

Non-Banking Financial Companies

INDEX

NBFC: An Introduction	3
Difference between Banks and NBFCs	3
Types of NBFCs	4
Investment and Credit Company (ICC)	4
Housing Finance Company (HFC)	4
Infrastructure Finance Company (IFC)	4
Infrastructure Debt Fund (IDF-NBFC)	4
Core Investment Company (CIC)	4
Micro Finance Institution (NBFC-MFI)	5
Non-Banking Financial Company – Factors (NBFC-Factors)	5
Mortgage Guarantee Companies (MGC)	5
Standalone Primary Dealers (SPDs)	5
Non-Operative Financial Holding Company (NOFHC)	6
NBFC – Account Aggregator (NBFC-AA)	6
NBFC – Peer to Peer Lending Platform (NBFC-P2P)	6
Regulating NBFCs	6
Regulatory Structure under Scale Based Regulation (SBR) – NBFCs	7
Concept of Scale Based Regulation (SBR)	7
Base Layer (NBFC-BL)	7
Middle Layer (NBFC-ML)	7
Upper Layer (NBFC-UL)	7
Top Layer (NBFC-TL)	8
Categorisation of NBFCs carrying out specific activity	8
Registration requirement	8
1. Fulfilment with Principal Business Criteria	8
2. Net Owned Fund Requirement	8
Regulatory Capital Requirements	9
Capital Adequacy Requirements	9
Leverage Ratio	9
Branch Authorisation Provisions	9

1. Deposit taking NBFCs	9
2. Housing Finance Companies (HFC).....	9
3. Investment and Credit Companies (NBFC-ICC)	10
Miscellaneous Regulatory Requirements	10
Ceiling on IPO Funding [Applicable to Base/Middle Layer NBFCs]	10
Credit / investment concentration Norms (applicable to Middle Layer NBFCs)	10
The Large Exposure Limits [Applicable to NBFC – Upper Layer] – As per eligible base.....	10
Asset Classification and Provisioning Norms	11
NBFC-BASE LAYER (NBFC-BL).....	11
NBFC-MIDDLE LAYER (NBFC-ML).....	11
NBFC-UPPER LAYER (NBFC-UL).....	12

NBFC: An Introduction

A Non-Banking Financial Company (NBFC) is a company registered under the 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, etc., as their principal business,

but **does not include** any institution whose principal business is that of

- agriculture activity,
- industrial activity,
- purchase or sale of any goods (other than securities) or
- providing any services and sale/ purchase/ construction of immovable property.

Financial Activity: Principal Business

Financial activity as principal business is when a company's

- 1) Financial assets constitute more than **50 per cent** of the total assets (netted off by intangible assets) and
- 2) Income from financial assets constitute more than **50 per cent** of the gross income.

A company which fulfils both these criteria needs to get registered as NBFC with the Reserve Bank.

Difference between Banks and NBFCs

Banks and NBFCs are different entities subject to different statutory and regulatory requirements. However, NBFCs lend and make investments and hence these activities are akin to that of banks. The major differences between banks and NBFCs are given below:

- NBFCs cannot accept demand deposits;
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors of deposit taking NBFCs.

Public Funds

Public funds are not the same as public deposits. Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc.

Even though public funds include public deposits in the general course, it may be noted that CICs as non-deposit taking NBFCs are not allowed to accept public deposits.

Types of NBFCs

NBFCs are categorized

- a) In terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs;
- b) Regulatory structure of NBFCs under Scale Based Regulation into NBFC-Base Layer, NBFC-Middle Layer, NBFC-Upper Layer, and NBFC-Top Layer; and
- c) By the kind of activity, they conduct.

Based on the type of activities they conduct, the different types of NBFCs are as follows:

Investment and Credit Company (ICC)

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.

Housing Finance Company (HFC)

HFC shall mean a company that fulfils the following conditions:

- a) It is an NBFC whose financial assets, in the business of providing finance for housing, constitute **at least 60% of its total assets (netted off by intangible assets)**.
- b) Out of the total assets (netted off by intangible assets), not less than **50%** should be by way of housing finance for individuals as stated at clauses (i) to (v) of Paragraph 10(8) of the aforementioned Directions for HFCs.

Infrastructure Finance Company (IFC)

IFC is a non-banking finance company which deploys **at least 75 per cent** of its total assets towards infrastructure lending.

Infrastructure Debt Fund (IDF-NBFC)

IDF-NBFC means a non-deposit taking NBFC which is permitted to

- a) refinance post commencement operations date (COD) infrastructure projects that have completed at least one year of satisfactory commercial operations; and
- b) finance toll operate transfer (TOT) projects as the direct lender.

Core Investment Company (CIC)

CIC is a NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:

- a) It holds **not less than 90% of its net assets** in the form of investment in equity shares, preference shares, debt or loans in group companies;
- b) 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 constitutes **not less than 60% of its net assets**;

- c) Its asset size is ₹100 crore or above; and
- d) It accepts public funds

Micro Finance Institution (NBFC-MFI)

Under NBFC-MFI, Microfinance Loans shall constitute a minimum of 60 percent of the total assets (netted off by intangible assets), on an ongoing basis.

- a) A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000.
 - For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.
- b) All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.
- c) To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

Non-Banking Financial Company – Factors (NBFC-Factors)

NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring.

- a) The financial assets in the factoring business should constitute at least 50 per cent of its total assets and
- b) its income derived from factoring business should not be less than 50 per cent of its gross income.

Mortgage Guarantee Companies (MGC)

MGC means a company registered as mortgage guarantee company which primarily transacts the business of providing mortgage guarantee i.e., *a guarantee for the repayment of an outstanding housing loan and interest accrued thereon up to the guaranteed amount to a creditor institution, on the occurrence of a trigger event.*

A mortgage guarantee company shall be deemed to primarily transact the business of providing mortgage guarantee when at least 90 per cent of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business.

Standalone Primary Dealers (SPDs)

SPDs are primarily NBFCs which have been granted authorisation to undertake the Primary Dealer activities in Government Securities.

SPDs support G- Sec market, (both primary and secondary) through various obligations like participating in primary auctions, market making in G- Secs, predominance of investment in G-Secs, etc.

Non-Operative Financial Holding Company (NOFHC)

NOFHC means a non-deposit taking NBFC which holds the **shares of a banking company and the shares of all other financial services companies in its group**, whether regulated by the Reserve Bank or by any other financial regulator.

NBFC – Account Aggregator (NBFC-AA)

NBFC-AA means a non-banking financial company as notified under in sub-clause (iii) of clause (f) of section 45-I of the RBI Act, that undertakes the business of an account aggregator, for a fee or otherwise.

Business of Account Aggregator

The “business of an account aggregator” means the business of providing under a contract, the service of, retrieving or collecting such financial information pertaining to its customer, as may be specified by the Reserve Bank from time to time; and consolidating, organizing and presenting such information to the customer or any other financial information user as may be specified by the Bank;

Provided that, the financial information pertaining to the customer shall not be the property of the Account Aggregator, and not be used in any other manner.

NBFC – Peer to Peer Lending Platform (NBFC-P2P)

NBFC-P2P means a non-banking institution which carries on the business of a Peer-to-Peer Lending Platform i.e., acting as intermediary providing the services of loan facilitation via online medium or otherwise, to the participants of the platform.

Regulating NBFCs

Reserve Bank does not regulate all financial companies. Depending upon the nature of activities, the financial companies may fall under the regulatory purview of other Regulators like SEBI, IRDAI, Government, etc.

NBFC Type	Regulator
Merchant Bankers	SEBI
Stock Exchanges	SEBI
Stock Brokers/Sub-Brokers	SEBI
Insurance Companies	IRDAI
Alternative Investment Funds	SEBI
Chit Fund Companies	State Governments
Nidhi Companies	Ministry of Corporate Affairs

Regulatory Structure under Scale Based Regulation (SBR) – NBFCs

Concept of Scale Based Regulation (SBR)

RBI introduced Scale Based Regulation (SBR) to regulate NBFCs according to:

- Size of assets
- Type of activities
- Risk to financial system

Under SBR, NBFCs are classified into four regulatory layers.

- 1) Base Layer (NBFC-BL) – lowest risk
- 2) Middle Layer (NBFC-ML) – medium risk
- 3) Upper Layer (NBFC-UL) – systemically important NBFCs
- 4) Top Layer (NBFC-TL) – extremely high risk (generally empty)

Base Layer (NBFC-BL)

This layer includes small and low-risk NBFCs. NBFCs included in Base Layer

- 1) Non-deposit taking NBFCs (NBFC-ND) below the asset size below ₹1000 crore
- 2) Certain activity-based NBFCs:
 - a. NBFC-P2P (Peer to Peer Lending Platforms)
 - b. NBFC-AA (Account Aggregators)
 - c. NOFHC (Non-Operative Financial Holding Company)
 - d. NBFCs without public funds and without customer interface

Middle Layer (NBFC-ML)

This layer includes moderately large NBFCs with higher risk. NBFCs included in Middle Layer

- 1) All deposit taking NBFCs (NBFC-D), regardless of asset size
- 2) Non-deposit taking NBFCs with asset size of ₹1000 crore or more
- 3) NBFCs undertaking the following activities:
 - a. Standalone Primary Dealer (SPD),
 - b. Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC), ✓
 - c. Core Investment Company (CIC), ✓
 - d. Housing Finance Company (HFC) and
 - e. Non-Banking Financial Company-Infrastructure Finance Company (NBFC-IFC). ✓

Upper Layer (NBFC-UL)

This layer includes systemically important NBFCs. RBI identifies these NBFCs using a scoring methodology based on:

- Quantitative factors [70%]
- Qualitative supervisory judgment [30%]

Automatic Rule: Top 10 NBFCs by asset size automatically fall in Upper Layer.

Other NBFCs Selected From: Top 50 NBFCs based on exposure | NBFCs previously in UL | NBFCs identified by RBI supervisors

Top Layer (NBFC-TL)

This layer is normally empty. If RBI believes that some NBFCs in Upper Layer create excessive systemic risk, they may be shifted to Top Layer.

Categorisation of NBFCs carrying out specific activity

- (1) **NBFC-P2P, NBFC-AA, NOFHC and NBFC not availing public funds** and not having any customer interface **will always remain in the Base Layer** of the regulatory structure.
- 2) **NBFC-D, CIC, NBFC-IFC and HFC** will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. **SPD and IDF-NBFC will always remain in the Middle Layer.**
- (3) The remaining NBFCs, viz., NBFC-Investment and Credit Companies (NBFC-ICCs), NBFC-Micro Finance Institutions (NBFC-MFIs), NBFC-Factors and Mortgage Guarantee Companies (MGCs) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.
- (4) **Government owned NBFCs** shall be placed in the Base Layer or Middle Layer, as the case may be. They **will not be placed in the Upper Layer till further notice.**

Registration requirement

1. Fulfilment with Principal Business Criteria

2. Net Owned Fund Requirement

Reserve Bank specifies **₹10 crore** as the Net Owned Fund (NOF) required for an **NBFC-ICC, NBFC-MFI and NBFC-Factor** to commence or carry on the business of non-banking financial institution.

For **NBFC-P2P, NBFC-AA**, and '**NBFC not availing public funds and not having any customer interface**', the NOF shall be **₹2 crore**.

For **NBFC-IFC and IDF-NBFC**, the NOF shall be **₹300 crore**.

The following glide path is provided for the existing NBFCs, viz., NBFC-ICC, NBFC-MFI (without distinction in the NOF requirement for NBFCs registered in the North East Region) and NBFC-Factor to achieve the NOF of **₹10 crore**:

NBFCs	By March 31, 2027
NBFC-ICC	₹10 crore
NBFC-MFI	₹10 crore
NBFC-Factor	₹10 crore

Regulatory Capital Requirements

Capital Adequacy Requirements

An NBFC shall meet the following minimum capital requirements on an ongoing basis:

I. NBFC engaged in lending against gold jewellery: They shall maintain

- A minimum **Tier 1 capital** and **Capital to Risk-weighted Asset Ratio (CRAR)** of **12 per cent and 15 per cent** respectively of the aggregate Risk Weighted Assets (RWAs).
- The Tier 2 capital of the NBFC, at any point of time, shall not exceed 100 per cent of Tier 1 capital [general rule – applicable everywhere].

II. An NBFC - Middle Layer (NBFC – ML) and above: They shall maintain

- A minimum **Tier 1 capital** of **10 per cent** of the aggregate RWAs.
- CRAR of **15 per cent** of the aggregate RWAs

III. An NBFC – Upper Layer must also maintain a **minimum Common Equity Tier 1 (CET1) capital of 9 per cent** of the aggregate RWAs. [including above 15% CRAR and 10% Tier 1 requirements]

Leverage Ratio

The leverage ratio of an NBFC - BL shall **not be more than seven** at any point of time.

Definition

‘Leverage Ratio’ means the total outside liabilities divided by owned fund

Branch Authorisation Provisions

OPENING OF BRANCHES

1. Deposit taking NBFCs

It shall be permitted as under:

- a) If its **NOF is up to Rs. 50 crore or has a credit rating below AA** then it may open a branch or appoint agents within the State where its registered office is situated; and
- b) If its **NOF is more than Rs. 50 crore and its credit rating is AA or above**, then it may open a branch or appoint agents anywhere in India.

2. Housing Finance Companies (HFC)

- A Housing Finance Company (HFC) shall, before opening a branch or an office in India, inform the National Housing Bank (NHB) in writing, of its intention to open a branch or an office.
- An HFC shall not open a branch outside India.

3. Investment and Credit Companies (NBFC-ICC)

A Non-Banking Financial Company - Investment and Credit Company (NBFC- ICC) which is in the business of lending against gold collateral, shall obtain prior approval of RBI to open **branches exceeding 1,000.**

Further, an NBFC-ICC which already has more than 1000 branches shall approach RBI for prior approval for any further branch expansion.

CLOSURE OF BRANCHES

NBFCs shall give **at least three months public notice** prior to the date of closure of any of its branches/offices in, at least, one leading national newspaper and a leading local (covering the place of branch/ office) vernacular newspaper

Miscellaneous Regulatory Requirements

Ceiling on IPO Funding [Applicable to Base/Middle Layer NBFCs]

There shall be a ceiling of **₹1 crore per borrower** for financing subscription to Initial Public Offer (IPO). An NBFC can fix more conservative limits.

Credit / investment concentration Norms (applicable to Middle Layer NBFCs)

An NBFC [except (Non-Banking Financial Company-Infrastructure Finance Company (NBFC- IFC)] shall not have exposure (credit / investment taken together) exceeding

- 1) **25 per cent** of its Tier 1 capital to a single party; and
- 2) **40 per cent** of its Tier 1 capital to a single group of parties,

Provided that an NBFC may exceed the exposure norm specified above, by five per cent for any single party and by 10 per cent for a single group of parties, if the additional exposure is on account of infrastructure loan and / or investment.

NBFC-IFC shall not have exposure (credit / investment taken together) exceeding

- 1) **30 per cent** of its Tier 1 capital to a single party; and
- 2) **50 per cent** of its Tier 1 capital to a single group of parties.

The Large Exposure Limits [Applicable to NBFC – Upper Layer] – As per eligible base

	NBFC (Other than IFC)	NBFC (IFC)
Single Counterparty	20 per cent additional five per cent with Board approval additional five per cent if exposure towards Infrastructure loan / investment (Single counterparty limit shall	25 per cent additional five per cent with Board approval

	not exceed 25 per cent in any case)	
Group of connected Counterparties	25 per cent additional 10 per cent if exposure towards Infrastructure loan / investment	35 per cent

Asset Classification and Provisioning Norms

NBFC-BASE LAYER (NBFC-BL)

NPA Definition: Assets become Non-Performing when overdue for **more than 180 days**

Transition Timeline (Glide Path to 90 days):

- By March 31, 2024 → 150 days
- By March 31, 2025 → 120 days
- By March 31, 2026 → **90 days (final norm)**

What Triggers NPA Status:

- Interest/instalments overdue > 180 days (reducing to 90)
- Applies to: term loans, demand/call loans, bills, lease rentals, hire purchase, receivables, dues from asset sales
- **Contagion effect:** If ANY facility to a borrower becomes NPA, ALL facilities to that borrower become NPA

Asset Sub-Categories:

- 1) **Sub-standard:** NPA for ≤ 18 months OR restructured assets (1 year post-restructuring)
- 2) **Doubtful:** Sub-standard for > 18 months

Provisioning Requirements

- **Standard assets:** 0.25% provision (not counted in net NPA calculation)
- **Restructured assets:** Remain classified as sub-standard/doubtful/loss until upgraded

NBFC-MIDDLE LAYER (NBFC-ML)

NPA Definition: Already at the **final 90-day** overdue threshold (stricter than Base Layer during transition)

Asset Sub-Categories:

- 1) **Sub-standard:** NPA for ≤ **12 months** (vs. 18 months for BL)
- 2) **Doubtful:** Sub-standard for > **12 months** (vs. 18 months for BL)

Provisioning Requirements

- **Standard assets:** **0.40%** provision (higher than Base Layer's 0.25%)

- Applies uniformly including microfinance loans

NBFC-UPPER LAYER (NBFC-UL)

Follows **same rules as Middle Layer** (90-day NPA norm, 12-month sub-standard threshold)

Provisioning Requirements - Risk-Based Differentiation

Standard Asset Provisioning (Tiered by Risk):

Asset Category	Provision Rate
Housing loans to individuals & SME loans	0.25%
Teaser rate housing loans	2.00% (drops to 0.40% after 1 year post-reset if standard)
Commercial Real Estate - Residential (CRE-RH)	0.75%
Commercial Real Estate - Other (CRE)	1.00%
Medium Enterprises & all other loans	0.40%
Restructured advances	Per RBI Stressed Assets Directions