What is the difference between Commercial Bank and NBFI?

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In spite of certain similarities, the commercial banks basically differ from nonbank financial intermediaries on the following grounds :

(i) Bank is a financial institution whose liabilities *(i.e.,* deposits) are widely accepted as a means of payment in the settlement of debt. Non-bank financial intermediaries, on the other hand, are those institutions whose liabilities are not accepted as means of payment for the settlement of debt.

(ii) Commercial banks have the ability to generate multiple expansion of credit. The non-bank intermediaries do not have such ability. They simply mobilize savings for investment.

(iii) The credit creation activities of the commercial banks are determined by the excess reserves and the cash-reserve ratio of the banks. The activities of the non-bank intermediaries *(i.e.,* saving mobilization, lending activities, etc.) are largely governed by the structure of interest rates.

(iv) Credit creation activities of the banks involve lesser time, while the lending activities of the non-bank intermediaries involve longer time.

(v) The credit creation activities of the commercial banks are regulated and controlled by the central bank. The nonbank intermediaries are not generally under the control of central bank, and thus, then[1] activities may create hurdles in the way of effective implementation of monetary policy.

(vi) Nonbank intermediaries can influence liquidity and create economic destabilisation in the economy. Destabilisation occurs when the financial claims on the nonbank intermediaries increase at the cost of demand deposits of the banks.

(vii) Commercial banks raise funds costlessly because no interest is paid on demand deposits. Nonbank intermediaries, on the other hand, have to pay higher interest to attract more funds.

(viii) People deposit money in the banks for safety, convenience and liquidity considerations. However, they invest their savings in the nonbank intermediaries with the motive of earning extra income.

(ix) Banks form a homogeneous group, while nonbank intermediaries form a heterogeneous group in the financial structure of the economy.

(x) Bank generally deals with short-term loans in the money market, whereas the nonbank intermediaries mostly deal with all types of loans i.e., short-term, medium-term and long-term loans.