

# RBI Merges Three Categories of NBFCs into NBFC– Investment and Credit Company (NBFC-ICC) to Ease Operational Flexibility

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*“Harmonization of three NBFC categories into one by the RBI”*

On 22<sup>nd</sup> February 2019, the Reserve Bank of India (RBI) released a notification on **“Harmonization of the Non Banking Financial Companies (NBFCs) Categories”**. Under this, RBI has decided to merge three different categories of NBFCs- asset finance, loan companies and investment companies into one named as **“NBFC – Investment And Credit Company (NBFC-ICC)”**. This step has been taken by the authority to ease operational flexibility of NBFCs considering the principle of “activity based regulation” rather than “entity based regulation”.

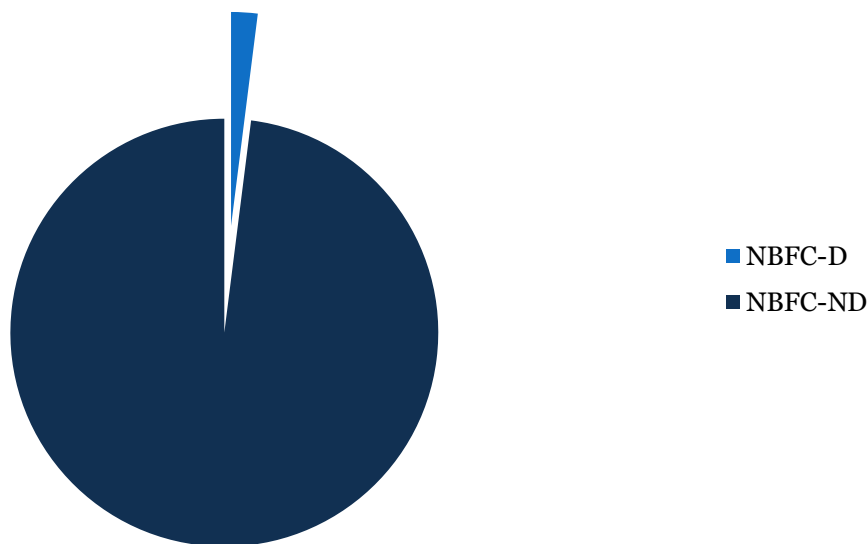
**What will be the impact of introduction of NBFC – Investment And Credit Company (NBFC-ICC)?**

RBI provided greater operational flexibility to NBFCs by merging asset finance companies, loan companies and investment companies into “NBFC- Investment And Credit Company”. With this, NBFCs are going to have more freedom in planning its asset allocation. Before the introduction of this new category, NBFCs had to maintain the productive and unproductive asset distinction, besides this; NBFCs also had to maintain personal loans, loan against properties or loan against shares within the limit of 60%. Now, they have got relaxation.

**Harmonization of Three Categories of NBFCs into One Category “NBFC-ICC”**

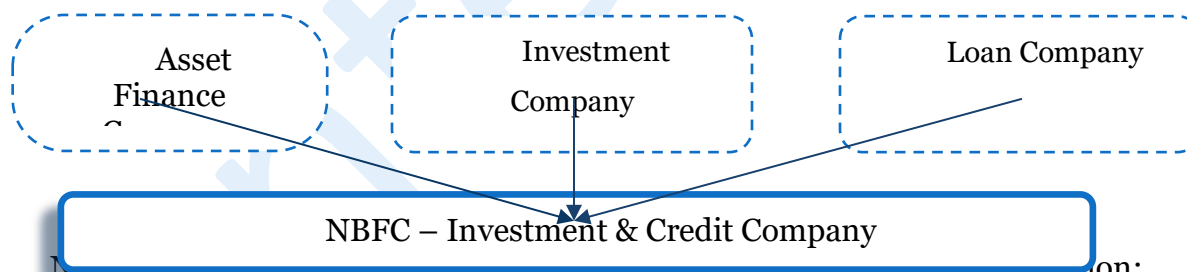
Currently, there are approximately 10,000 NBFCs in India out of which more than 90% are non deposit taking NBFCs.

## NBFC Categories



You can also read: [Market Size of NBFC in India](#)

As we know there were too many NBFC categories which were creating compliance cost high for the whole NBFC sector. To make this situation better, RBI has decided to merge three categories of NBFCs into one category named NBFC - investment and credit company “NBFC-ICC”.



Now, let's discuss these three NBFC categories in brief for better clarification:

### I. Asset Finance Company (AFC):

An Asset Finance Company is a type of financial institution which is involved in financing of physical assets which supports productive/economic activity like automobiles, tractors, lathe machines, generator sets, earth moving, material handling equipments and industrial machines.

### II. Investment Company (IC):

An Investment Company is a type of company which is involved in carrying its principal business of the acquisition of securities.

### III. Loan Company (LC):

A loan company is a type of financial institution which carries its principal business of providing finance in the form of loans or advances other than its own. An asset finance company is not included in this.

Now, the above mentioned companies have been merged into one category “**NBFC-Investment and Credit Company**”.

NBFC - Investment and Credit Company - (NBFC-ICC) is a financial institution carrying on as its principal business- asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities;

#### **Object of introducing new category “NBFC-Investment and Credit Company”**

The main object of merging these categories into one is to provide greater operational flexibility to the NBFC sector. Now after harmonization, there will be same set of **regulations for NBFCs**. If we talk about asset finance company then the, income arising from AFC should not be less than 60% of its total income, but in pursuant to the harmonization it has been now reduced to 50%.

#### **NBFC Categorization**

Now, broadly NBFC is categorized into the following:

- **NBFC-Investment and Credit Company (NBFC-ICC)**

NBFC - Investment and Credit Company - (NBFC-ICC) is a financial institution carrying on as its principal business- asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities;

- **Mutual Benefit Financial Company**

It is a type of financial institution notified by the Central government under Section 620A of the Companies Act, 1956.

- **NBFC-Factor**

Non-Banking Financial Company as defined in clause (f) of Section 45-I of the RBI Act, 1934 and which has been granted a certificate of registration under Section 3 sub-section (1) of the Factoring Regulation Act, 2011.

### **Investment Limit Cap**

Investment limit has been capped by the RBI to the 20% of its owned fund in respect of deposit-taking NBFC-ICC which shall invest in unquoted shares of another company which is not a subsidiary company or same group company of the NBFC.

### **Rating Based Risk Weight**

Differential regulations in connection with the bank's exposure to the three categories of NBFC (AFC, IC and LC) also harmonized along with the aforesaid harmonization.

As per the guidelines of the RBI, the benefit of risk weighting on the basis of ratings is applicable on asset finance companies which means risk weights are 100% in case of all other NBFCs irrespective of the rating of the borrower NBFCs.

A separate RBI circular states that exposures to all NBFCs will be risk weighted as per the ratings assigned by the rating agencies which are registered with the Securities Exchange Board of India (SEBI) and accredited by RBI like corporate.

RBI clarified that exposures will be risk weighted as per credit ratings to all the NBFCs excluding core investment companies, hence exposures to CICs will continue to be fully risk weighted.

*“The risk weight model will work in the manner similar to Corporate.”*

### **Conclusion**

This step of harmonization of NBFC categories has been taken by the authority for better administration and **uniformity of norms**. It came along with the proposal of providing risk weight by the banks concerning lending to NBFCs on the basis of the credit rating. This is going to give major relief to asset finance companies which were in dilemma of deciding whether the asset qualifies as financing real or physical assets for productive and economic activity. As per the records, previously most of the NBFCs were investment companies, therefore in NBFC sector; there will be huge number of investment and credit companies. Above all from the viewpoint of exemption from lending/investment limits Companies Act, 2013 continues to distinguish between lending companies and investments companies.

RBI notification on Harmonization of different categories of NBFCs: [Click Here](#)

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