Non-Banking Finance Companies

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 or other securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but 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 instalments by way of contributions or in any other manner, is also a non-banking financial company.

Definition of NBFCs as per RBI Act, 1997

The "business of a non-banking financial institution" is defined to mean carrying on the business of a financial institution referred to in clause (c) of section 45I of the Act and includes business of a non-banking financial company. A company engaged in industrial activities or agricultural operations as its principal business is excluded from the definition of 'financial institution'.

A non-banking financial company has been defined as:

a. a financial institution which is a company;
b. a non-banking institution which is a company and which has as its principal business the receiving of deposit under any scheme or arrangement or in any other manner, or lending in any manner; or
c. any other non-banking institution notified by the Reserve Bank.

Difference between NBFCs and Banks

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.

Types of NBFCs registered with RBI

NBFCs are categorized in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs. Non deposit taking NBFCs can further be classified by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND). NBFCs can also be classified by the kind of activity they conduct.

Within this broad categorization the different types of NBFCs are as follows:

1. Asset Finance Company (AFC) : An Asset Finance Company is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60 per cent of its total assets and total income respectively.
2. Investment Company (IC) : Investment Company means any company which is a financial institution carrying on as its principal business the acquisition of securities,
3. Loan Company (LC): Loan Company 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.
4. Infrastructure Finance Company (IFC): Infrastructure Finance Company is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs 300 crore, c) has a minimum credit rating of ‘A ‘or equivalent d) and a CRAR of 15 per cent
5. Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

6. Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.
7. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

    a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs 1,00,000 or urban and semi-urban household income not exceeding Rs 1,60,000;

    b.loan amount does not exceed Rs 50,000 in the first cycle and Rs 1,00,000 in subsequent cycles;

    c. total indebtedness of the borrower does not exceed Rs 1,00,000;

    d. tenure of the loan not to be less than 24 months for loan amount in excess of Rs 15,000 with prepayment without penalty;

    e. loan to be extended without collateral;

    f. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;

    g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

8. Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.
9. Mortgage Guarantee Companies (MGC) – Mortgage Guarantee Company are financial institutions for which at least 90% of the business turnover is mortgage guarantee

business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs 100 crore.

10. NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

Disclaimer:

1. These notes are only for the students.
2. These notes are prepared after referring various books and websites.