UNIT 13 – BANKING - ALL ABOUT NBFC'S

Dear Readers,

We all must have heard that the Reserve Bank of India is entrusted with the responsibility of regulating and supervising the Non-Banking Financial Companies. So, let's discuss about what actually NBFC's are.

About the term NBFC:

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 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 fund business.

Difference between BANK & NBFC:

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

i. NBFC cannot accept demand deposits;

ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

iii. deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Different types/categories of NBFCs registered with RBI:

NBFCs are categorized

a) In terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs,

b) Non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and

c) By the kind of activity they conduct.

Within this broad categorization the different types of NBFCs are as follows:

i. **Asset Finance Company(AFC)** : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines.

ii. **Investment Company (IC)** : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.

iii. **Loan Company (LC):** LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

iv. **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 Rs. 300 crore,

c) has a minimum credit rating of ‘A ‘or equivalent d) and a CRAR of 15%.

v. **Infrastructure Debt Fund:** Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

vi. **Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI):** NBFC-MFI is a non-deposit taking NBFC having not less than 85%of its assets in the nature of qualifying assets which satisfy the following criteria:

a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000.

b. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

vii. **Non-Banking Financial Company – Factors (NBFC-Factors):** NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 75 percent of its total assets and its income derived from factoring business should not be less than 75 percent of its gross income.

Register with RBI:

A company incorporated under the Companies Act, 1956 and desirous of commencing business of non-banking financial institution as defined under Section 45 I(a) of the RBI Act, 1934 should comply with the following:

i. it should be a company registered under Section 3 of the companies Act, 1954

ii. It should have a minimum net owned fund of Rs 200 lakh.

Deposits in NBFC:

a) Presently, the maximum rate of interest an NBFC can offer is 12.5%. The interest may be paid or compounded at rests not shorter than monthly rests.

b) The NBFCs are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.

c) The deposits with NBFCs are not insured.

d) The repayment of deposits by NBFCs is not guaranteed by RBI.

Brief about RNBC

a) Residuary Non-Banking Company is a class of NBFC which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company.

b) These companies are required to maintain investments as per directions of RBI, in addition to liquid assets.

c) The amount payable by way of interest, premium, bonus or other advantage, by whatever name called by a RNBC in respect of deposits received shall not be less than the amount calculated at the rate of 5% (to be compounded annually) on the amount deposited in lump sum or at monthly or longer intervals; and at the rate of 3.5% (to be compounded annually) on the amount deposited under daily deposit scheme.

d) Further, a RNBC can accept deposits for a minimum period of 12 months and maximum period of 84 months from the date of receipt of such deposit. They cannot accept deposits repayable on demand.

Some other regulators:

Category of Companies	Regulator
Chit Funds	Respective State Governments
Insurance companies	IRDA
Housing Finance Companies	NHB
Venture Capital Fund /	SEBI
Merchant Banking companies	SEBI
Stock broking companies	SEBI
Nidhi Companies	Ministry of corporate affairs, Government of India