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RBI to Merge Three Categories of NBFCs

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The Reserve Bank of India (RBI) has decided to merge three categories of Non Banking Financial Companies (NBFCs) into a single category to provide greater operational flexibility to non-banking lenders.

NBFCs categorized as Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs), will be merged into a new category called NBFC - Investment and Credit Company (NBFC-ICC).

- **Asset Finance Company (AFC)** : An AFC is a company which is a financial institution focussing on financing of physical assets supporting productive/economic activity, such as automobiles, tractors, generator sets etc.
- **Investment Company (IC)** : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.
- **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.

Non-Banking Financial Company (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.
- NBFC **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.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company

(Residuary non-banking company).

Difference between banks & NBFCs

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

- NBFC **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 is not available** to depositors of NBFCs, unlike in case of banks.