



# NBFC Compliance and Registration



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# NBFC Compliance and Registration

Discover how non-banking financial companies play a pivotal role in the growth and development of the financial sector in India.





# What is an NBFC?

## **Non-Banking Financial Company (NBFC)**

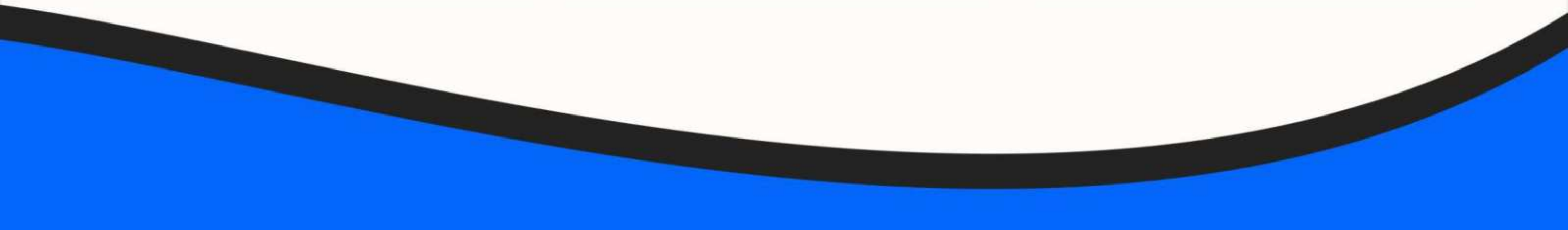
A financial institution that provides banking services without holding a banking license.

## **Differences from Traditional Banks**

NBFCs cannot accept demand deposits and do not form part of the country's payment and settlement system.

## **Importance in Providing Financial Services**

NBFCs play a vital role in providing credit to various underserved sectors of the economy.





# Types of NBFCs



## Categories

NBFCs can specialize in a variety of activities such as asset financing, microfinance, and infrastructure financing.



## Regulatory Distinctions

Different categories of NBFCs are subject to different regulatory requirements.



## Role in Capital Markets

NBFCs also play a crucial role in the capital markets through their participation in the stock exchange and other capital market activities.

# Future Prospects of NBFCs

The future prospects of NBFCs in India are bright. The sector is expected to grow at a CAGR of 18.5% between 2023 and 2026. This growth will be driven by the factors mentioned above, as well as the following:

- The government's focus on financial inclusion, which will create new opportunities for NBFCs to reach underserved segments of the population.
- The increasing adoption of data analytics and artificial intelligence by NBFCs, which will help them to improve their risk assessment and decision-making capabilities.
- The emergence of new business models, such as peer-to-peer lending, which will offer NBFCs new ways to reach borrowers.







# Regulatory Framework

## Overview

NBFCs are regulated by various regulatory bodies, with the Reserve Bank of India (RBI) being the primary regulator.

## Key Regulatory Bodies

Other regulatory bodies include the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority (IRDA), and the Ministry of Corporate Affairs (MCA).

# Registration Process

## Application Process

The registration application must be submitted online and should include all the necessary documents and information.

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## Pre-requisites

Before applying for registration, the NBFC should have a minimum net owned fund as prescribed by the RBI and meet other requirements.

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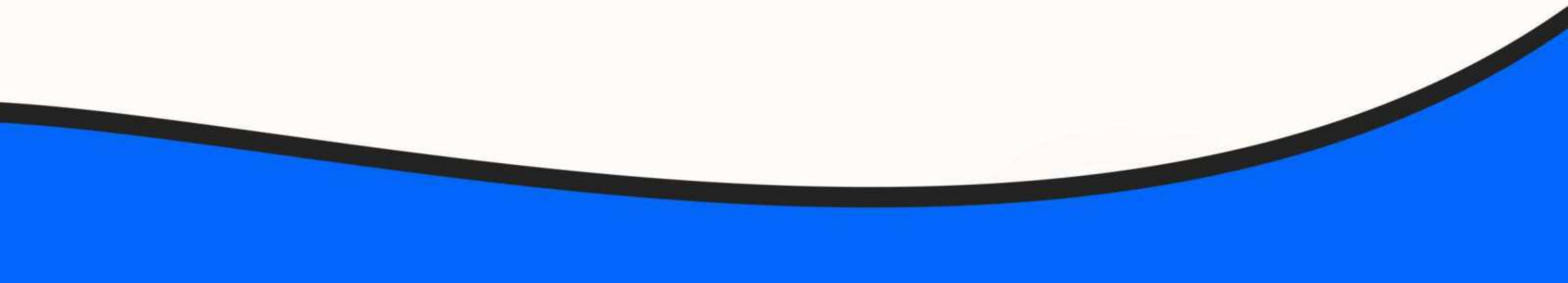
## Approval and Licensing

The application is reviewed by the RBI, and upon satisfactory compliance with all requirements, the NBFC is granted registration and an operating license.





# Asset Classification and Provisioning Norms

- Asset classification norms for NBFCs are similar to those of banks, with assets being classified as standard, sub-standard, doubtful, and loss.
  - Provisioning requirements must be complied with for non-performing assets, which affect the financial health of NBFCs.
  - Sound asset quality management practices are essential in ensuring the stability and longevity of an NBFC's business.
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# Fair Practices Code

Non-banking financial companies must follow the Fair Practices Code (FPC) in their dealings with customers. The FPC is a set of guidelines and principles that regulates the financial industry to ensure fair and honest business practices.

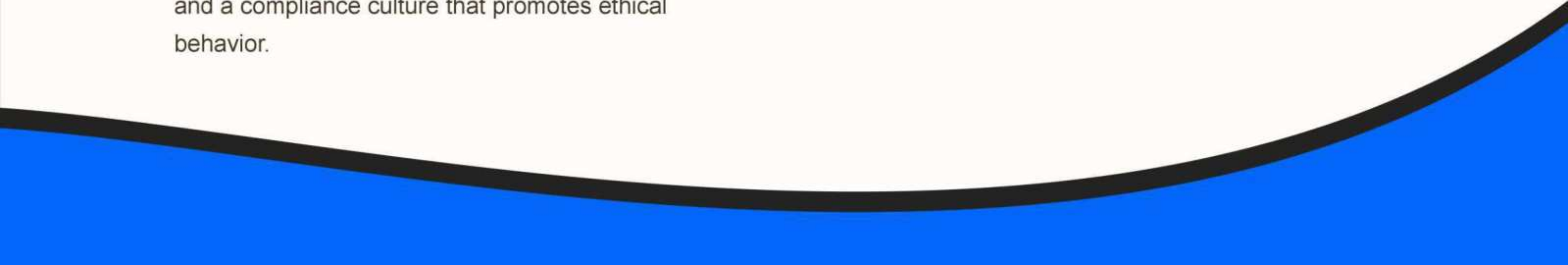


# Corporate Governance and Internal Controls

## Corporate Governance

- Implementation of robust corporate governance practices is crucial in ensuring the success and sustainability of an NBFC's operations.
- This includes a transparent and efficient decision-making process, a well-defined organization structure, and a compliance culture that promotes ethical behavior.

## Internal Controls

- Effective risk management and internal controls help NBFCs mitigate operational, external and credit risks.
  - Internal controls are designed to ensure adherence to regulatory norms, safeguard assets, and maintain financial stability.
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# Reporting and Compliance

Periodic reporting requirements must be followed, and NBFCs must submit the proper statutory returns and financial statements to the regulatory authorities.



# Recent Regulatory Updates



## Recent Changes

NBFC regulations are continually evolving, and companies must be aware of any changes in statutory requirements.



## Potential Impact

The regulatory environment can impact the profitability, growth and strategic direction of the NBFC and the broader financial industry.



## Adapting to Change

NBFCs should be prepared to be agile and responsive in adapting their operations to meet the regulatory changes.



# Size of NBFC Market in India

The size of the NBFC market in India is estimated to be around USD 326 billion in 2023. This is a significant increase from the size of the market in 2021, which was estimated to be around USD 250 billion. The growth of the NBFC market is being driven by a number of factors, including:





The rising demand for niche financial services provided by non-bank lenders, such as micro lending and small business financing.



The increasing penetration of digital lending platforms, which have made it easier for borrowers to access NBFC loans.



The growing affluence of the Indian population, which has led to an increase in demand for credit.





# Key Trends to Shape the Future of NBFCs in India

Here are some of the key trends that are expected to shape the future of NBFCs in India:

- **Digitalization:** NBFCs are increasingly adopting digital technologies to improve their operations and customer service. This includes the use of online lending platforms, mobile apps, and big data analytics.
  - **Innovation:** NBFCs are also innovating in new ways to reach borrowers and offer them financial products and services. This includes the use of peer-to-peer lending, crowdfunding, and microfinance.
  - **Regulatory changes:** The government is also expected to introduce new regulations for NBFCs in the coming years. These regulations are aimed at ensuring the safety and soundness of the sector.
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