Participation of NBFC, AIFI, HFC, in term money market

Prelims: *Current events of national and international importance*

Why in News?

Recently, RBI drafts rules for Non-Banking Financial Company (NBFC), All-India Financial Institutions (AIFIs) *participation in term money market.*

Drafts rules

- **Participation in term market** – NBFCs and Housing finance companies (HFCs) (except base layer NBFCs) can borrow and lend in the *term money market.*

  Base Layer NBFCs (NBFC-BL) *are non-systemically important, smaller financial entities that pose minimal risk to the broader financial system.*

- AIFIs may also borrow and lend, while companies are allowed to lend only.
- RBI proposes that all call, notice, and term money deals conducted outside the *NDS-CALL platform* must be reported there within 15 minutes.

  Term money *involves unsecured loans and borrowings for periods longer than 14 days, up to one year.*

- Entities not yet on the platform have six months to become members.
- **Trading platforms** – The draft allows trades to be conducted via over-the-counter markets, including NDS-CALL and RBI-approved electronic trading platforms.

  The Negotiated Dealing System - Call (NDS-CALL) *is an electronic, screen-based platform introduced by the Reserve Bank of India (RBI) and developed by Clearcorp.*

  It enables market participants to negotiate bilaterally, borrow, and lend funds in the Call, Notice, and Term Money markets.

- **Borrowing limits** – NBFCs and HFCs (excluding base layer) can borrow up to *200%* of their net owned funds in the term money market.
- Standalone primary dealers can borrow up to *225%* of their net owned funds in call

and notice money, and up to *400%* in term money and inter-corporate deposits combined.
- Payments banks can borrow and lend in call and notice money markets, and are also allowed to borrow in the term money market.

Non-Banking Financial Company (NBFC)

- **Registered under** – The Companies Act, 1956.
- **Role** – Engaged in the business of loans and advances, the acquisition of shares, stocks, bonds, debentures and securities issued by the Government or local authority.
- **Limitations** – Not allowed to take traditional demand deposits from the public.
- They can only accept time deposits, and they do not provide savings or current account facilities.
- They cannot accept deposits for a period less than 12 months and more than 60 months.
- NBFCs do not have a banking license
- 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 is not availableto depositors of NBFCs, unlike in the case of banks.
- Unlike banks, NBFCs are not subjected to stringent and substantial regulations.
- The RBI has the authority to issue licenses to NBFCs, regulate their operations, and ensure that they adhere to the established norms and regulations.

Housing finance companies (HFCs)

- **Statutory backing** – They are corporate entities incorporated under Companies Act, 1956.
- **Aim** – Providing housing loans and finance in a streamlined manner.
- **Regulation** – Regulated by the RBI. (earlier regulated by National Housing Bank (NHB))
- **Types** – Deposit-taking HFCs and Non-deposit taking HFCs
- There are 97 HFCs in the country.
- **Advantages** – Flexible loan approval compared to banks, consideration of lower credit scores

All-India Financial Institutions (AIFIs)

- **Setup by** – They are apex-level, specialized development banks set up by the Government of India.
- **Role** – They address long-term, sector-specific credit gaps—such as agriculture, infrastructure, and housing.
- **Regulation and supervision** – Directly by the Reserve Bank of India (RBI).
- **Major AIFI** – Currently, there are 5 recognized AIFIs in India:
    - NABARD (National Bank for Agriculture and Rural Development.
    - SIDBI (Small Industries Development Bank of India).
    - NHB (National Housing Bank).

- EXIM Bank (Export-Import Bank of India).
- NaBFID (National Bank for Financing Infrastructure and Development).

AIFIs vs. Commercial Banks		
Features	**AIFIs**	**Commercial Banks**
Primary Goal	Economic development and targeted sector support	Profit maximization and short-term liquidity
Funding Sources	Government funds, bonds, long-term borrowings	Public deposits (savings, current, fixed accounts)
Lending Focus	Long-term project finance and refinancing	Short- to medium-term credit, working capital

Reference

[Business Standards| RBI's Rule for Term Money]

SHANKAR IAS PARLIAMENT
Information is Empowering