



## RBI to Review NBFCs

[Source: BL](#)

### Why in News?

The [Reserve Bank of India \(RBI\)](#) is gearing up to conduct a comprehensive review of the categorisation of [Non-Banking Finance Companies \(NBFCs\)](#) in 2024.

- The review is seen as a precursor to potentially granting bank licences to select NBFCs.
- Elevating specific NBFCs could serve as a preliminary and evaluative step towards considering them for the allocation of bank licences in the future.

### What are NBFCs?

- **About:** An NBFC is a company registered under the **Companies Act, 1956** or [Companies Act, 2013](#), involved in various financial activities like lending, investing in securities, leasing, insurance.
  - They offer various banking services but do not have a banking licence.
- **Key Features:**
  - NBFCs provide diverse financial services like personal loans, home loans, vehicle loans, gold loans, microfinance, insurance, and investment management.
  - They can accept public deposits for a minimum of **12 months and a maximum of 60 months**.
    - However, NBFCs **cannot accept demand deposits**.
  - They **do not form part of the payment and settlement system** and cannot issue cheques drawn on itself.
- **Classification:**
  - **On the Basis of Deposits:**
    - Deposit-taking non-banking finance companies
    - Non-Deposit taking Non-Banking Financial Institutions
  - **On the Nature of their Major Activity:**
    - Investment and Credit Company
    - Consumer Durable Loan Finance
    - Core Investment Company (CIC)
    - Infrastructure Finance Company (IFC)/Infrastructure Debt Fund (IDF)
    - Asset Reconstruction Companies (ARC)
    - Factoring Companies
    - Gold Loan Companies
    - Fintech cos: P2P Lenders
- **Licensing:** The company must be registered under the [Companies Act, 2013](#), either as a public or private company.
  - The company should have a minimum net owned fund of at least Rs. 10 crores to be eligible for NBFC registration.
  - At least **one-third of the directors** of the company must possess relevant work experience in the finance sector.
  - The company should have a good track record with **CIBIL (Credit Information Bureau India Limited)** regarding its credit history and financial credibility.

- The company must comply with all the regulations, norms, and guidelines prescribed under Capital Compliances and the [Foreign Exchange Management Act \(FEMA\) laws](#).
- **Regulation:** The RBI has been given the powers under the **RBI Act 1934** to register, lay down policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs that meet the **50-50 criteria of principal business**.
  - The Reserve Bank introduced the Scale Based Regulation (SBR) in October, 2021, categorising NBFCs into **Base Layer (NBFC-BL), Middle Layer (NBFC-ML), Upper Layer (NBFC-UL), and Top Layer (NBFC-TL)**.
  - This framework outlines the methodology for identifying NBFCs in the Upper Layer based on their asset size and scoring criteria.

## List of NBFCs in upper layer

1 LIC Housing Finance	9 Shanghvi Finance Pvt Ltd
2 Bajaj Finance	10 M&M Financial Services
3 Shriram Finance	11 PNB Housing Finance
4 Tata Sons Pvt Ltd	12 Tata Capital Financial Services
5 L&T Finance	13 Aditya Birla Finance
6 Indiabulls Housing Finance	14 HDB Financial Services
7 Piramal Capital & Housing Finance	15 Muthoot Finance
8 Cholamandalam Investment and Finance	16 Bajaj Housing Finance

### What is the 50-50 Criteria of Principal Business?

- RBI considers a company's principal business to be financial in nature if more than **50% of its total assets and gross income come from financial activities**.
  - This definition ensures that only companies primarily involved in financial operations are registered as NBFCs and fall under RBI's regulatory oversight.
- Companies primarily engaged in non-financial activities, even if they conduct some financial business on the side, are not regulated by RBI.
  - This assessment is commonly referred to as the "**50-50 criteria**" for determining a company's involvement in financial business.

### Note

**Demand deposits** refer to funds deposited in banks or financial institutions that can be **withdrawn by the account holder on demand** without any prior notice.

- They are highly liquid and accessible for day-to-day transactions, making them a preferred choice for individuals and businesses needing frequent access to their funds.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### Prelims:

**Q. With reference to the Non-banking Financial Companies (NBFCs) in India, consider the following statements: (2010)**

1. They cannot engage in the acquisition of securities issued by the government.
2. They cannot accept demand deposits like Savings Account.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (b)**

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