

DECODING AND UNLOCKING THE BASICS OF NBFC

Pillars of India's Financial Ecosystem

November, 2024



PREFACE

In today's dynamic financial landscape, Non-Banking Financial Companies (NBFCs) have emerged as key contributors to economic growth, financial inclusion, and the overall resilience of the financial system. Although they share some operational similarities with traditional banks, NBFCs function within a unique regulatory framework and offer a diverse range of financial services.

NBFCs play a vital role in addressing the challenges by extending credit to segments that may be overlooked by traditional banks and offering innovative financial solutions that meet the needs of a rapidly changing market. By bridging the gap between conventional banking and the diverse needs of consumers, NBFCs are increasingly recognized as crucial drivers of financial inclusion and market development.

This article seeks to explore the core fundamentals of NBFCs—their structure, regulatory environment, and operational dynamics. By examining their distinctive features, the risks they face, and the opportunities they offer, we aim to provide a thorough understanding of how NBFCs are shaping the future of finance.

For policymakers, investors, and financial professionals alike, a deeper understanding of NBFCs is essential for navigating today's complex and rapidly evolving financial ecosystem. Through this exploration, we aim to highlight the role of NBFCs in promoting economic transformation and their potential to drive long-term growth and stability in the global financial system.

We hope you find this article both engaging and insightful, offering valuable, actionable takeaways for your respective organizations.

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INTRODUCTION

THE FUNDAMENTAL OF NON-BANKING FINANCIAL COMPANIES (NBFCs)

In India's dynamic financial ecosystem, Non-Banking Financial Companies (NBFCs) hold an indispensable position, serving as crucial contributors to the nation's economic growth. Their significance is evident in several sectors, notably in the enhancement of infrastructure, the creation of employment opportunities, the facilitation of wealth generation, and the extension of financial inclusivity to rural and marginalized communities.

These companies engage in a range of financial services, such as accepting deposits, offering secured and unsecured loans, and facilitating leasing and hire-purchase services. Their diverse operations establish NBFCs as essential players adept at meeting the financial needs of different segments of society.

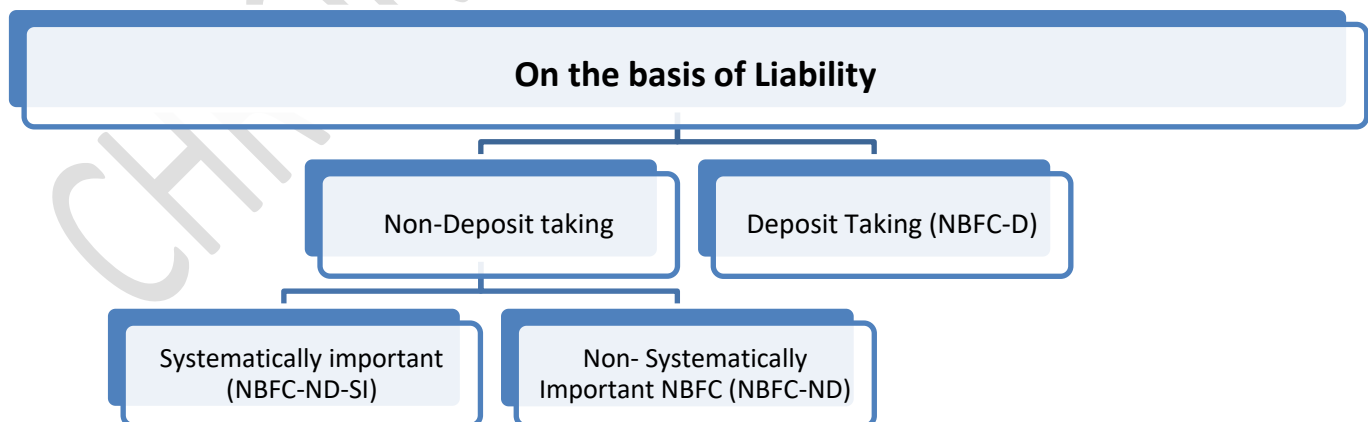
WHAT IS AN NBFC?

A Non-Banking Financial Company (NBFC) is a type of company which is registered under Companies Act, 1956 or Companies Act, 2013 and engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business etc.

REGULATORY AUTHORITY

In India, the operations of NBFC's are regulated and supervised by the Reserve Bank of India (RBI) according to the provisions mentioned in Chapter III B of the RBI Act, 1934. While in other countries, they are regulated by their respective financial authorities. They are subject to specific regulations and prudential norms to ensure their stability and protect the interests of depositors.

TYPES OF NBFCs

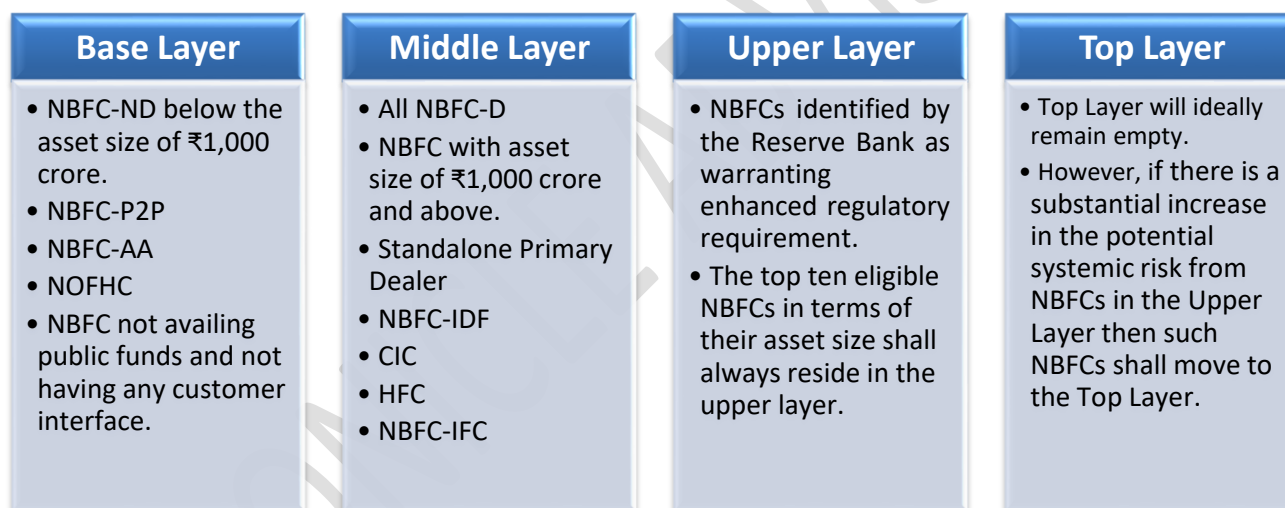


On October 19, 2023, the Reserve Bank of India (RBI) released the long awaited Master Direction Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ('MD'). The said Master Direction specified that all references to NBFC-ND (i.e., non-systemically important non-deposit taking NBFC) shall mean NBFC-BL and all references to NBFC-D (i.e., deposit taking NBFC) and NBFC-ND-SI (systemically important non-deposit taking NBFC) shall mean NBFC-ML or NBFC-UL.

Based on the size of the NBFC's assets, volume of operations, and estimated risk, RBI has developed a layered system with increasing responsibilities allocated to each layer as the NBFC advances. To facilitate clarity, the MD is structured into distinct sections applicable to various categories of NBFC: NBFC-Base Layer, NBFC-Middle Layer, NBFC-Upper Layer and NBFC-Top Layer each corresponding to the size and scope of their operations.

ON THE BASIS OF LAYER

This regulatory structure is defined in detail below:



a) Base Layer-

The Base Layer shall comprise of:

- non-deposit taking NBFCs below the asset size of ₹1,000 crore and
- NBFCs undertaking the following activities –
 - NBFC-Peer to Peer Lending Platform (NBFC-P2P),

- NBFC-Account Aggregator (NBFC-AA),
- Non-Operative Financial Holding Company (NOFHC) and
- NBFC not availing public funds and not having any customer interface

b) Middle Layer-

The Middle Layer shall consist of:

- a. all deposit taking NBFCs (NBFCs-D), irrespective of asset size,
- b. non-deposit taking NBFCs with asset size of ₹1,000 crore and above and
- c. NBFCs undertaking the following activities:
 - i. Standalone Primary Dealer (SPD),
 - ii. Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC),
 - iii. Core Investment Company (CIC),
 - iv. Housing Finance Company (HFC) and
 - v. Non-Banking Financial Company-Infrastructure Finance Company (NBFC-IFC).

c) Upper Layer-

The Upper Layer will consist of NBFCs that are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement

based on a set of parameters and scoring methodology as provided in the Annex I to the MD. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor such as LIC Housing Finance Ltd., L&T Finance Holdings Ltd., Bajaj Finance Ltd., Tata Capital Finance Service Ltd., Shriram Finance Ltd., etc.

d) Top Layer-

The Top Layer will ideally remain empty. 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. Such NBFCs shall move to the Top Layer from the Upper Layer.

This layered approach allows for tailored regulatory oversight, ensuring that financial resources are allocated appropriately based on the size and risk profile of NBFCs, thereby fostering a robust and resilient financial ecosystem.

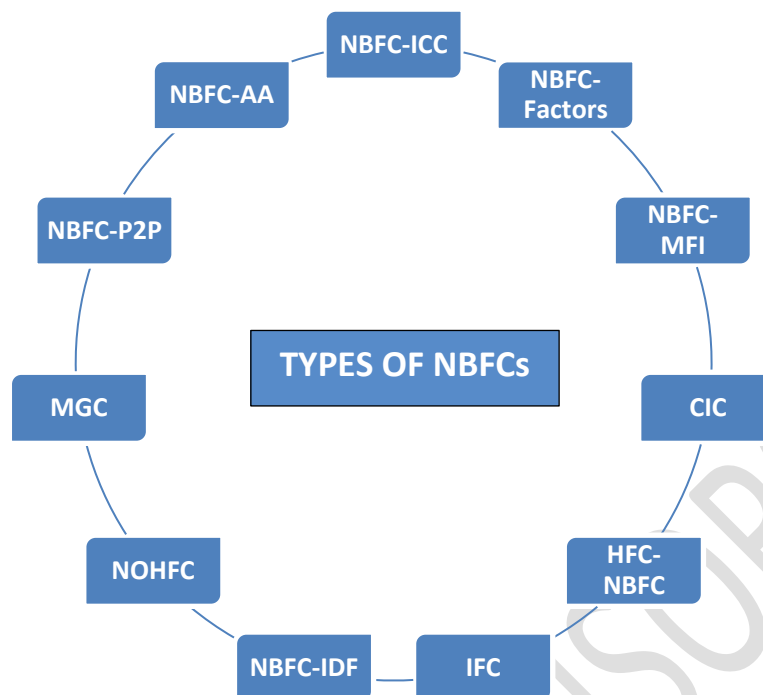
ON THE BASIS OF ACTIVITIES

The need to categorize NBFCs on the basis of their activity arose because different activities entail different levels of risk. By categorizing NBFCs based on their activities, regulators can tailor regulations and supervision to mitigate risks effectively.

Moreover, it helps in creation of distinct market segments, enabling policymakers, investors, and consumers to understand the specific roles and functions of each type of NBFC.

Furthermore, without clear categorization based on activities, there's a risk that NBFCs might engage in regulatory arbitrage by choosing activities that allow them to circumvent certain regulations.

Overall clear categorization based on activities promotes transparency in the financial system. Investors and stakeholders can better understand the nature of NBFCs' operations and make informed decisions.



NBFC-Investment and Credit Companies

(ICC) means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFCs as defined by the Reserve Bank in any of its Master Directions.

NBFC Factors: is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 per cent of its total assets and its income derived from factoring business should not be less than 50 per cent of its gross income.

NBFC MFI: A Non-Banking Financial Company Microfinance Institution (NBFC MFI) is a type of non-banking financial institution that provides financial services, primarily small loans, saving

Accounts, insurance, and other financial products, to low-income individuals and microenterprises. NBFC MFIs play a crucial role in providing financial inclusion to underserved and economically disadvantaged segments of the population, particularly in rural and semi-urban areas.

As per MD, NBFC-MFI means non-deposit taking NBFC which has a minimum of 75 percent of its total assets deployed towards “microfinance loans” as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

CIC: Core Investment Company (CIC), that is to say, a non-banking financial company carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet: -

- it holds not less than 90% of its net assets in the form of investment in

equity shares, preference shares, bonds, debentures, debt or loans in group companies;

- its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trusts (InvITs) only as sponsor constitute not less than 60% of its net assets;
- Provided that the exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time. It does not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- It does not carry on any other financial activity referred to in Section 45I(c) and 45I (f) of the Reserve Bank of India Act, 1934 except
 - investment in
 1. bank deposits,
 2. money market instruments, including money market mutual funds that make investments in debt/money market instruments with a maturity of up to 1 year.

3. government securities, and

4. bonds or debentures issued by group companies,

- granting of loans to group companies and
- issuing guarantees on behalf of group companies.

CICs (a) with an asset size of less than ₹100 crore, irrespective of whether accessing public funds or not and (b) with an asset size of ₹100 crore and above and not accessing public funds are not required to register with the Reserve Bank of India and will be termed as 'Unregistered CICs'.

For Example: Tata Sons (NBFC CIC)

Housing Finance Company (HFC) NBFC:

refers to entities providing financing for the purchase, construction, reconstruction, renovation, or repair of residential dwelling units. To qualify as an HFC, two conditions must be met:

- i. At least 50% of the total Assets must be in the form of individual loans (housing loans provided directly to individuals, not to contractors for housing projects).
- ii. At least 60% of the total assets must be in the form of housing loans (provided to builders for the construction of housing projects, etc.).

Despite Investment and Credit Companies (ICCs) being permitted to offer housing loans, opting for registration as an HFC may be preferred despite stricter compliance requirements. This preference stems from the benefits HFCs receive, including access to refinance from the National Housing Board,

which provides cheaper funds for promoting housing. Additionally, HFCs enjoy eligibility benefits under the SARFAESI Act and benefit from lower capital regulation due to being perceived as lower risk entities. However, these advantages come with the trade-off of increased compliance obligations.

Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A' or equivalent d) and a CRAR of 15%.

Few examples are Aseem Infrastructure Finance Ltd., Power Finance Corporation Ltd., etc.

Infrastructure Debt Fund-NBFC (IDF-NBFC): IDF-NBFC means a non-deposit taking NBFC which is permitted to

(i) refinance post commencement operations date (COD) infrastructure projects that have completed at least one year of satisfactory commercial operations; and

(ii) finance toll operate transfer (TOT) projects as the direct lender.

The IDF shall be set up either as a trust or as a company. A trust based IDF is registered as IDF-Mutual Fund (MF) and is regulated by SEBI whereas a company based IDF is registered as an IDF-NBFC and is regulated by the Reserve Bank.

NBFC-Non-Operative Financial Holding Company (NOFHC): A Non-Operative Financial Holding Company (NOFHC) is a non-deposit-taking NBFC established for the purpose of

allowing promoters or promoter groups to establish a new bank. It operates as a wholly-owned entity and serves as a holding company, holding shares of the bank being established as well as shares of all other financial services companies within the group. These financial services companies may be regulated by the Reserve Bank of India (RBI) or other financial sector regulators, subject to compliance with applicable regulatory requirements, facilitation of promoters/ promoter groups in setting up new banks.

Mortgage Guarantee Company (MGC): MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs.100 crore.

MGCs may lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework. MGCs below the asset size of ₹1,000 crore shall lie in Base Layer and MGCs with asset size of ₹1,000 crore and above shall lie in Middle Layer. MGCs can be placed in higher Layers as notified.

Example: India Mortgage Guarantee Corporation, undertaking mortgage guarantee business.

NBFC-Account Aggregator (NBFC-AA): A Non-Banking Financial Company Account Aggregator (NBFC-AA) is a specialized type of non-banking financial institution that operates as an intermediary between financial institutions and customers to consolidate and provide a comprehensive view of their financial information. NBFC-AAs collect and aggregate

financial data from various sources, such as banks, mutual funds, insurance companies, etc., with the consent of the customer. This aggregated data is then securely shared with authorized third parties, such as financial advisors or fintech companies, to facilitate financial planning, analysis, and decision-making. NBFC-AAs are regulated by the Reserve Bank of India (RBI) and are subject to specific guidelines and regulations governing data privacy, security, and consumer protection.

NBFC-Peer to Peer Lending Platform (NBFC-P2P): A Non-Banking Financial Company Peer-to-Peer Lending Platform (NBFC-P2P) is a type of non-banking financial institution that operates an online platform to facilitate peer-to-peer lending.

“Peer to Peer Lending Platform” means an intermediary providing the services of loan facilitation via online medium or otherwise, to the participants. “Participant” means a person who has entered into an arrangement with an NBFC-P2P to lend on it or to avail of loan facilitation services provided by it. They shall have a minimum NOF of Rs. 2 cr. In this model, individual lenders provide funds directly to borrowers through the platform, by passing traditional financial intermediaries such as banks. The platform matches lenders with

borrowers based on their respective financial needs and credit profiles.

NBFC-P2P platforms typically perform various functions, including borrower credit assessment, loan disbursement, repayment collection, and dispute resolution. They may also provide additional services such as loan servicing, credit reporting, and risk management. It provides an online platform to bring lenders and borrowers together to help mobilize funds.

ON THE BASIS OF SOURCES OF FUNDS & CUSTOMER INTERFACE

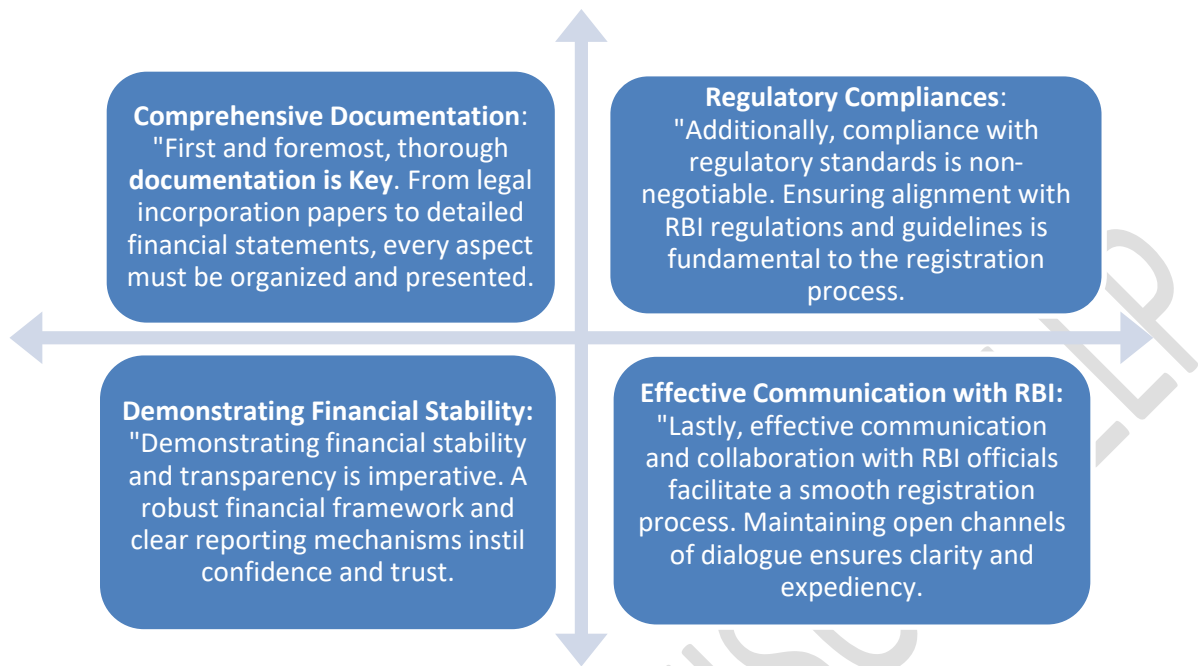
1. **Type I - NBFC-ND:** It is a type of NBFC which does not accept public funds/ not intending to accept public funds in the future and not having customer interface/ not intending to have customer interface at any time in the future.

2. **Type II - NBFC-ND:** It is a type of NBFC which accept public funds/ intending to accept public funds in the future and/or having customer interface/ intending to have customer interface in the future.

“Customer interface” means interaction between the NBFC and its customers while carrying on its business.

REQUIREMENTS FOR NBFC REGISTRATIONS WITH RBI

As per Section 45-IA of the RBI Act, 1934, no company can commence or carry on business of a non-banking financial institution without obtaining a certificate of registration from the RBI. The registration process for Non-Banking Financial Companies (NBFCs) demands thorough preparation and adherence to stringent requirements. As such, it is imperative to keep following elementary things in mind before navigating for registration:



Basic Requirements:

The basic requirements for getting an NBFC Registered from RBI are as follows:

- a. An NBFC should be a registered Company under the Companies Act, 1956 or 2013 having an object of conducting non-banking financial activities;
- b. An NBFC should have the minimum ***net owned funds** of 10 crore Rupees (except for NBFCP2P, NBFC-AA, Type1 NBFC, NBFC-IFC, IDF-NBFC).

***Net Owned Funds** can be calculated from a last audited balance sheet of the entity as

Aggregate of paid-up Equity Capital, Preference shares which are compulsorily convertible into equity, Share Premium Account Balance, Free Reserves, and Capital Reserve reduced by Balance of Accumulated Loss, Revaluation Reserves, deferred revenue expenditure and the book value of Intangible Assets will constitute Total Owned Funds. In order to calculate Net Owned Funds, deduct from Total Owned Funds the investment in shares of other NBFCs or in debentures, bonds, outstanding loans and advances, deposit and shares of subsidiaries and group companies is in excess of 10% of the owned funds shall be subtracted from the Owned Funds.

Mandatory Regulatory Compliance Framework for Registered NBFCs

1. Principal Business Compliance Framework for Registration

In the press release issued in April 1999, the RBI stated that a company's principal business would be determined by looking at its assets and income pattern as shown by the most recent audited balance sheet. This would help determine whether the company qualifies as a non-banking financial company. An entity is classified as an NBFC if its financial assets exceed 50% of its total assets (after deducting intangible assets) and its revenue from financial assets exceeds 50% of its gross income.



Let's consider a software development company that primarily develops and sells its own products. However, in one financial year, the company decides to invest a significant portion of its cash reserves into various financial instruments such as stocks, bonds, and derivatives. As a result, the company's income for that year increases substantially due to capital gains and interest income from these investments. Now, the question arises whether this software development company should be classified as a Non-

Banking Financial Company (NBFC) due to its increased income from financial assets and would it need to surrender the license issued by RBI next year if the income decreases?

However, upon closer examination, it becomes evident that the company's primary business activity remains software development, and the investment in financial instruments was a one-time decision rather than a strategic shift in its business model.

In this scenario, despite the increase in income from financial assets, the company would not qualify as an NBFC.

The one-time investment activity does not change the fundamental nature of the business, and the company does not intend to operate as a financial institution.

Therefore, as the company's core business remains focused on software development, the question to obtain or surrender any NBFC license would not arise. Hence the summarized applicability of the two test as provided hereunder:

1. **Quantitative test:** Financial Asset > 50% of Total asset + income from financial asset > 50% of gross income.
2. **Qualitative Test:** Nature of business, principle thrust area, schematics and consistent distributions of asset, resource, and activity.

2. **Fit and Proper Criteria:** The "Fit and Proper" criteria for Directors are critical in ensuring that individuals appointed to key positions in financial institutions possess the necessary qualifications, technical expertise, integrity, and a proven track record for this purpose. Due diligence process is vital to maintain the stability and trustworthiness of financial entities. The Reserve Bank carries out due diligence on Directors before issuing COR to an NBFC. As part of this process, the RBI places significant emphasis on the professional experience of the Directors, particularly their expertise in managing financial institutions. The regulatory body requires that at least one of the Directors of an NBFC must possess relevant experience in the banking or NBFC sector. This ensures that the leadership has the necessary understanding and competence to manage the complex financial, operational and regulatory challenges that these entities face.

3. **Reserve Fund:** Pursuant to section 45 IC of the RBI Act 1934, every Non-banking financial company shall create a reserve fund and transfer therein a sum not less than twenty per cent of its net profit every year as disclosed in the

profit and loss account and before any dividend is declared.

OTHER AUTHORITY REGISTRATIONS REQUIRED BY NBFC'S

In the labyrinthine world of finance, certain registrations serve as the foundation for Non-Banking Financial Companies (NBFCs). These registrations not only ensure compliance but also fortify the integrity and transparency of the financial ecosystem.

When it comes to mandatory registrations, five entities hold major significance:

- FINANCIAL INTELLIGENCE UNIT (FIU),
- CENTRAL REGISTRY OF SECURITIZATION, ASSET RECONSTRUCTION AND SECURITY INTEREST OF INDIA (CERSAI),
- NATIONAL E-GOVERNANCE SERVICES LIMITED (NESL),
- CENTRAL KNOW YOUR CUSTOMER (CKYC),
- CREDIT INFORMATION BUREAU (CIC):
 - TRANSUNION CIBIL
 - EXPERIAN
 - EQUIFAX AND;
 - CRIF HIGH MARK



NBFC TAKEOVER/CHANGE IN MANAGEMENT

A Takeover is a process by which one Company purchases the other Company. The Company making the purchase is the Acquirer Company while the one being bought is the Target Company. Similarly, the term Takeover of a NBFC means purchasing an existing NBFC by another company or NBFC.

1. To buy an NBFC first, check whether the conditions need prior approval from the RBI?
2. Whether the transaction of takeover of the NBFC is exempt from such approval?

RBI has specified certain situations when the Acquirer needs its approval, before initiating the process of buying a NBFC and for the rest of the cases, no such prior approval is required.

When Prior Approval from RBI is required:

Prior approval of RBI is required in case significant changes would be made in the management and control of the Target Company. The conditions that require prior approval of RBI are:

Sr. No.	Particular
1.	Any takeover or acquisition of control, may or may not result in change of management.
2.	The change in shareholding of an NBFC includes a progressive increase overtime which results in the acquisition of shareholding/paid-up equity capital of 26 percent or more of the company
3.	In case of any change in the management of the company which would result in change of more than 30% of the directors (except independent director) of the company than prior written approval is required.

SURRENDER OF NBFC REGISTRATION

Can a Company
Surrender its NBFC
License?

Yes, a company or a business entity can surrender its NBFC License to the RBI in the manner as follows:

- a. On a Suo Motu basis;

- b. Faces Liquidity Crunch;
- c. Suffers NPA (Non-Performing Assets) Stress;

The ramifications for NBFCs opting to surrender their registration to the RBI are as follows:

When a company surrenders its NBFC (Non-Banking Financial Company) License, it forfeits the ability to engage in non-banking financial transactions. Once surrendered, the NBFC can no longer conduct business as a non-banking financial institution and is prohibited from

accepting public deposits as per RBI regulations.

Under Section 45-IA (6) of the Reserve Bank of India Act, 1934, the RBI has the authority to cancel the Certificate of Registration of NBFCs. These companies are then restricted from transacting as Non-Banking Financial Institutions, as defined in clause (a) of Section 45-I of the RBI Act, 1934. Consequently, NBFCs are unable to participate in activities designated for non-banking financial institutions.

The company possesses the authority to voluntarily surrender its NBFC license, while the RBI retains the power to cancel NBFC registration under the following circumstances:-

1. Ceases operations specified under RBI Act.
2. Fails to abide by registration conditions or additional RBI stipulations.
3. Doesn't satisfy capital and operational conditions.

4. Fails to comply with RBI directions.
5. Doesn't maintain proper accounts or submit them for inspection.
6. Is restricted from accepting deposits for at least 3 months.

What is the Effects of Surrender of Registration of NBFC License?

- Within 30 days after cancellation of COR apply to ROC, MCA for suitable change of its name and industrial activity code which will not constitute carrying out of financial business.
- Within 30 days of the dissolution of the COR amend its memorandum of association (MOA) by deleting provisions relating to financial business from its main subjects.
- Submit audited financial statements for the next 2 fiscal years to the Reserve Bank within 30 days of the completion of the annual accounts, but not later than 31st December.

DIFFERENCE BETWEEN BANKS AND NON-BANKING FINANCIAL COMPANIES (NBFCs)

What is banking? Banking is commonly understood to mean taking of deposits withdraw able on demand or notice – that is, banks can hold people's deposits and promise to pay them on demand. There are varieties of other entities that may accept deposits – hence, acceptance of deposits is not the essence of banking, one of them being NBFCs.

The term “non-banking financial companies” acquires a new meaning, and a huge significance. The term refers to entities that conduct lending activities which are akin to banks despite not being classified as banks. They may also accept deposits – however, these deposits are term deposits and not call deposits.

Despite lending money and investing like banks, Non-Banking Financial Companies (NBFCs) have notable differences that set them apart from banks, as both are financial institutions but differ in several key aspects, as provided below:

Sr. No.	Basis of comparison	Banks	NBFCs
1	Incorporating Body	Regulated by the RBI under the Banking Regulations Act, 1949.	Regulated by the RBI under the RBI ACT 1934 and various applicable Notification, Master Directions, Circulars, etc.
2	License requirement	They need to hold Banking certificate.	RBI issues the NBFC with a Certificate of Registration (COR).
3	Funding source	Banking is acceptance of deposits withdraw able by cheque or demand;	Cannot accept demand deposits. However, time deposits can be accepted by NBFC-D.
4	Part of payment and settlement system	Banks are a part of the payment and settlement system.	NBFCs are not a part of the payment and settlement system.
5	Issue of Cheques	Issue and accept cheques.	Cannot draw and issue cheques.
6	Guarantee	Insurance coverage from the Deposit Insurance and Credit Guarantee Corporation is available for bank customer.	Insurance coverage from the Deposit Insurance and Credit Guarantee Corporation is unavailable for NBFC depositors.
7	Interest Rate	In the case of Banks capping for interest rates is defined by the Reserve Bank of India.	Higher interest rates are charged by NBFCs. There is no defined cap on interest rates.

MARKET TREND AND DRIVING FACTORS

In today's rapidly evolving financial landscape, Non-Banking Financial Companies (NBFCs) have emerged as key players, experiencing impressive growth. They've grown big and strong, reaching a staggering valuation of USD 326 billion by 2023. This massive growth isn't just a number; it underscores how NBFCs are reshaping the way money moves around. They're not just participants; they're game-changers, wielding considerable influence over the financial landscape. One of the primary driving forces behind this remarkable growth trajectory lies in the retail loan portfolios of NBFCs. According to a rating agency, these portfolios are projected to grow at 18-20% in FY24, up from 12-14% previously. This upward revision is attributed to robust expansion in unsecured loans, encompassing personal and consumption loans, unsecured small enterprise loans, and microfinance loans. Furthermore, NBFCs have increased their share of India's total credit portfolio from 17% in FY19 to 21% in FY23.



WHAT FACTORS DRIVES NBFC MARKET?

As we further delve into the dynamics of the Non-Banking Financial Company (NBFC)

market, it becomes evident that several factors serve as catalysts propelling its growth trajectory. The surging demand for specific applications i.e. financial products and services globally directly influences the growth of NBFC market.

- **Consumer:** Consumer finance emerges as a pivotal domain within the NBFC landscape. With evolving consumer preferences and lifestyles, there is a palpable surge in demand for various financial products and services tailored to meet individual needs.
- **SME & Commercial Lending:** As businesses seek alternative financing avenues beyond traditional banking channels, NBFCs step in to bridge this gap by extending credit facilities tailored to the unique requirements of SMEs and commercial ventures.
- **Wealth Management:** With increasing affluence and a growing emphasis on financial planning and investment, individuals and institutions alike turn to NBFCs for comprehensive wealth management solutions. Whether it's asset management, portfolio diversification, or advisory services, NBFCs leverage their expertise to cater to the evolving needs of clients, thereby fostering sustained market growth.

Together, these factors highlight the diverse and expanding opportunities for NBFCs, as they continue to adapt to changing market demands and broaden their reach in both consumer and business financial services.

KEY REASONS FOR GROWTH

Deep demographic and addressable market understanding: By operating in the unorganized and underdeveloped sectors of the economy, NBFCs have established a distinct foothold for themselves as they excel in understanding customer needs and ensuring the last-mile delivery of goods and services.

Tailored product offerings: NBFCs have tailored their product offerings to align with the unique characteristics of specific customer groups. They are dedicated to meeting precise needs by thoroughly analyzing these target segments and customizing pricing models accordingly.

Government and central bank Initiatives: The Government of India also unveiled several initiatives aimed at addressing some of the structural issues stressing the small business lending segment. These include granting licenses to account aggregators, initiating the Pradhan Mantri Mudra Yojana (PMMY), launching UPI platforms, unveiling platforms such as TReDS, GeM and Open Network for Digital Commerce (ONDC) and implementing GST.

Co-lending: RBI, in November 2020, issued co-lending norms that enable banks and NBFCs to collaborate for priority sector lending (PSL).

Technology advancements and growing fin tech ecosystem for improved efficiency and enhanced experience: The use of technology is helping NBFCs to customise credit assessment and create a better financial ecosystem for the economy.



CONCLUSION

The Reserve Bank of India (RBI) plays a pivotal role in fostering sustainable and inclusive economic growth, with a key focus on priority sector lending. This strategy involves directing a portion of financial institutions' lending towards designated sectors such as agriculture, allied activities, micro and small enterprises, as well as supporting low-income groups and weaker sections of society. By prioritizing these sectors, the RBI ensures they receive vital financial support, which in turn promotes broader, more inclusive economic development.

In pursuit of this objective, Non-Banking Financial Companies (NBFCs) play a crucial role by offering a diverse range of financial services to individuals and businesses. However, NBFCs operate within a comprehensive regulatory framework governed by multiple regulatory bodies, including the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and the Ministry of Corporate Affairs (MCA). Each of these regulatory body imposes its own unique requirements and guidelines, making compliance a multifaceted endeavour for NBFCs.

ABOUT CHRONICLE:

We are an efficient, service-oriented consultancy firm formed in 2014 serving as a leading destination for investors, entrepreneurs, and business professionals active in the industry.

With our extensive network, comprised of financial industry professionals, active investors and marketing service providers we effectively and clearly communicate our client's investment potential and corporate vision. Our passion drives creativity and innovation, creating bold solutions for our clients. We inspire powerful minds by embracing a global mindset, diversity and training to build skills that stretch the imagination.

Comprehensive Compliance and Advisory Services by Chronicle Advisors LLP

❖ Regulatory Compliance Services

With a deep understanding of NBFC regulatory frameworks and strong ties to regulatory authorities, we help cultivate a compliance-first culture within your organization. Our services include evaluating risks, implementing robust compliance programs, and overseeing adherence to RBI, MCA, and SEBI guidelines.

❖ Risk Management Solutions

We offer tailored solutions for NBFC-specific regulatory requirements, addressing both quantitative and qualitative aspects of Compliance risk. Our expertise extends to developing internal control mechanisms and financial controls to ensure robust governance and risk mitigation.

❖ Governance and Internal Control Services

Our governance solutions encompass comprehensive internal audits, process reviews, development of Standard Operating Procedures (SOPs), and governance culture assessments.

❖ Assistance with ROC and NBFC Returns Filing

We provide meticulous assistance in the preparation and timely filing of statutory returns, including ROC and NBFC filings such as MGT-7, AOC-4, DNBS-10, and DNBS-2 etc. Our focus is on reducing compliance risks while maintaining accuracy and timeliness.

❖ Adoption and Updating of RBI-Mandated Policies

We assist NBFCs in formulating, reviewing, and updating critical RBI-mandated policies, such as credit policies, risk management frameworks, and fair practice codes, to ensure alignment with evolving regulatory requirements.

❖ Mergers, Acquisitions, and Corporate Restructuring Advisory

Our services include legal and financial due diligence, strategic guidance, and regulatory compliance support for corporate restructuring, mergers, and acquisitions. We ensure seamless execution and optimized outcomes for all corporate transformation initiatives.

❖ **Drafting Resolutions and Supporting Statutory Audits**

We specialize in drafting board and shareholder resolutions to meet regulatory standards and provide robust support to statutory auditors in preparing financial documents, compliance reports, and annexures.

❖ **Comprehensive Due Diligence Services**

We conduct exhaustive due diligence for a range of requirements, including acquisition, investment, and compliance audits. Our due diligence ensures a thorough assessment of risks and regulatory adherence for informed decision-making.

❖ **NBFC Takeover, Management Changes, and Surrender of Registration**

We provide advisory and operational assistance for NBFC takeovers, management transitions, and the surrender of NBFC registrations. Our approach ensures that these processes are carried out seamlessly, in full compliance with RBI guidelines and corporate laws.

❖ **NBFC COR Registration Assistance**

We offer expert guidance on securing and maintaining the Certificate of Registration (COR) for NBFCs, ensuring compliance with RBI's eligibility criteria and ongoing requirements.

Chronicle Advisors LLP is committed to delivering tailored, forward-thinking, and comprehensive solutions, ensuring your organization's compliance, governance, and operational excellence.

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