

NBFC (Non Banking Financial Company): Explained

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Introduction

Non-bank financial companies (NBFCs) are financial institutions that provide some of the banking services without the definition of a bank since it do not hold a banking license. NBFCs are companies registered under the Companies Act, 1956 engaged in the business of [loans and advances](#), acquisition of shares, stocks, bonds, debentures or securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business and chit fund business.

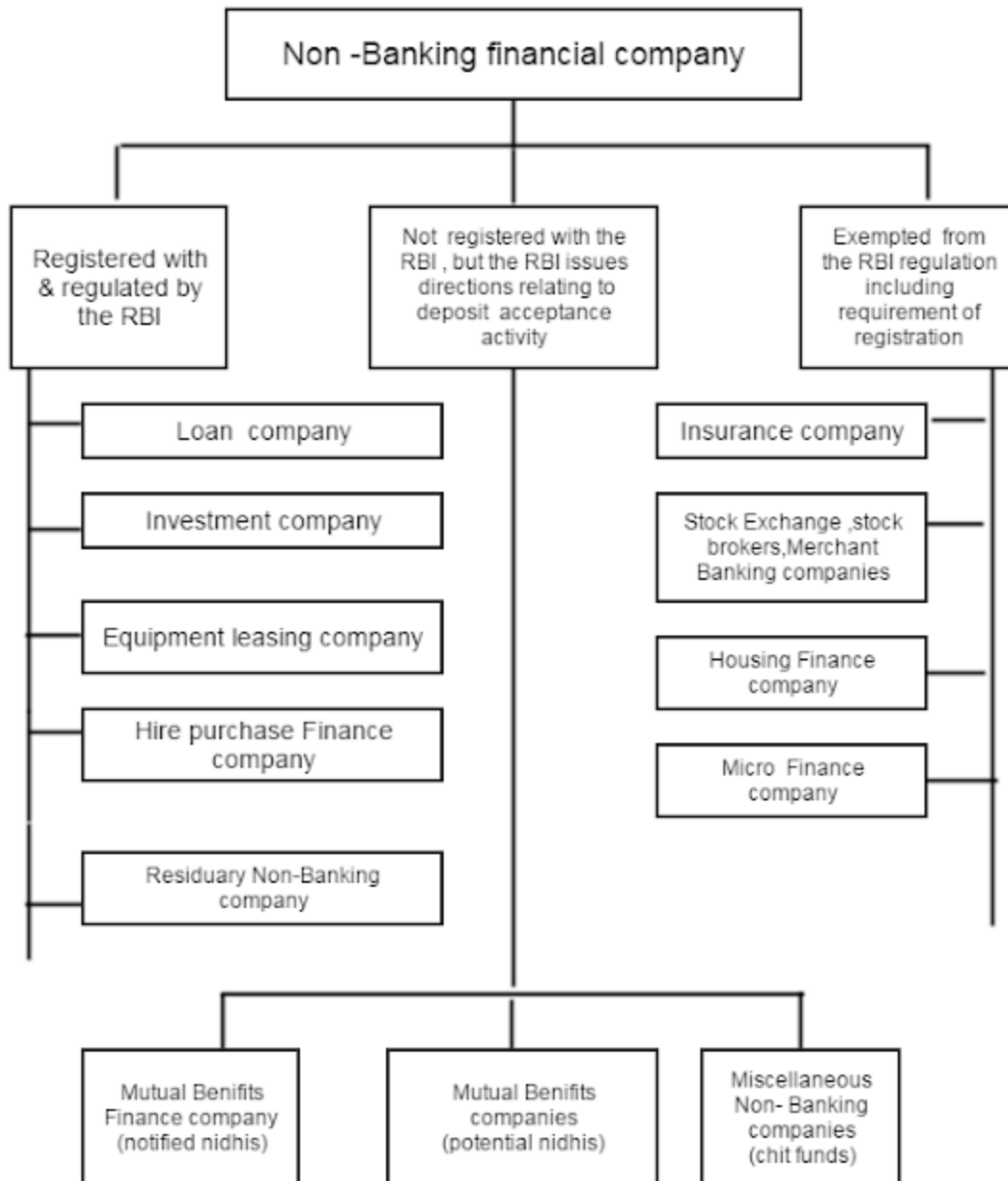
Types of Non-Banking financial Companies (NBFCs)



Types of NBFCs by their Principle Business

Non- Banking financial Companies (NBFCs)	Principal Business
Equipment Leasing Company (EL)	Equipment leasing or financing of such activity
Hire Purchase Finance Company (HP)	Hire purchase transaction or purchasing or such transaction.
Investment Company (IC)	Acquisition of securities and trading in such securities to earn a profit
Loan Company (LC)	Making loans or advances for any activity other than its own; EL/HP; housing Finance
Residuary Non- Banking Companies (RNBCs)	Receives deposits under any scheme or arrangement , by whatever name called, in one lump-sum or in installment by way of contributions or subscriptions or by sale of units or certificates or other instruments , or in any manner
Mutual Benefit Financial Companies (MBFC) i.e. Nidhi Company	Any company which is notified by the central Government as a Nidhi Company under section 620A of the companies Act, 1956. It is a NBFC doing the business of lending and borrowing with its members or shareholders.
Miscellaneous Non- Banking Company (MNBC) i.e. Chit fund Company	Managing . conducting or supervising as a promoter , foreman or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that every one of them shall subscribe a certain amount in installments over a definite period and that every one such subscribers shallin

turn, as determined by lot or by auction or by tender or in such manner as may be provided for in the arrangement . be entitled to the prize amount.



NBFCs can be classified into two broad categories:

- NBFCs accepting public deposit (they hold a deposit accepting certificate of registration).
- NBFCs not accepting/holding public deposit (they do not hold such a certificate).

To accept deposits:

- A Non Banking Financial Company has to be registered with the RBI and have certificates of authorization to accept deposits from the public.
- An NBFC must show the certified copy for accepting deposits at the registered office and other branches.
- An NBFC registered with the RBI merely authorizes it to conduct the business of an NBFC. NBFCs cannot use the name of the RBI in any manner while conducting their business.
- The NBFC whose application for the authorization certificate for accepting deposits has been rejected by the Reserve Bank of India cannot accept fresh deposits neither can it renew existing deposits.

Difference between BANK & NBFC:

- NBFCs lend and make investments and hence their activities are similar to that of banks. However there are a few differences as given below:
- NBFC cannot accept demand deposits
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Relation with RBI:

- A company which comes under the Companies Act, 1956 and desirous of commencing business of non-banking financial institution as defined under Section 45 I (a) of the RBI Act, 1934 should comply with the following:
- The company should be registered under Section 3 of the companies Act, 1954.

- It should have a minimum net owned fund of Rs 200 lakhs.

Deposits:

- At present the maximum rate of interest which can be offered by an NBFC is 12.5%.
- The interest may be paid or compounded at rests not shorter than monthly rests.
- The NBFCs are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months.
- They cannot accept deposits repayable on demand.
- The deposits with NBFCs are not insured.
- The Reserve Bank of India does not ensure the repayment of deposits by NBFCs.

Minimum capital required for setting up an NBFC : 100 crores.