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RBI PLANS STRICTER NORMS FOR NBFCS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

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The Reserve Bank of India (RBI) on Friday proposed to tighten rules for major non-bank lenders to prevent a collapse in one of them from affecting the financial system.

The regulator proposed to classify the non-banking financial companies (NBFCs) into four categories, depending on their systemic importance and potential risk to the stability of the financial system.

The level of regulatory oversight will vary depending on the size of the lenders, among other criteria.

While RBI has sought to increase scrutiny of shadow banks, it has also assured them that the proposed changes will continue to allow those engaged in niche sectors and markets to have flexibility in business operations.

The changes aim to avert a crisis like the one set off by a series of payment defaults in 2018 by Infrastructure Leasing and Financial Services Ltd, which was then India's largest shadow lender.

The liquidity crisis that arose squeezed funding to non-banks and has engulfed several other lenders since then.

All NBFCs with assets of up to 1,000 crore will fall under the NBFC-Base Layer category. They comprise more than 9,200 of India's 9,425 non-deposit taking lenders and consist of non-systemically important NBFCs, peer-to-peer lending platforms, account aggregators and non-operating financial holding companies.

RBI has raised the net-owned funds requirement for these NBFCs to 20 crore from 2 crore earlier and also proposed that they can transition to the new regulation over a period of five years. The existing non-performing loan classification norm for these NBFCs will be changed to 90 days from 180 days now.

The NBFC-Middle Layer will consist of non-deposit taking NBFCs classified as systemically important and deposit-taking NBFCs. RBI has proposed no changes to the existing capital requirement for these NBFCs,which currently stands at 15% with minimum tier-I of 10%. However, the regulator has suggested that NBFCs with 10 or more branches will be required to adopt core banking solution. It has also put certain restrictions on lending. These NBFCs cannot provide loans to companies for buyback of securities.

The NBFC-Upper layer could include as many as 30 systemically significant NBFCs, which will be regulated like banks. These NBFCs will have to implement differential standard asset provisioning and also the large exposure framework as applicable to banks. They will also be subject to a mandatory listing requirement. RBI has also proposed to introduce common equity tier-I of 9% for these NBFCs.

A chief executive of a large non-bank financier said the impact of the proposed changes that will

apply to the upper layer will be limited.

“At present, NBFCs follow Ind-AS accounting standards that require risk-based provisioning. However, on the other issues like core equity tier-I capital requirements and its impact, we are consulting lawyers to figure out its impact," the chief executive said, declining to be named.

The NBFC-top layer is currently empty. However, RBI can move an NBFC to this category if it feels that there is an unsustainable increase in the systemic risk spill-overs from specific NBFCs in the upper layer. These NBFCs will be subject to higher capital charge, including capital conservation buffers. There will also be intensive supervisory engagement with these NBFCs.

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