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RBI Cancels Registration of 135 NBFCs

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Context

The **Reserve Bank of India (RBI)** has **cancelled the Certificate of Registration (CoR)** of **135 non-banking finance companies (NBFCs)**, including names like **Express Fincap House, Akshay Fiscal Services, Times Finance, Jupiter Projects, Jupiter Finvest, Essel Finance Business Loans, and Citiwide Financial Services**. Most of these NBFCs were registered in **West Bengal**. Separately, **13 NBFCs voluntarily surrendered their certificates** after **exiting the NBFI business, amalgamating, merging, dissolving, or being voluntarily struck off**. The action reflects the RBI's continued cleanup of the **NBFC sector** as part of its **supervisory and prudential oversight**.

The RBI Action

- **Action: Cancellation of Certificate of Registration (CoR).**
- **Number of NBFCs: 135.**
- **Sample names cancelled:**
 - **Express Fincap House.**
 - **Akshay Fiscal Services.**
 - **Times Finance (P).**
 - **Jupiter Projects (P) and Jupiter Finvest.**
 - **Essel Finance Business Loans.**
 - **Citiwide Financial Services.**
- **Concentration: Most had registered offices in West Bengal.**

Voluntary Surrender of Licences

- **13 NBFCs voluntarily surrendered their CoRs.**
- **Reasons:**
 - **Exit from NBFI business.**
 - **Amalgamation, merger, dissolution, or voluntary strike off.**

What is an NBFC?

- A **Non-Banking Financial Company (NBFC)** is a **company** registered under the **Companies Act**, engaged in the **business of loans and advances, acquisition of shares, stocks, bonds, debentures, leasing, hire-purchase, insurance, and chit business**.
- NBFCs do **not have a banking licence**, so they cannot:
 - Accept **demand deposits**.
 - Issue **cheques**.
 - Be part of the **payment and settlement system**.
- They are **regulated by the RBI** under the **RBI Act, 1934**.

What is the Certificate of Registration (CoR)?

- Issued by the **RBI** to **NBFCs** that meet **statutory and prudential requirements**.
- Mandatory for any **NBFC to operate** in India.

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- Can be **cancelled** if the NBFC:
 - **Fails to meet capital requirements.**
 - **Violates RBI rules or directions.**
 - **Becomes inactive or ceases business.**
 - **Engages in fraudulent or unfair practices.**

Why is the RBI Cancelling Registrations?

- **Cleanup of the NBFC sector** to:
 - **Remove inactive or non-compliant entities.**
 - **Strengthen financial stability.**
 - **Protect customers from fraudulent or unregulated lending.**
 - **Reduce the size of the unregulated grey market.**
 - **Improve the credibility** of the **regulated NBFC sector.**
- Earlier RBI actions have already **cancelled CoRs** of **hundreds of small NBFCs** over recent years.

What is the Scale-Based Regulation (SBR) Framework for NBFCs?

- Introduced by the **RBI in October 2021**, effective **1 October 2022**.
- Classifies NBFCs into **4 layers** based on **size, activity, and risk perception**:
 - **NBFC-Base Layer (NBFC-BL):**
 - NBFCs not accepting public deposits (NBFC-ND) with **asset size below ₹1,000 crore.**
 - **P2P lending platforms, Account Aggregators, NOFHCs, and NBFCs with no public funds and no customer interface.**
 - **NBFC-Middle Layer (NBFC-ML):**
 - All **deposit-taking NBFCs (NBFC-D).**
 - **Non-deposit taking NBFCs with asset size of ₹1,000 crore and above.**
 - **HFCs, IFCs, IDFs, CICs, SPDs.**
 - **NBFC-Upper Layer (NBFC-UL):**
 - **Top 25 to 30 NBFCs by size, interconnectedness, complexity, and supervisory inputs.**
 - **Subject to enhanced regulation** akin to banks.
 - **NBFC-Top Layer (NBFC-TL):**
 - Currently **empty.**
 - Reserved for **NBFCs that pose extreme systemic risk** (a kind of regulatory "red line").

Types of NBFCs (Activity-Based)

- **Asset Finance Company (AFC).**
- **Loan Company (LC).**
- **Investment Company (IC).**
- **Infrastructure Finance Company (IFC).**
- **Infrastructure Debt Fund (IDF).**
- **Core Investment Company (CIC).**
- **NBFC-Micro Finance Institution (NBFC-MFI).**
- **NBFC-Factor.**
- **NBFC-Account Aggregator (NBFC-AA).**
- **NBFC-Peer-to-Peer (NBFC-P2P).**
- **Housing Finance Company (HFC)** (regulated by RBI since 2019).
- **Mortgage Guarantee Company (MGC).**

- **Standalone Primary Dealers (SPDs).**

Practice MCQs**Q1. With reference to the RBI's recent action on NBFCs, consider the following statements:**

1. The RBI has cancelled the Certificate of Registration (CoR) of 135 NBFCs.
2. Many of the NBFCs whose CoRs were cancelled had registered offices in West Bengal.
3. Thirteen NBFCs voluntarily surrendered their CoRs after exiting business or merging.
4. The cancellation of CoRs means the NBFCs can continue to operate without RBI oversight.

How many of the above statements are correct?

- (a) Only one (b) Only two (c) **Only three** (d) All four (e) None

(Statement 4 is wrong; **cancellation of CoR means the NBFC cannot operate as an NBFC**, NOT continue operating without oversight.)

Q2. With reference to NBFCs in India, consider the following statements:

1. NBFCs are regulated by the Reserve Bank of India under the RBI Act, 1934.
2. NBFCs cannot accept demand deposits.
3. NBFCs cannot issue cheques drawn on themselves and are not part of the payment and settlement system.
4. NBFCs are licensed and regulated entirely by SEBI, not the RBI.

Which of the above are correct?

- (a) **1, 2 and 3 only** (b) 1, 3 and 4 only (c) 2 and 4 only (d) 1 and 4 only (e) All four

(Statement 4 is wrong; **NBFCs are licensed and regulated by the RBI**, NOT SEBI.)

Q3. With reference to the Scale-Based Regulation (SBR) framework for NBFCs, consider the following statements:

1. The SBR framework classifies NBFCs into four layers: Base, Middle, Upper, and Top.
2. The NBFC-Upper Layer typically covers the top 25 to 30 NBFCs based on size, complexity, and risk.
3. The NBFC-Top Layer is currently empty and reserved for NBFCs that pose extreme systemic risk.
4. The SBR framework was introduced by SEBI in 2021.

Which of the above are correct?

- (a) **1, 2 and 3 only** (b) 1, 3 and 4 only (c) 2 and 4 only (d) 1 and 4 only (e) All four

(Statement 4 is wrong; the **SBR framework was introduced by the RBI**, NOT SEBI.)

Q4. With reference to specialised NBFC categories, consider the following statements:

1. NBFC-MFI (Microfinance Institution) provides micro loans to low-income borrowers.
2. NBFC-AA (Account Aggregator) is licensed to manage consent-based financial data sharing.
3. NBFC-P2P operates a peer-to-peer lending platform.
4. Housing Finance Companies (HFCs) are regulated by the SEBI since 2019.

Which of the above are correct?

- (a) **1, 2 and 3 only** (b) 1, 3 and 4 only (c) 2 and 4 only (d) 1 and 4 only (e) All four

(Statement 4 is wrong; **HFCs are regulated by the RBI since 2019**, NOT by SEBI.)

Answer Key

1. (c), Statements 1, 2, 3 are correct; Statement 4 is wrong because cancellation of CoR means the NBFC cannot operate as an NBFC.

2. (a), Statements 1, 2, 3 are correct; Statement 4 is wrong because NBFCs are licensed and regulated by the RBI, not SEBI.
3. (a), Statements 1, 2, 3 are correct; Statement 4 is wrong because the SBR framework was introduced by the RBI, not SEBI.
4. (a), Statements 1, 2, 3 are correct; Statement 4 is wrong because HFCs are regulated by the RBI since 2019.

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