

Non-Banking Financial Companies (NBFCs)

Why in News?

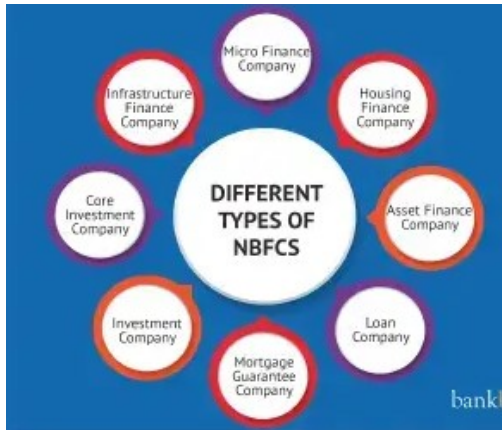
The Reserve Bank of India (RBI) has significantly eased lending restrictions for Non-Banking Finance Companies (NBFCs) recently.

- **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](#)