Non-Banking Financial Companies (NBFCs)

Why in News?

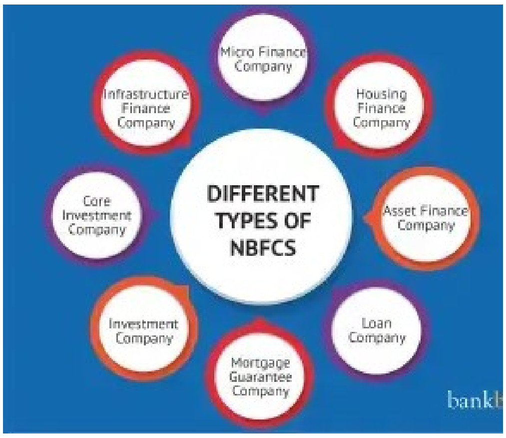
The Reserve Bank of India (RBI) has significantly eased lending restrictions for Non-Banking Finance Companies (NBFCs) recently.

- **Recent provisions -** RBI reduced the risk weights applied to bank loans given to NBFCs by 25% points.
- It is expected to encourage banks to lend more readily to NBFCs.
- The reduction in risk weight will be based on the credit rating of each NBFC, with higher rated NBFCs likely to benefit more.
- This move is expected to improve the liquidity situation for NBFCs, allowing them to access more credit from banks and potentially leading to increased lending to the retail segment.
- By facilitating easier credit flow to NBFCs, the RBI aims to stimulate economic growth by enhancing credit availability to the retail sector.
- **Non-Banking Financial Companies (NBFCs) -** Also known as nonbank financial institutions (NBFIs), are financial institutions that offer various banking services but do not have a banking license.
- They are ***not subject*** to banking regulations.
- **Registered under -** The Companies Act, 1956.
- **Eligibility**
  - It should be a company registered under ***Section 3*** of the companies Act, 1956.
  - It should have a minimum net owned fund of at least ***Rs. 10 crores.***
- It does not include any institution whose principal business is agriculture activity, industrial activity, purchase or sale of any goods or providing any services and of immovable property.

> *Financial activity as principal business is when a company's financial assets constitute more than 50% of the total assets and income from financial assets constitute more than 50% of the gross income.*

- A company that has
  - The principal business of receiving deposits under any scheme or arrangement in one lump sum or
  - In instalments by way of contributions or in any other manner and is also a non-banking financial company (Residuary Non-banking Company).
- **Features - Lending** - Provide credit to sectors where there's a gap in credit.
- **Investment**- Invest in shares, stocks, bonds, and other securities.
- **Insurance**- Underwrite economic risks like illness, death, and damage.

- **Leasing**- Finance assets like vehicles, machinery, and equipment.
- **Hire purchase**- Help individuals and businesses acquire assets without upfront payment.
- **Asset management**-Help individuals and institutions invest in assets like equities, debt, and real estate.
- **Venture capital**-Provide funding to early-stage and high-growth potential businesses.



- 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.

References

1. The Indian Express | Non-banking finance companies (NBFCs)
2. The Hindu | RBI lowers risk weight to NBFCs