majority of the customer need to improve the overall customer service of Muthoot Fincorp.

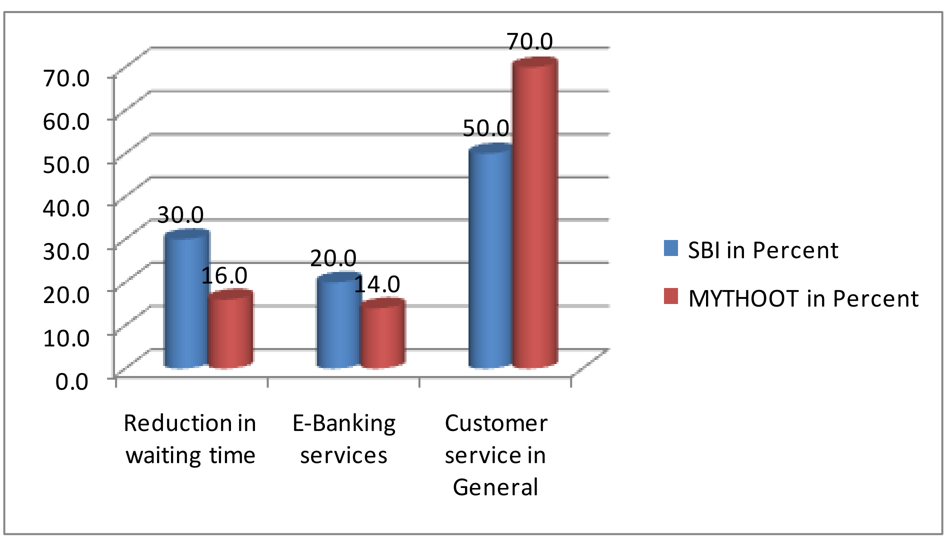

Figure 3: Percentage of respondents based on the various aspects that need improvement

Findings of the Study

The customers of SBI acquire home loan and various products due to low interest rates and majority of the customers in Muthoot Fincorp did not acquire loan and products due to high interest rate. The preference of loan by the customers from SBI is more than the preference of customers from Muthoot Fincorp as the rate of interest is very low.

The customers of Muthoot Fincorp and SBI are not satisfied in telegraphic cash transfer, payment of insurance service, the locker facilities, collection of cheques, But the satisfaction level of overall service facilities in SBI is comparatively high.

The respondents suggest that reduction in the waiting time for providing services in SBI than Muthoot Fincorp.

The respondents suggest that improvement in E-banking facilities of SBI than Muthoot Fincorp.

The respondents demand improvement in the overall customer service of Muthoot Fincorp than SBI.

I. SUGGESTIONS

Suggestions for improving the service qualities of SBI

1. Reduce charges for safe lockers, ATMs, service charges for other transactions.
2. Reduce waiting time and improve friendly behaviour of employees.
3. Load ATMs with sufficient cash.
4. Provide upto date information to customers regarding changing interest rates, tax rates etc.

Suggestions for improving the service qualities of Muthoot Fincorp

1. Provide prompt payment of cash.
2. Reduce waiting time for clearing of cheques.
3. Reduce interest rate to acquire loan by ordinary people.
4. Provide upto date information to customers regarding changing interest rates, tax rates etc.
5. Improve the overall service facilities of the institution.

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II. CONCLUSION

On the basis of analysis, it can conclude that both the Bank and NBFC play an important role in the society. However the service facilities provided by SBI is much better than Muthoot Fincorp as the presence of risk is less when compared to Muthoot Fincorp. Both the institutions have their own merits and demerits. So it is highly necessary to take measures for the improvement of service facilities provided by these institutions because they are essential for the overall development of the society. Therefore the comparative study of Bank and NBFC gives us information about their service facilities and the applicability of services by the customers to a great extent.

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