

RBI forms new NBFCs' category by merging 3 to ease operational flexibility

The decision was taken by the RBI in its last bi-monthly monetary policy

Subrata Panda | Mumbai February 22, 2019 Last Updated at 22:47 IST



The Reserve Bank of India (RBI) has merged three categories of NBFCs — asset finance, loan

companies and investment companies — into one new category called NBFC-investment and credit company (NBFC-ICC) to ease operational flexibility of these institutions.

In its endeavor to replace entity-based regulations with activity-based ones, the RBI in its last bi-monthly monetary policy had decided to harmonise major categories of non-banking financial companies (NBFCs) engaged in credit intermediation into a single category.

Also, the central bank has capped the investment limit of deposit-taking NBFC-ICC in any other company to 20 per cent of its owned fund. However, no limit has been assigned as to how much this category of NBFC can invest in its own subsidiary.

“A deposit-taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund,” the RBI said in a statement.

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Moreover, this new category will attract risk weight from the banks according to the ratings assigned to it by the rating agencies registered with Securities and Exchange Board of India and accredited by RBI.

At present, all NBFCs attract a uniform risk weight of 100 per cent on their bank exposures. Only, Asset Finance Companies (AFCs), Infrastructure Finance Companies (NBFCs-IFC), and Infrastructure Development Funds (NBFCs-IDF) had the privilege of attracting risk weight in accordance with the ratings assigned by rating agencies.

The relaxation in risk weights is expected to make credit cheaper for better-rated NBFCs. The leeway means banks will be required to hold less capital against loans to some of the better-performing NBFCs. Similarly, the banks will have to set aside more capital if they are lending to NBFCs that do not have high ratings.

Experts believe the harmonisation will provide operational ease for both the regulator and the NBFCs but will not have a larger impact on the sector.