NON-BANKING FINANCIAL COMPANIES

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WHAT IS NBFC ?

- NBFC stands for Non-Banking Financial Corporations. As per Section 451(c) of the RBI Act, a Non-Banking Company that carries the business of a financial institution is called a Non-Banking Financial Corporation or NBFC.
- A Non- Banking Financial Company is a company registered under the Companies Act, 1956.
- It is engaged in the business of Loans, Advances, Acquisitions of share/ stock/ debentures/ securities issued by government or local authority.
- Any company which has its own principles business of receiving deposits under any scheme mention under Companies Act, 1956 is also a N.B.F.C. (Residuary Non-banking Company).

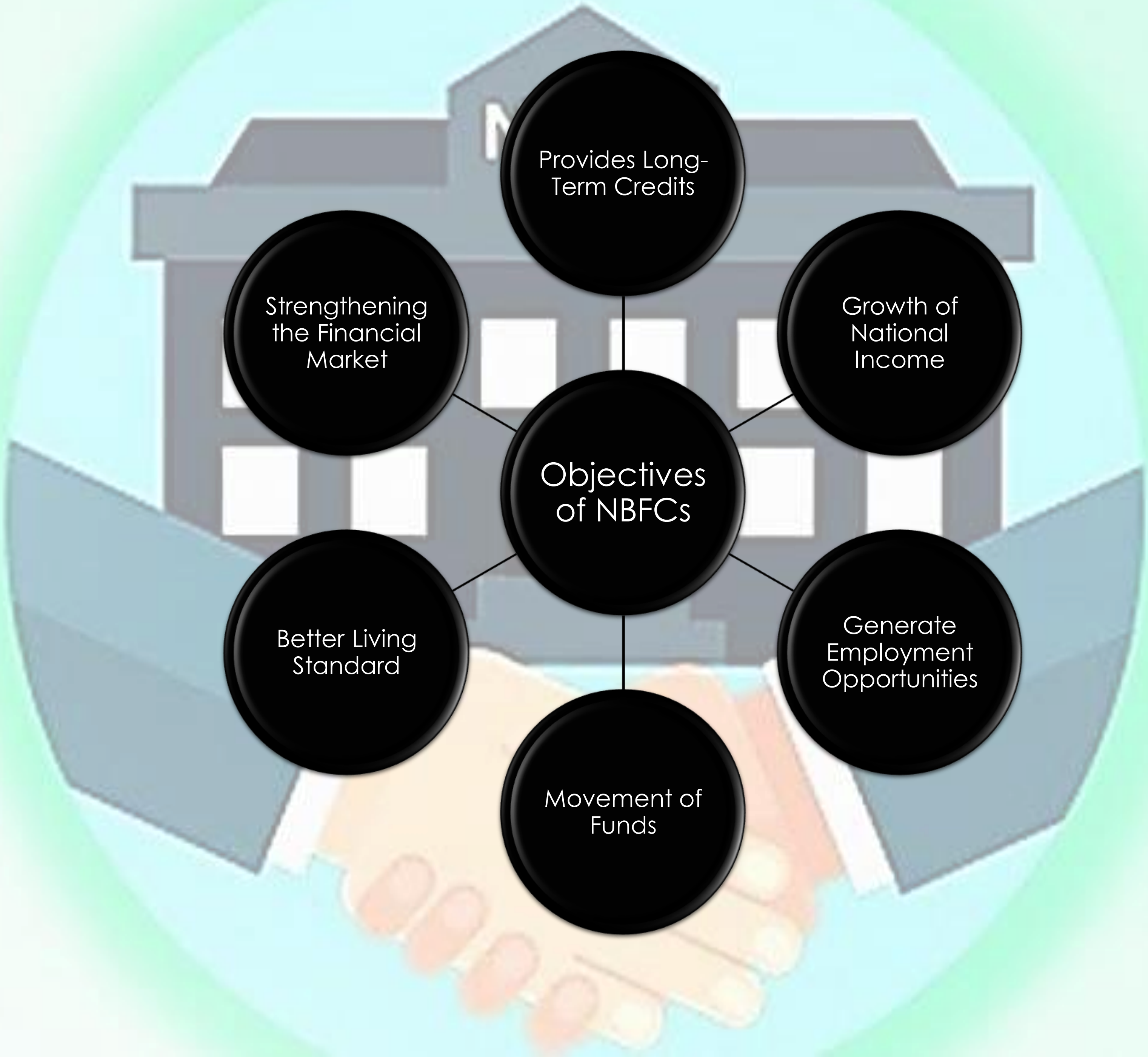
KEY FEATURES

- The NBFCs are permitted to either accept or renew public deposits for minimum of 12 months and a maximum of 60 months.
- NBFCs cannot offer higher interest rates. It should fall under the ceiling rate that is specified by the RBI. The interest must be paid or on a monthly basis.
- NBFCs cannot offer any benefit to the depositors.
- The deposits with NBFCs are not provided insurance.
- The guarantee of the repayment of deposits by NBFCs is not provided by the RBI.

KEY DIFFERENCES BETWEEN BANKS AND NBFCs

- **License and Regulatons:** In India, banks are licensed financial institutions that the government regulates under the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949. NBFCs are Non-Banking Financial Companies formed per provisions of the Companies Act of 1956 or the Companies Act of 2013 and are usually regulated by the Reserve Bank of India Act of 1934.
- **Types of Services:** Banks provide varied kinds of services to their customers. Such services include loan advancements, guarantees, credit card facilities, remittance of funds, cheque payments, etc. Whereas NBFCs are service providers in terms of savings and investment plans, stocks, insurance facilities, mutual funds, etc.
- **Deposit Function:** While banks' primary business is accepting deposits and offering loans, NBFCs, unlike banks, get deposits through the process of securitization.
- **Acceptance of Demand Deposits:** Banks accept deposits that are repayable on demand, whereas NBFCs are not permitted to enter into the business of accepting such deposits.
- **Extend Foreign Exchange:** Where banks are eligible for foreign investments up to 74%, NBFCs are allowed for foreign investments up to 100%.

- **Payment and Settlement Cycle:** Banks' primary function involves and forms part of the payment and settlement cycle. In contrast, Non-Banking Financial Companies do not form part of any such payment and settlement cycle.
- **Maintenance of CRR and SLR :** Banks must mandatorily maintain ratios like Cash Reserve Ratios (CRR) and Statutory Liquidity Ratios (SLR). Whereas NBFCs don't need to maintain such ratios.
- **Facility of DICGC:** Banks can avail of the deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC), whereas NBFCs have no access to this facility.
- **Creation of Credits:** Banks can involve themselves in creating credits. However, creating credit is impossible for NBFCs.
- **Provision of Transactional Services :** While banks provide transactional services like deposits, cash withdrawals, checks, debit card payments, or even online payments, these services are not offered by Non-Banking Financial Companies.


Objectives of NBFCs
Provides Long-Term Credits
Growth of National Income
Generate Employment Opportunities
Movement of Funds
Better Living Standard
Strengthening the Financial Market

FUNCTIONS OF NBFC

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

TYPES OF NBFCs

There are several categories of NBFCs in India and they are classified into three main categories namely, NBFCs registered and regulated by RBI, NBFCs not registered but regulated by RBI through directions, and BFCs exempted from RBI registration and regulations. The common types of NBFCs and their meaning are mentioned below.

- **Asset Finance Companies (AFCs)** – These are NBFCs that are engaged in financing the purchase of physical assets, such as machinery, equipment, vehicles, and other durable goods.
- **Investment Companies (ICs)** – These NBFCs are engaged in investing in core securities like shares, debentures, etc.
- **Loan Companies (LCs)** – These companies are primarily engaged in providing financial needs to individuals and businesses in the form of loans, advances, or other credit facilities

- **Microfinance Companies (MFCs)** – These NBFCs provide small loans and other financial services to low-income individuals and micro-enterprises ensuring them easy and timely access to finances.
- **Core Investment Companies (CICs)** – These NBFCs focus on investing in shares and securities of other companies and should have a minimum of 90% of their total assets in the form of such investments. These companies are not allowed to carry on any other financial activities and trade in their investments except through block sales for the purpose of dilution or disinvestment.
- **Factors** – These NBFCs are primarily engaged in the business of factoring or discounting receivables.
- **Mortgage Guarantee Companies (MGCs)** – These NBFCs are primarily engaged in providing mortgage guarantee services to banks and other housing finance companies.
- **Infrastructure Finance Companies (IFCs)** – These NBFCs are engaged in providing long-term finance for infrastructure projects (at least 75% of their total assets). Such NBFCs should have a minimum credit rating of ‘A’ or equivalent and a CRAR of 15%.

REQUIREMENTS TO REGISTER

- **Step 1:** Register a company under the Companies Act 2013.
- **Step 2:** Minimum Net Owned Funds of a Company should be Rs. 2 crores or more.
- **Step 3:** There must be at least 1 director in a company from the same background.
- **Step 4:** Good CIBIL score must required to present to register as NBFC.
- **Step 5:** Next, to visit RBI's official website and fill in an application form.

- **Step 6:** Submit the required documents, along with an application form.
- **Step 7:** Once we have submitted an application form, a CARN number will be generated.
- **Step 8:** Send a hard copy of the application to the regional branch of RBI.
- **Step 9:** After an application is checked and verified, the License shall be given to the company.

NBFC REGULATIONS

Once the Company gets a valid license it has to adhere to the following guidelines:

- They cannot receive deposits that are payable on demand.
- The public Deposits which the company can take should be for a minimum time period of 12 months and a maximum time period of 60 months.
- The interest charged by the Company cannot be more than the ceiling prescribed by the Reserve Bank of India from time to time.
- The repayment of any amount so taken by the Company will not be guaranteed by the Reserve Bank of India.
- All the information about the company as well as any change in the composition of the Company has to be furnished to the Reserve Bank of India.
- The deposits taken by the Public will be unsecured.

REVISED REGULATIONS OF NBFCs

RBI FRAMEWORK BASED ON LAYER. ALL NBFC DIVIDED INTO FOUR.

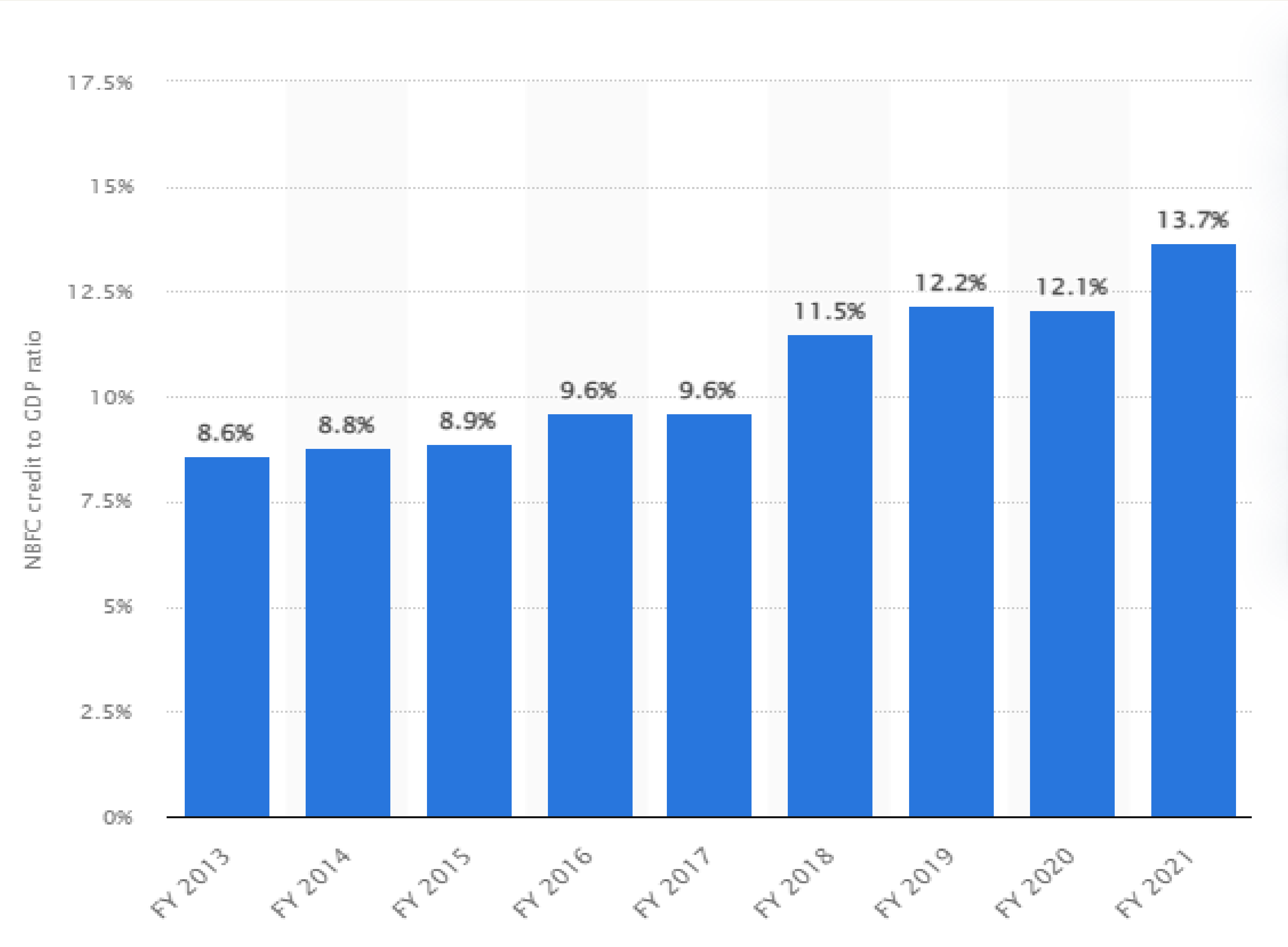
- a) **Base Layer** -non-deposit taking NBFCs below the asset size of ₹1000 crore
- b) **Middle Layer-** all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, non-deposit taking NBFCs with asset size of ₹1000 Crore and above
- c) **Upper Layer** -those NBFCs which are specifically identified by the Reserve Bank
- d) **Top Layer** -This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer.

ECONOMIC GROWTH OF NBFCs IN INDIA

The total Credit market of NBFC's is going up from 13% FY16 to 16% FY17 to 20% FY18. The average growth of NBFC's will be 4-6% every Financial Year.

According to a report by the Reserve Bank of India (RBI), the share of NBFCs in the total credit extended to the economy increased from 16.4 per cent in December 2022 to 29.1 per cent in February 2023. NBFCs have also played a vital role in promoting financial inclusion in India.

As of October 2022, 9,500 NBFCs were registered with the Reserve Bank of India (RBI) with a total asset size of Rs 42.05 lakh crore. Typically, the growth of NBFCs is closely linked with a larger geographic branch footprint.



NBFCs Credit to GDP ratio from FY 2013-2021

The NBFC credit to GDP ratio in India has consistently risen and stood at 13.7 percent in the financial year 2021. In the previous financial year it was around 12 percent. Credit intensity of NBFCs is measured by credit to GDP ratio.

POPULAR NBFCs IN INDIA

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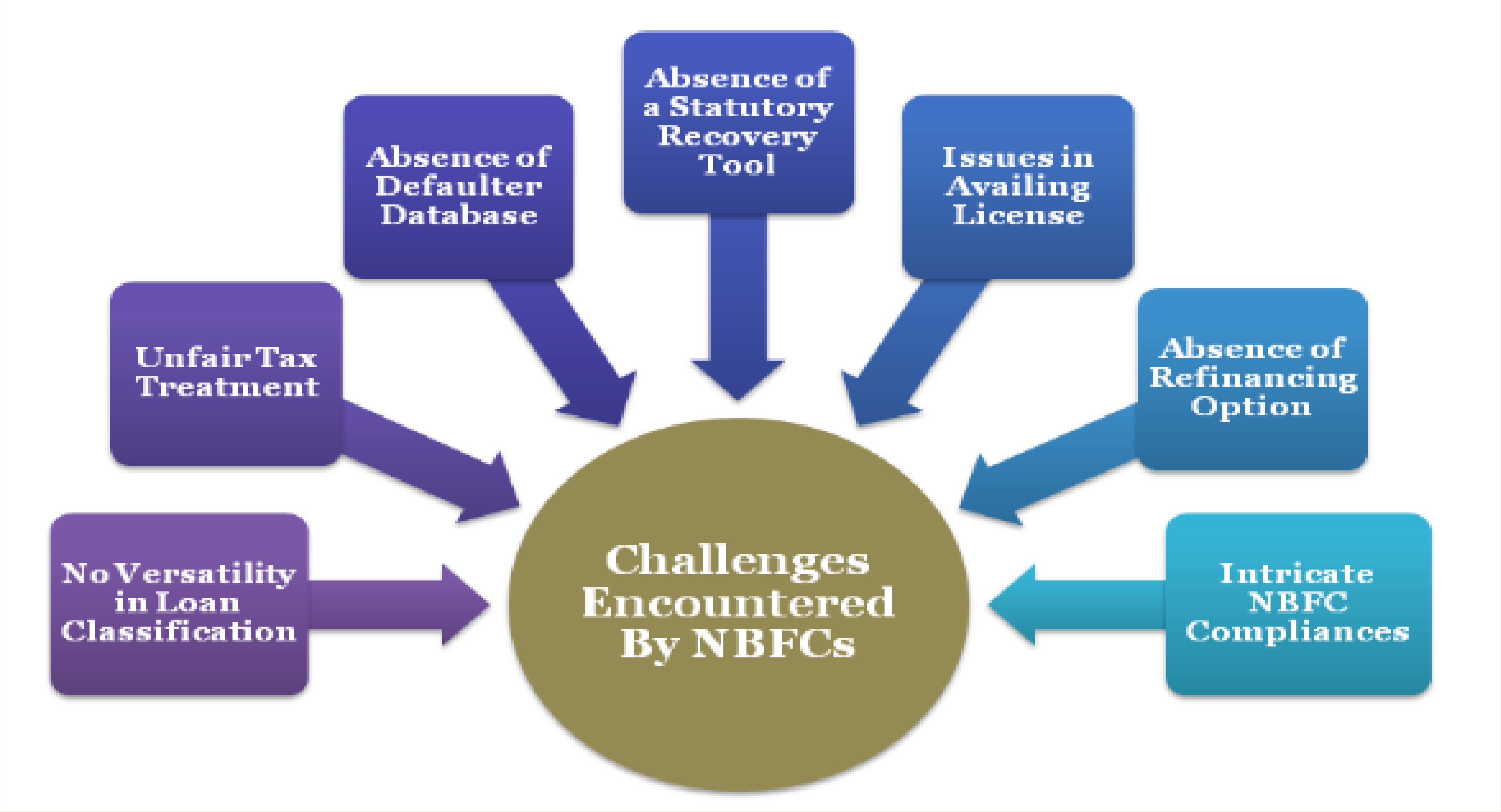
CHALLENGES FACED BY NBFCs



CONCLUSION

- NBFCs have come to be regarded as important financial intermediaries particularly for the small-scale and retail sectors with the growing importance assigned to financial inclusion.
- RBI has been modifying its regulatory and supervising policies from time to time to keep pace with the changes in the system. NBFCs are an integral part of the Indian financial system, enhancing competition and diversification in the financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of the banking system at competitive prices.
- Banking sector has always been highly regulated, however, simplified sanction procedures, flexibility and timeliness in meeting the credit needs and low-cost operations resulted in the NBFCs getting an edge over banks in providing funding.

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THANK YOU