FAQs on "All you wanted to know about NBFCs"

(Updated as on November 11, 2026)

A. Definitions

1. What is a Non-Banking Financial Company (NBFC)?

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 or Companies Act, 2013, and engaged in the business of loans and advances, acquisition of shares/ stocks/ bonds/ debentures/ securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, etc., as their principal business, but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/ purchase/ construction of immovable property.

2. What does conducting financial activity as "principal business" mean?

Financial activity as principal business is when a company's financial assets constitute more than 50 per cent of the total assets (netted off by intangible assets) and income from financial assets constitute more than 50 per cent of the gross income. A company which fulfils both these criteria needs to get registered as NBFC with the Reserve Bank. The term 'principal business' has not been defined in the Reserve Bank of India Act, 1934. Hence, the Reserve Bank has defined it vide Press Release 1998-99/1269 dated April 08, 1999 so as to ensure that only companies predominantly engaged in financial activity get registered with it and are regulated and supervised by it. Hence, if there are companies engaged in agricultural operations, industrial activity, purchase and sale of goods, providing services or purchase, sale or construction of immovable property as their principal business and are doing some financial business in a small way, they will not be regulated by the Reserve Bank. Interestingly, this test is popularly known as 50-50 test and is applied to determine whether or not a company is into financial business.

3. NBFCs are doing functions similar to banks. What is the difference between banks and NBFCs?

Banks and NBFCs are different entities subject to different statutory and regulatory requirements. However, NBFCs lend and make investments and hence these activities are akin to that of banks. The major differences between banks and NBFCs are given below:

(i) NBFCs cannot accept demand deposits;

(ii) NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

(iii) Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors of deposit taking NBFCs.

4. Is it necessary that every NBFC should be registered with the Reserve Bank?

In terms of Section 45-IA of the RBI Act, 1934, no company can commence or carry on business of a non-banking financial institution without obtaining a certificate of registration from the Reserve Bank and without having a Net Owned Funds (NOF) of ₹10 crore with effect from October 01, 2022 (NBFCs seeking registration shall have NOF of ₹10 crore *ab initio*, and existing NBFCs have timeline upto March 31, 2027 to attain NOF of ₹10 crore).

It may be noted that the Reserve Bank does not regulate all financial companies. Depending upon the nature of activities, the financial companies may fall under the regulatory purview of other Regulators like SEBI, IRDAI, Government, etc. In terms of the powers conferred upon the Reserve Bank, in order to obviate dual regulation, certain categories of NBFCs which are regulated by other regulators are exempted from the requirement of registration with the Reserve Bank viz., Alternative Investment Fund/ Merchant Banking companies/ Stock broking companies registered with SEBI; Insurance Company holding a valid Certificate of Registration issued by IRDA; Nidhi companies as notified under relevant provisions of the Companies Act, 1956; Chit companies doing the business of chits as defined in clause (b) of Section 2 of the Chit Funds Act, 1982; Stock Exchange or a Mutual Benefit company, etc. The categories of NBFCs which are exempted from certain provisions of the RBI Act, 1934 are specified in the 'Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025, as amended from time to time.

5. What are the requirements for registration with the Reserve Bank?

A 'company' desirous of commencing the business of non-banking financial institution as defined under Section 45I(a) of the RBI Act, 1934 should comply with the following:

(i) It should be a company incorporated under Section 3 of the companies Act, 1956 or corresponding Section under the Companies Act, 2013;

(ii) It should have a minimum net owned fund of ₹10 crore. (The minimum net owned fund requirements for specialized NBFCs are NBFC-Infrastructure Finance Company (NBFC-IFC) – ₹300 crore; Infrastructure Debt Fund – NBFC (IDF-NBFC) – ₹300 crore; Mortgage Guarantee Company (MGC) – ₹100 crore; Housing Finance Company (HFC) – ₹20 crore, Standalone Primary Dealers (SPDs) which undertake only the core activities – ₹150 crore and SPDs which also undertake non-core activities – ₹250 crore; NBFC-AA – ₹2 crore; and NBFC-P2P – ₹2 crore).

(iii) The applicant company shall submit an application on PRAVAAH portal of Reserve Bank along with necessary documents prescribed under RBI's Press Release 2015-2016/2935 dated June 17, 2016.

B. Entities regulated by RBI and applicable regulations

6. What are the different types/categories of NBFCs registered with the Reserve Bank?

NBFCs are categorized (a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs; (b) regulatory structure of NBFCs under Scale Based Regulation into NBFC-Base Layer, NBFC-Middle Layer, NBFC-Upper Layer, and NBFC-Top Layer (as detailed in Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025); and (c) by the kind of activity they conduct. Based on the type of activities they conduct, the different types of NBFCs are as follows:

(i) Investment and Credit Company (ICC): ICC means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFCs as defined by the Reserve Bank in any of its Directions.

(ii) Housing Finance Company (HFC): HFC shall mean a company that fulfils the following conditions:

(a) It is an NBFC whose financial assets, in the business of providing finance for housing, constitute at least 60% of its total assets (netted off by intangible assets). Housing finance for this purpose shall mean providing finance as

stated in paragraph 10(8) of the Reserve Bank of India (Housing Finance Companies) Directions, 2025.

(b) Out of the total assets (netted off by intangible assets), not less than 50% should be by way of housing finance for individuals as stated at clauses (i) to (v) of Paragraph 10(8) of the aforementioned Directions for HFCs.

(iii) Infrastructure Finance Company (IFC): IFC is a non-banking finance company (a) which deploys at least 75 per cent of its total assets towards infrastructure lending.

(iv) Infrastructure Debt Fund (IDF-NBFC): IDF-NBFC means a non-deposit taking NBFC which is permitted to (a) refinance post commencement operations date (COD) infrastructure projects that have completed at least one year of satisfactory commercial operations; and (b) finance toll operate transfer (TOT) projects as the direct lender.

(v) Core Investment Company (CIC): CIC is a NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:

(a) It holds not less than 90% of its net assets in the form of investment in equity shares, preference shares, debt or loans in group companies;

(b) Its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trusts (InvITs) only as sponsor constitutes not less than 60% of its net assets;

(c) Provided that the exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time. It does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

(d) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except (i) investment in bank deposits, money market instruments, government securities, bonds or debentures issued by group companies; (ii) granting of loans to group companies; and (iii) issuing of guarantees on behalf of group companies;

(e) Its asset size is ₹100 crore or above; and

(f) It accepts public funds

(vi) Micro Finance Institution (NBFC-MFI): "NBFC-MFI" means a non-deposit taking NBFC which has a minimum of 60 percent of the total assets (netted off by intangible assets) deployed towards "microfinance loans" as defined under Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 as under:

(a) A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

(b) All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

(c) To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

(d) The NBFCs shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

(vii) Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 per cent of its total assets and its income derived from factoring business should not be less than 50 per cent of its gross income.

(viii) Mortgage Guarantee Companies (MGC): MGC means a company registered as mortgage guarantee company which primarily transacts the business of providing mortgage guarantee i.e., a guarantee for the repayment of an outstanding housing loan and interest accrued thereon up to the guaranteed amount to a creditor institution, on the occurrence of a trigger event. A mortgage guarantee company shall be deemed to primarily transact the business of providing mortgage guarantee when at least 90 per cent of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business.

(ix) Standalone Primary Dealers (SPDs): SPDs are primarily NBFCs which have been granted authorisation to undertake the Primary Dealer activities in Government Securities. SPDs may undertake a set of core and non-core activities which are

clearly defined. SPDs support G- Sec market, (both primary and secondary) through various obligations like participating in primary auctions, market making in G- Secs, predominance of investment in G-Secs, achieving minimum secondary market turnover ratio, etc.

(x) Non-Operative Financial Holding Company (NOFHC): NOFHC means a non-deposit taking NBFC referred to in the Reserve Bank of India (Non-Operative Financial Holding Companies) Directions, 2025 (Updated as on December 05, 2025), issued by the Reserve Bank, which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by the Reserve Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

(xi) NBFC – Account Aggregator (NBFC-AA): NBFC-AA means a non-banking financial company as notified under in sub-clause (iii) of clause (f) of section 45-I of the RBI Act, that undertakes the business of an account aggregator, for a fee or otherwise. The "business of an account aggregator" means the business of providing under a contract, the service of, retrieving or collecting such financial information pertaining to its customer, as may be specified by the Reserve Bank from time to time; and consolidating, organizing and presenting such information to the customer or any other financial information user as may be specified by the Bank; Provided that, the financial information pertaining to the customer shall not be the property of the Account Aggregator, and not be used in any other manner.

(xii) NBFC – Peer to Peer Lending Platform (NBFC-P2P): NBFC-P2P means a non-banking institution which carries on the business of a Peer to Peer Lending Platform i.e., acting as intermediary providing the services of loan facilitation via online medium or otherwise, to the participants of the platform.

7. What are the powers of the Reserve Bank with regard to 'Non-Bank Financial Companies', that is, companies that meet the Principal Business Criteria or 50-50 criteria?

The Reserve Bank has been empowered under the RBI Act 1934 to register, determine policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs that fulfil the principal business criteria or 50-50 criteria of principal business. The Reserve Bank can penalize NBFCs for violating the provisions of the RBI Act or

the directions or orders issued by the Reserve Bank under RBI Act. The penal action may also include cancellation of the Certificate of Registration issued to the NBFC.

8. What action can be taken against persons/financial companies making false claim of being regulated by the Reserve Bank?

It is illegal for any person/ entity/ financial company to make a false claim of being regulated by the Reserve Bank to mislead the public to collect deposits and is liable for penal action under the Law. Information in this regard may be forwarded to the nearest office of the Reserve Bank and the Police.

9. What action is taken if financial companies which are lending or making investments as their principal business do not obtain a Certificate of Registration from the Reserve Bank?

If companies that are required to be registered with the Reserve Bank as NBFCs, are found to be conducting non-banking financial activity, such as, lending, investment or deposit acceptance as their principal business, without obtaining Certificate of Registration from the Reserve Bank, the same would be treated as contravention of the provisions of the RBI Act, 1934 and would invite penal action viz., penalty or fine or even prosecution in a Court of Law. If members of public come across any entity which undertakes non-banking financial activity but does not figure in the list of authorized NBFCs on the Reserve Bank’s website, they should inform the nearest Regional Office of the Reserve Bank, for appropriate action to be taken for contravention of the provisions of the RBI Act, 1934.

10. Where can one find list of Registered NBFCs and instructions issued to NBFCs?

The list of registered NBFCs is available on the web site of Reserve Bank (Home - Reserve Bank of India) under ‘Regulation → Non-Banking’. Further, the Directions issued to NBFCs from time to time are hosted on the Reserve Bank’s website under ‘Notifications’, and some instructions are issued through Official Gazette notifications and press releases as well.

11. What are the regulations prescribed by the Reserve Bank for NBFCs?

As part of regulatory framework for NBFCs, the Reserve Bank prescribes various Directions on prudential aspects viz., leverage, provisioning, corporate governance

framework, etc.; conduct of business aspects viz., KYC/ AML regulations, fair practices code, governance & disclosures, etc.; and other miscellaneous aspects to ensure that NBFCs are financially sound and follow transparency in their operations. The regulatory framework for NBFCs is contained in various directions and notifications/ circulars issued from time to time, which and are available on the website of the Reserve Bank (www.rbi.org.in) under 'notifications'.

12. What does the term public funds include? Is it the same as public deposits?

Public funds are not the same as public deposits. Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. Even though public funds include public deposits in the general course, it may be noted that CICs as also non-deposit taking NBFCs are not allowed to accept public deposits.

Further, indirect receipt of public funds means funds received not directly but through associates and group entities which have access to public funds.

13. NBFCs are charging high interest rates from their borrowers. Is there any ceiling on interest rate charged by the NBFCs to their borrowers?

Reserve Bank of India has deregulated interest rates to be charged to borrowers by NBFCs. The rate of interest to be charged by the company is governed by the terms and conditions of the loan agreement entered into between the borrower and the NBFCs. However, the NBFCs have to be transparent and the rate of interest and manner of arriving at the rate of interest to different categories of borrowers should be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter and on their websites, Key Facts Statement, etc., to enable the borrower to take an informed decision.

14. What are the regulations for lending against security of shares by NBFCs?

NBFCs shall comply with the regulations contained in paragraph 106 of the Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 (as amended from time to time) while granting loans against security of shares. The regulations include*, inter alia*, maintaining a Loan to Value (LTV) ratio of 50% at all times, accept only Group 1 securities as collateral for loans of value more than ₹5 lakh

where lending is done for investment in capital markets, undertake necessary reporting to stock exchanges on shares pledged in their favour, etc.

In addition to the above, there are other related regulations on NBFCs viz., there shall be ceiling of ₹1 crore per borrower for financing subscription to Initial Public Offer (IPO) and NBFCs can fix more conservative limits. Further, NBFCs are prohibited from lending against security of their own shares and debentures.

15. Will the regulations on Lending against security of shares be applicable on restructured accounts?

The resolution of stressed assets are subject to the provisions of Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025 (as amended from time to time). The acquisition of shares due to conversion of debt into equity during a restructuring process will be exempted from regulatory ceilings on capital market exposures.

16. Will the regulations on Lending against security of shares be applicable on those loans where the primary security is not shares/ units of mutual funds?

Loans which are against the collateral of multiple securities and it is specifically agreed to in the agreement that primary security would be something other than shares/ units of mutual funds, LTV would not be applicable. However, reporting requirements shall remain. In cases where such differentiation is not made (thereby NBFCs can off-load shares at the instance of a default), LTV would be applicable.

17. Whether LTV for loans against security of shares is to be computed at scrip level or at portfolio level?

LTV would be computed at portfolio level.

18. Whether PoA/ Non-Disposal undertaking structure by whatever name called is covered under the regulatory prescriptions on Lending against security of shares?

The regulations would be applicable, and the type of encumbrance created is immaterial.

C. Definition of deposits, Eligible / Ineligible Institutions to accept deposits and Related Matters

19. What is 'deposit' and 'public deposit'? Is it defined anywhere?

The term 'deposit' is defined under Section 45 I(bb) of the RBI Act, 1934. 'Deposit' includes and shall be deemed always to have included any receipt of money by way of deposit or loan or in any other form but does not include:

(i) amount raised by way of share capital, or contributed as capital by partners of a firm;

(ii) amount received from a scheduled bank, a co-operative bank, a banking company, Development bank, State Financial Corporation, IDBI or any other institution specified by RBI;

(iii) amount received in ordinary course of business by way of security deposit, dealership deposit, earnest money, advance against orders for goods, properties or services;

(iv) amount received by a registered money lender other than a body corporate;

(v) amount received by way of subscriptions in respect of a 'Chit'.

The term 'public deposit' is defined under paragraph 7(14) of the Reserve Bank of India (Non-Banking Financial Companies – Acceptance of Public Deposits) Directions, 2025 (as amended from time to time) as a 'deposit' as defined under Section 45I(BB) of the RBI Act, 1934 and further excludes the following:

(a) amount received from the Central/ State Government or any other source where repayment is guaranteed by Central/ State Government or any amount received from local authority or foreign government or any foreign citizen/ authority/ person;

(b) any amount received from financial institutions specified by RBI for this purpose;

(c) any amount received by a company from any other company;

(d) amount received and held pursuant to an offer made in accordance with the provisions of the Companies Act, 2013, towards subscription to any securities, including share application money or advance towards allotment of securities pending allotment, to such extent and for such period as permissible under the Companies (Acceptance of Deposit) Rules, 2014 and as amended from time to time;

(e) amount received from directors of a company or from its shareholders by private company or by a private company which has become a public company, provided that the director or shareholder furnishes a declaration in writing that the amount is not given out of funds acquired by borrowing or accepting from others;

(f) amount raised by issue of bonds or debentures secured by mortgage of any immovable property or other asset of the company subject to conditions;

(g) any amount raised by issuance of non-convertible debentures with a maturity more than one year and having the minimum subscription per investor at ₹1 crore and above, provided it is in accordance with the guidelines issued by the Bank.

(h) the amount brought in by the promoters by way of unsecured loan;

(i) amount received from a mutual fund;

(j) any amount received as hybrid debt or subordinated debt, the minimum maturity of which is not less than 60 months provided there is no option for recall by the issuer within the period;

(k) amount received from a relative of the director of an NBFC;

(l) any amount received by issuance of Commercial Paper in accordance with the guidelines issued by the Bank;

(m) any amount received by a NBFC-Middle Layer and above, by issuance of 'perpetual debt instruments' in accordance with the guidelines issued by the Bank;

(n) any amount raised by the issue of infrastructure bonds by an Infrastructure Finance Company as specified in the notification issued by Central Government under Section 80CCF of the Income Tax Act, 1961.

Thus, the directions exclude from the definition of public deposit, amounts raised from certain set of informed lenders who can make independent decision.

20. Which entities can legally accept deposits from public?

Banks, including co-operative banks, can accept deposits. NBFCs (including Housing Finance Companies), which have been issued Certificate of Registration by the Reserve Bank with a specific licence to accept deposits, are entitled to accept public deposit. In other words, not all NBFCs registered with the Reserve Bank are entitled to accept deposits but only those that hold a deposit accepting Certificate of Registration, can accept deposits. Further, these deposit accepting NBFCs can accept deposits, only to the extent permissible. Companies authorized by Ministry of Corporate Affairs under the Companies (Acceptance of Deposits) Rules framed by Central Government under the Companies Act can also accept deposits upto a certain limit. Cooperative Credit Societies (including Salary Earners Societies) can accept deposits from their members but not from the general public, and are under the

purview of Registrar of Cooperative Societies. The Reserve Bank regulates the deposit acceptance only of banks, cooperative banks and NBFCs.

It is not legally permissible for other entities to accept public deposits. Unincorporated bodies like individuals, partnership firms, and other association of individuals are prohibited from carrying on the business of acceptance of deposits as their principal business. Such unincorporated bodies are prohibited from accepting deposits even if they are carrying on financial business.

Further, The First Schedule of the 'The Banning of Unregulated Deposit Schemes Act, 2019' may be referred for the list of regulated deposit schemes.

21. Can all NBFCs accept deposits? Is there any ceiling on acceptance of Public Deposits? What is the rate of interest and period of deposit which NBFCs can accept?

All NBFCs are not entitled to accept public deposits. Only those NBFCs that hold a deposit accepting Certificate of Registration, and have a minimum investment grade credit rating of 'BBB–' from any of the SEBI-registered credit rating agencies, are allowed to accept/ hold public deposits up to a limit of 1.5 times of their Net Owned Funds. Presently, the maximum rate of interest an NBFC can offer 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 which are repayable after 12 months but not later than 60 months. They cannot accept deposits repayable on demand. The list of NBFCs which are specifically licensed by the Reserve Bank to accept deposits is available on its website (www.rbi.org.in) under Regulation → Non-Banking → NBFCs. Members of the public are advised to check the list before placing deposits with NBFCs.

However, as a matter of public policy, Reserve Bank has decided that only banks should be allowed to accept public deposits and as such, has, since 1997, not issued any Certificate of Registration (CoR) to new NBFCs for acceptance of public deposits.

22. In respect of companies which do not fulfill the 50-50 criteria but are accepting deposits – do they come under Reserve Bank's purview?

A company which does not have financial assets which are more than 50% of its total assets and does not derive at least 50% of its gross income from such assets is not an NBFC. Its principal business would be non-financial activity like agricultural

operations, industrial activity, purchase or sale of goods or purchase/construction of immovable property, and will be a non-banking non-financial company. Acceptance of deposits by a Non-Banking Non-Financial Company are governed by the rules and regulations issued by the Ministry of Corporate Affairs.

23. Why is the Reserve Bank so restrictive in allowing NBFCs to raise public deposits?

The Reserve Bank's overarching concern while regulating/ supervising any financial entity is protection of depositors' interest. Depositors place deposit with any entity on trust unlike an investor who invests in the shares of a company with the intention of sharing the risk as well as return with the promoters. Protection of depositors' interest, thus, is supreme in financial regulation. Further, the deposits of NBFCs do not have insurance from the Deposit Insurance and Credit Guarantee Corporation.

24. How does the Reserve Bank come to know about unauthorized acceptance of deposits by companies not registered with it or of NBFCs engaged in lending or investment activities without obtaining the Certificate of Registration from it?

NBFCs that ought to have sought registration from the Reserve Bank but are functioning without doing so are committing a breach of law. Such companies are liable for action as envisaged under the RBI Act, 1934. To identify such entities, the Reserve Bank has multiple sources of information. These include market intelligence, complaints received from affected parties, industry sources, and exception reports submitted by statutory auditors in terms of Master Direction - Non-Banking Financial Companies Auditor’s Report (Reserve Bank) Directions, 2016 (as amended from time to time). Further, the State Level Co-ordination Committees (SLCC) is convened by the Reserve Bank in all the States/UTs on quarterly basis. The SLCC is now chaired by the Chief Secretary/ Administrator of the concerned State/UT and has, as its members, apart from the Reserve Bank, the Regional Directorate of the MCA/ ROC, local unit of SEBI, NHB, Registrar of Chits, ICAI, Economic Intelligence Unit of the State Police and officials from Law and Home Ministries of the State Government. As all the relevant financial sector regulators and enforcement agencies participate in the SLCC, it is possible to quickly share the information and agree on an effective course of action to be taken against entities indulging in unauthorized and suspect businesses involving funds mobilization from public.

25. Can Proprietorship/Partnership Concerns associated/not associated with registered NBFCs accept public deposits? What action can be taken if such unincorporated entities accept public deposits?

No. Proprietorship and partnership concerns are un-incorporated bodies. Hence, they are prohibited under the RBI Act 1934 from accepting public deposits. Such unincorporated entities, if found accepting public deposits, are liable for penal action under the Act.

26. There are many jewellery shops taking money from the public in instalments. Is this amounting to acceptance of deposits?

It depends on whether the money is received as advance for delivering jewellery at a future date or whether the money is received with a promise to return the same with interest. The money accepted by Jewellery shops in instalments for the purpose of delivering jewellery at the end of the period of contract is not deposit. It will amount to acceptance of deposits if in return for the money received, the jewellery shop promises to return the principal amount along with interest.

27. What is the difference between acceptance of money by Chit Funds and acceptance of deposits?

Deposits are defined under the RBI Act 1934 as acceptance of money other than that raised by way of share capital, money received from banks and other financial institutions, money received as security deposit, earnest money and advance against goods or services and subscriptions to chits. All other amounts received in any form are treated as deposits. Chit Funds activity involves contributions by members in instalments by way of subscription to the Chit and by rotation each member of the Chit receives the chit amount. The subscriptions are specifically excluded from the definition of deposits and cannot be termed as deposits. While Chit funds may collect subscriptions as above, they are prohibited by the Reserve Bank from accepting deposits from public (except from shareholders) with effect from August 2009.

D. Depositor Protection Issues

28. What precautions should a depositor take before placing deposit with an NBFC?

A depositor wanting to place deposit with an NBFC must take the following precautions before placing deposits:

(i) That the NBFC is registered with the Reserve Bank and specifically authorized by the Reserve Bank to accept deposits. The list of deposit taking NBFCs entitled to accept deposits is available on the web site of the Reserve Bank of India (www.rbi.org.in) under 'Regulation → Non-Banking'. The depositor should check the above list to know about NBFCs permitted to accept public deposits therein.

(ii) NBFCs have to prominently display the Certificate of Registration (CoR) issued by the Reserve Bank at place of business. This CoR should also reflect that the NBFC has been specifically authorized by the Reserve Bank to accept deposits. Depositors must scrutinize the CoR to ensure that the NBFC is authorized to accept deposits.

(iii) The maximum interest rate that an NBFC can pay to a depositor should not exceed 12.5% currently. The Reserve Bank keeps altering the interest rates depending on the macro-economic environment and publishes the change in the interest rates on its website (www.rbi.org.in) under 'notifications'.

(iv) The depositor must insist on a proper receipt for every amount of deposit placed with the NBFC. The receipt should be duly signed by an officer authorized by the NBFC and should state the date of the deposit, the name of the depositor, the amount in words and figures, rate of interest payable, maturity date and amount.

(v) In the case of brokers/agents, etc., collecting public deposits on behalf of NBFCs, the depositors should satisfy themselves that the brokers/agents are duly authorized by the NBFC.

(vi) The depositor must bear in mind that public deposits are unsecured and Deposit Insurance facility is not available to depositors of NBFCs.

(vii) The Reserve Bank of India does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the NBFC.

29. In case an NBFC defaults in repayment of deposit, what course of action can be taken by depositors?

If an NBFC defaults in repayment of deposit, the depositor can approach the Company Law Board (now National Company Law Tribunal) or Consumer Forum or file a civil suit in a Court of Law to recover the deposits. Further, at the level of the State Government, the State Legislations on Protection of Interest of Depositors (in Financial Establishments) empowers the State Governments to take action even before the default takes place or complaints are received from depositors. If there is perpetration of an offence and if the intention is to defraud, the State Government can even attach properties. NBFCs are also advised to lay down an appropriate grievance redressal mechanism as indicated in reply to question 26 below.

30. What is the role of Company Law Board (CLB), now National Company Law Board (NCLT), in protecting the interest of depositors? How can one approach it?

When an NBFC fails to repay any deposit or part thereof in accordance with the terms and conditions of such deposit, the CLB/NCLT either on its own motion or on an application from the depositor, direct by order, the NBFC to make repayment of such deposit or part thereof forthwith or within such time and subject to such conditions as may be specified in the order. After making the payment, the company will need to file the compliance with the local office of the Reserve Bank of India.

As explained above, the depositor can approach CLB/NCLT by mailing an application in prescribed form to the appropriate bench of the CLB/NCLT according to its territorial jurisdiction.

31. Is there an Ombudsman for hearing complaints against NBFCs or does the Reserve Bank have any grievance redressal mechanism in place for NBFCs?

It is prescribed that the Board of Directors of NBFCs shall lay down the appropriate grievance redressal mechanism within the organisation and such mechanism shall ensure that all disputes arising out of the decisions of the lending institution's functionaries are heard and disposed of at least at the next higher level.

Further, NBFCs (excluding Housing Finance Companies) which are authorised to accept deposits; or have customer interface and an asset size of ₹100 crore & above as on the date of the last audited balance sheet, are covered under Reserve Bank - Integrated Ombudsman Scheme, 2021 (as amended from time to time). In case of grievances against NBFCs, which are covered under RBI Ombudsman Scheme, are

not redressed within a period of one month, the customer may approach the Ombudsman through its CMS portal accessible on the link https://cms.rbi.org.in/cms/indexpage.html#eng.

32. What does the Reserve Bank do to protect the interests of NBFC depositors?

The Reserve Bank has issued detailed regulations on deposit acceptance, including the quantum of deposits that can be collected, mandatory credit rating, mandatory maintenance of liquid assets for repayment to depositors, manner of maintenance of its deposit books, prudential regulations including maintenance of adequate capital, limitations on exposures, and inspection of the NBFCs, besides others, to ensure that the NBFCs function on sound lines. If the Reserve Bank observes through its inspection or audit of any NBFC or through complaints or through market intelligence, that a certain NBFC is not complying with the Reserve Bank’s directions, it may prohibit the NBFC from accepting further deposits and prohibit it from selling its assets. In addition, if the depositor has complained to the Company Law Board (CLB) [now National Company Law Tribunal (NCLT)] which has ordered repayment and the NBFC has not complied with the CLB/NCLT order, the Reserve Bank can initiate prosecution of the NBFC, including criminal action and winding up of the NBFC.

More importantly, the Reserve Bank initiates prompt action, including imposing penalties and taking legal action against companies which are found to be violating its instructions/norms on the basis of Market Intelligence reports, complaints, exception reports from statutory auditors of the companies, information received through SLCC meetings, etc. The Reserve Bank immediately shares such information with all the financial sector regulators and enforcement agencies in the State Level Coordination Committee Meetings.

As part of its public policy measure, the Reserve Bank has been in the forefront in taking several initiatives to create awareness among the general public on the need to be careful while investing their hard earned money. The initiatives include issue of cautionary notices in print media and distribution of informative and educative brochures/pamphlets and close interaction with the public during awareness/outreach programs, Townhall events, participation in State Government sponsored trade fairs and exhibitions. At times, it even requests newspapers with large circulation (English and vernacular) to desist from accepting advertisements from unincorporated entities seeking deposits. The Reserve Bank has also launched its public awareness initiative

with the tag line 'RBI Kehta Hai' which may be accessed at https://rbikehtahai.rbi.org.in/.

33. What is the purpose of enacting Protection of Interest of Depositors in Financial Establishments Act by the State Governments?

The purpose of enacting this law is to protect the interests of the depositors. The provisions of RBI Act are directed towards enabling RBI to issue prudential regulations that make the financial entities function on sound lines. RBI is a civil body and the RBI Act is a civil Act. Both do not have specific provisions to effect recovery by attachment and sale of assets of the defaulting companies, entities or their officials. It is the State government machinery which can effectively do this. The Protection of Interest of Depositors in Financial Establishments Acts, confers adequate powers on the State Governments to attach and sell assets of the defaulting companies, entities and their officials.

34. Will the passage of the Protection of Interest of Depositors in Financial Establishments by the State Governments help in nailing unincorporated entities and companies from unauthorisedly accepting deposits?

Yes, to a large extent. The Act makes offences, such as, unauthorized acceptance of deposits by any entity, firm or company a cognizable offence, that is entities that are indulging in unauthorized deposit acceptance or unlawful financial activities can be immediately imprisoned and prosecuted. Under the Act, the State Governments have been given vast powers to attach the property of such entities, dispose them off under the orders of special courts and distribute the proceeds to the depositors. The widespread State Government / State Police machinery is best positioned to take quick action against the culprits.

Further, Government of India has recently enacted the Banning of Unregulated Deposit Schemes Act, 2019, a Central Legislation, which provides a comprehensive mechanism to ban the unregulated deposit schemes, other than deposits taken in ordinary course of business, and to protect the interest of depositors. This Act has specific provisions for restitution of depositors through various means viz., attachment and sale of property, etc. This Act also provides for enhanced legislative mechanism for handling unregulated deposit schemes viz., constitution of Designated Courts to deal with matters under the Act, powers for investigation (including by Central Bureau

of Investigation in case deposits, deposit-takers and properties are located in more than one State or Union Territory, or outside India), search & seizure, penal provisions, etc.

35. Still there are cases of unscrupulous financial entities cheating public time and again. How does the Reserve Bank plan to strengthen its surveillance on unauthorized acceptance of deposits/unauthorized conduct of NBFI business by companies?

The Reserve Bank is strengthening its market intelligence function and is constantly examining the financials of companies, references for which are received through market intelligence or complaints to the Reserve Bank. As part of initiative of State Level Consultation Committee comprising of Regulators and Government, the Sachet portal (https://sachet.rbi.org.in/) has been launched and members of public are requested to share any relevant information pertaining to unauthorised collection of deposits. In this, context, members of public can contribute a great deal by being vigilant and lodging a complaint immediately if they come across any financial entity that contravenes the RBI Act. For example, if they are accepting deposits unauthorisedly and/conducting NBFC activities without obtaining due permission from the Reserve Bank. More importantly, these entities will not be able to function if members of public start investing wisely. Members of the public must know that high returns on investments will also have high risks. And there can be no assured return for speculative activities. Before investing, the public must ensure that the entity they are investing in is a regulated entity with one of the financial sector regulators.

E. Collective Investment Schemes (CIS) and Chit Funds

36. Are Collective Investment Schemes (CIS) regulated by the Reserve Bank?

No. CIS are schemes where money is exchanged for units, be it profits, income, produce, property etc. Collective Investment Schemes (CIS) do not fall under the regulatory purview of the Reserve Bank and falls under the regulatory purview of SEBI. Information on such schemes and grievances against the promoters may be immediately forwarded to SEBI as well as to the EOW/Police Department of the State Government.

37. If Chit Fund companies are financial entities, why are they not regulated by the Reserve Bank?

Chit Fund companies are regulated under the Chit Fund Act, 1982, which is a Central Act, and is implemented by the State Governments. In order to avoid duality of regulation, companies, doing the business of chit, as defined under Section 2(b) of the Chit Funds Act, 1982 are exempted from the provisions of Section 45-IA, 45-IB and 45-IC of the RBI Act, 1934. Thus, chit fund companies are not required to be registered with the Reserve Bank and would be registered and regulated by the State Government under Chit Funds Act, 1982. However, chit fund companies are subject to other provisions under Chapter IIIB of the RBI Act, 1934 and the Reserve Bank has prohibited chit fund companies from accepting deposits from the public in 2009. In case any Chit Fund is accepting public deposits, the Reserve Bank can prosecute such chit funds.

F. Money Circulation/Multi-Level Marketing (MLM)/ Ponzi Schemes/ Unincorporated Bodies (UIBs)

38. There are some companies like Multi-Level Marketing companies, Direct Selling Companies, Online Selling Companies. Do they come under the purview of the Reserve Bank?

No, Multi-Level Marketing companies, Direct Selling Companies, Online Selling Companies do not fall under the purview of the Reserve Bank. Activities of these companies fall under the regulatory/administrative domain of respective state government. The provisions of the Consumer Protection Act, 2019 and the Consumer Protection (Direct Selling) Rules, 2021 may be referred. The list of regulators and the entities regulated by them are provided in Annex I.

39. What are money circulation/Ponzi/multi-level marketing schemes?

While some of these terms are not formally defined, generally, the money circulation, multi-level marketing / chain marketing or Ponzi schemes are schemes promising easy or quick money upon enrollment of members. Income under multi-level marketing or pyramid structured schemes do not come from the sale of products they offer as much as from enrolling more and more members from whom hefty subscription fees are taken. It is incumbent upon all members to enroll more members, as a portion of the subscription amounts so collected is distributed among the members at the top of the

pyramid. Any break in the chain leads to the collapse of the pyramid, and the members lower in the pyramid are the ones that are affected the most. Ponzi schemes are those schemes that collect money from the public on promises of high returns. As there is no asset creation, money collected from one depositor is paid as returns to the other. Since there is no other activity generating returns, the scheme becomes unviable and impossible for the people running the scheme to meet the promised return or even return the principal amounts collected. The scheme inevitably fails, and the perpetrators disappear with the money.

40. Is acceptance of money under Money Circulation/Multi-level Marketing/Pyramid structured schemes allowed? Does the Reserve Bank regulates such schemes?

No. Acceptance of money under Money Circulation Schemes, by whatever name called, is not allowed as acceptance of money under those schemes is a cognizable offence under the Prize Chit and Money Circulation (Banning) Act, 1978, and are banned. The Reserve Bank has no role in implementation of this Act, except advising and assisting the Central Government in framing the Rules under this Act.

41. What if someone operates such a scheme?

Any information/grievance relating to such schemes should be given to the police / Economic Offence Wing (EOW) of the concerned State Government or the Ministry of Corporate Affairs. If brought to the notice of the Reserve Bank, the same shall be informed to the concerned State Government authorities.

42. What are Unincorporated Bodies (UIBs)? Does the Reserve Bank have any role to play in curbing illegal deposit acceptance activities of UIBs? Who has the power to take action against UIBs accepting deposits?

UIBs include an individual, a firm or an unincorporated association of individuals. In terms of provisions of section 45S of RBI Act, these entities are prohibited from accepting any deposit. The Act makes acceptance of deposits by such UIBs punishable with imprisonment or fine or both. The State government has to play a proactive role in arresting the illegal activities of such entities to protect the interests of depositors.

UIBs do not come under the regulatory domain of the Reserve Bank. Whenever the Reserve Bank receives any complaints against UIBs, it immediately forwards the same

to the Economic Offences Wing (EOW) of the State Government police agencies. The complainants are also advised to lodge the complaints directly with the State government police authorities (EOW) so that appropriate action against the culprits is taken immediately and the process is hastened.

As per Section 45T of the RBI Act, both the Reserve Bank and the State Governments can apply for search warrant before appropriate Court, and on issue of such warrant, the same shall be executed as per procedure laid down in Law by the enforcement authorities. Nonetheless, in order to take immediate action against the offenders, the information should immediately be passed on to the State Police or the Economic Offences Wing of the concerned State, who can take prompt and appropriate action. Since the State Government machinery is widespread and the State Government is also empowered to take action under the provisions of the RBI Act, 1934, any information on such entities accepting deposits may be provided immediately to the respective State Government's Police Department/EOW.

Many of the State Governments have enacted the State Protection of Interests of Depositors in Financial Establishments Act, which empowers the State Government to take appropriate and timely action.

The Reserve Bank on its part has taken various steps to curb activities of UIBs which includes spreading awareness through advertisements in leading newspapers to sensitise public, organize various depositor awareness programmes, and keeps close liaison with the law enforcing agencies (Economic Offences Wing).

43. There are some entities (not companies) which carry on activities like that of NBFCs. Are they allowed to take deposits? Who regulates them?

Any person who is an individual or a firm or unincorporated association of individuals cannot accept deposits except by way of loan from relatives, if his/its business wholly or partly includes loan, investment, hire-purchase or leasing activity or principal business is that of receiving of deposits under any scheme or arrangement or in any manner or lending in any manner.

44. What precautions have to be taken by the public to forewarn themselves about the likelihood of losing money in schemes that offer high rates of interest?

Before investing in schemes that promise high rates of return, the depositors/ investors must ensure that the entity offering such returns is registered with one of the Financial

Sector Regulators and is authorized to accept funds, whether in the form of deposits or otherwise. Depositors/ investors must generally be circumspect if the interest rates or rates of return on deposits/ investments offered are high. Unless the entity accepting funds is able to earn more than what it promises, the entity will not be able to repay the depositor/ investor as promised. For earning higher returns, the entity will have to take higher risks on the investments it makes. Higher the risk, the more speculative would be its investments on which there can be no assured return. As such, members of public should forewarn themselves that the likelihood of losing money in schemes that offer high rates of interest are more.

45. Who can the Depositor/Investor turn to in case of grievances?

The two Charts given at Annex I and Annex II depict the activities and the regulators overseeing the same. Further, The First Schedule of the 'The Banning of Unregulated Deposit Schemes Act, 2019' may be referred for the list of regulated deposit schemes. Complaints may hence be addressed to the concerned regulator. If the activity is a banned activity, the aggrieved person can approach the State Police/Economic Offences Wing of the State Police and lodge a suitable complaint.

G. Other/ miscellaneous aspects

46. What is Factoring?

The Factoring Regulation Act, 2011 defines the 'Factoring Business' as "the business of acquisition by way of assignment of receivables of assignor for a consideration for the purpose of collection of such receivables or for financing, whether by way of making loans or advances or otherwise, against such assignment". However, credit facilities provided by banks or non -banking financial company in the ordinary course of business against security of receivables and any activity undertaken as a commission agent or otherwise for sale of agricultural produce or goods of any kind whatsoever and related activities are expressly excluded from the definition of Factoring Business. The Factoring Regulation Act has laid the basic legal framework for factoring in India.

47. Is it compulsory for all entities to get registered with RBI to conduct factoring business?

Yes. As per the legal framework under Factoring Regulation Act, 2011, all companies (including NBFCs registered under Section 45IA of RBI Act) shall be required to be registered under Factoring Regulation Act, 2011 in order to undertake factoring business. However, as per Section 5 of the Act, a bank or any corporation established under an Act of Parliament or State Legislature, or a Government Company as defined under section 617 of the Companies Act, 1956 are exempted from such registration requirement.

Thus, the following entities may undertake the factoring business as per Factoring Regulation Act:

(i) NBFC-Factor granted Certificate of Registration (CoR) under the Factoring Regulation Act, 2011;

(ii) Non-deposit taking NBFC-investment and credit companies (NBFC-ICCs) with asset size of ₹1,000 crore and above and fulfilling certain eligibility criteria as stipulated in Reserve Bank of India (Non-Banking Financial Companies – Miscellaneous) Directions, 2025 (as amended from time to time) and which have been granted CoR under the Factoring Regulation Act, 2011; and

(iii) Entities mentioned under Section 5 of the Factoring Regulation Act, 2011.

48. A single group is having under its fold four to five prospective Core Investment Companies (CICs) with an aggregate asset size of more than ₹100 crore. In such a situation, which company among the group companies is required to seek registration as CIC with the Reserve Bank.

All companies in the group that are CICs would be regarded as CICs (provided they have accessed public fund) under the extant regulations of Reserve Bank and would be required to obtain a Certificate of Registration from the Reserve Bank.

49. A single group is having under its fold various prospective Core Investment Companies with an aggregate asset size of more than ₹100 crore. One of the entities has raised / holds public funds (one of the prerequisites for qualifying as a CIC). In such a situation, whether every CIC within the group or only the parent CIC or the specific entity that has raised/ holds public funds would be regarded as CIC, and thus would be required to seek registration as CIC with the Bank.

For Example: HCo is the parent group CIC holding 100 per cent equity capital of A, B and C, all of which are also CICs. In case C has accessed public funds, whether HCo as well as A, B and C must seek registration as CIC or will just C need registration?

In such a case only C will be registered, provided C is not funding any of the other CICs either directly or indirectly. HCo as well as A and B would not require registration as they neither access public funds directly nor access public funds indirectly through C.

50. A CIC should have 90% investment within the group, and in terms of current exposure norms, NBFCs in Middle Layer and Upper layer are permitted to have exposures (both credit/ investments) only to the extent of 40% of Tier -I capital and 25% of available eligible capital, respectively, within any group. Therefore, no NBFC (ML/ UL) as it stands, would be able to become a CIC without breaching the NOF, CRAR or Concentration Norms, since its entire business is in a subsidiary. However, an NBFC may voluntarily seek to become a CIC since it brings clarity to the holding structure in their organization. How would this issue be resolved? Could NBFCs be provided exemption from Capital adequacy/exposure norms during the transition period, just as unregistered CICs are given 6 months' time.

The NBFC would have to apply to RBI with full details of the plan and exemptions could be considered on a selective basis on the merits of the case.

51. Whether a Holding Company which is not able to comply with the CIC criteria (all four conditions), would still need to comply with NBFC requirements and prudential norms even in the event that it is not satisfying the asset-income criteria. (For example: the holding company owns 60 per cent equity in another group company and is not meeting other three conditions. Therefore, it does not qualify as a CIC. Further, the income from financial assets is also less than 50 per cent of total income. Whether such a company would require compliance with NBFC norms).

No, since the Company is not fulfilling the Principal Business Criteria (asset-income pattern) of an NBFC i.e. more than 50% of its total assets should be financial assets and the income derived from these assets should be more than 50% of the gross

income, it is not required to register as an NBFC under Section 45 IA of the RBI Act, 1934. However, it should register itself as an NBFC as soon as it fulfils the criteria of an NBFC and comply with the NBFC norms.

52. CICs which presently have an asset size of less than ₹100 crore are required to apply to the Bank within three months of the date of achieving a balance sheet size of ₹100 crore. Would the date of achieving balance sheet size of ₹100 crore be the date of the last audited balance sheet?

Yes, company which is a CIC and has achieved the balance sheet size of ₹100 crore as per its last audited annual financial statement is required to apply to the Bank for registration as a CIC, subject to its meeting the other conditions for being identified as a CIC.

53. Whether all members of a household are mandatorily required to become borrowers of a microfinance loan?

The directions require assessment of income and indebtedness at household level. There is no requirement of treating all members of the household as applicants/ borrowers of a loan which can be provided to an individual member. Board-approved policies of REs may include the methodologies/ operational frameworks to assess income and indebtedness of all members of the household.

54. How should credit facilities not having an EMI feature be treated for arriving at total monthly repayment obligations of the household?

Board-approved policies of REs should cover such operational aspects. One possible way could be to distribute the annualized repayment obligations over twelve months to estimate monthly outgo of the household towards debt repayment.

55. Are the instructions on microfinance loans issued under various Directions applicable to all entities operating in the microfinance sector including trusts and societies?

The instructions on microfinance loans issued under various Directions are applicable only to the regulated entities mentioned below:

(i) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks;

(ii) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and

(iii) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

However, it may be prudent for other lenders operating in the microfinance sector to follow customer-centric instructions for microfinance loans issued under various Directions. Further, it may be noted that exemptions from Sections 45-IA, 45-IB and 45-IC of the RBI Act, 1934 have been withdrawn for those 'not for profit' companies engaged in microfinance activities that have asset size of ₹100 crore and above.

56. Is the exemption for 'Not for Profit' companies engaged in Microfinance Activities under para 51 of the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025, applicable to other 'Not for Profit' companies undertaking NBFI activities as well?

The exemption provided by the Reserve Bank to 'Not for Profit' companies (i.e., companies incorporated under Section 8 of the Companies Act, 2013 or Section 25 of the Companies Act, 1956) is applicable to those which are providing microfinance loans as defined in the Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 and subject to conditions specified in para 51 of our 'Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 (as amended from time to time). This exemption is not applicable to other 'Not for Profit' companies engaged in NBFI business and it is incumbent upon such companies to obtain a certificate of registration under Section 45-IA of the RBI Act, 1934 in case these companies are fulfilling the 'Principal Business Criteria' as specified in our Press Release 1998-99/1269 dated April 08, 1999.

57. What should a customer keep in mind while availing a microfinance loan?

The customer should keep in mind, among others, the following:

(i) There is no requirement of keeping any deposit/ margin/ collateral/ primary security with the lender at any stage of the microfinance loan.

(ii) Lender is required to provide a loan card to the borrower in a language understood by the borrower which should have following information:

(a) Information which adequately identifies the borrower;
(b) Simplified factsheet on pricing;
(c) All other terms and conditions attached to the loan;
(d) Acknowledgements by the lender of all repayments including instalments received and the final discharge; and
(e) Details of the grievance redress system, including the name and contact number of the nodal officer of the lender.

(iii) Purchase of any non-credit products is purely voluntary. Fee structure for such products shall be explicitly communicated in the loan card.

(iv) Training provided by the lenders is free of cost.

58. What are the charges that a customer is required to pay for a microfinance loan?

A customer is required to pay only those charges which are explicitly mentioned in the factsheet provided by the lender. Besides this, the customer should also note the following:

(i) There is no pre-payment penalty on microfinance loans.

(ii) Penalty, if any, for delayed payment can be applied only on the overdue amount and not on the entire loan amount.

(iii) Any change in interest rate or any other charge shall be informed to the borrower in writing well in advance and these changes shall be effective only prospectively.

59. How can a borrower find about the current interest rates being charged on the microfinance loans?

RBI has made it mandatory for lenders to display the minimum, maximum and average interest rates charged on microfinance loans in all their offices, in the literature (information booklets/ pamphlets) issued by them and details on their website.

60. Can NBFC-Infrastructure Finance Companies (NBFCs-IFCs) lend to/ invest in infrastructure investment trusts (InvITs) and other trust funds?

NBFC-IFCs can lend to/ invest in InvITs subject to adherence to applicable regulatory guidelines including exposure norms applicable to them. NBFC-IFCs can also lend to/ invest in other trust funds subject to compliance with the criterion of deployment of minimum 75 per cent of total assets towards infrastructure lending and other applicable regulations.

61. Whether LTV of 50% will also apply to lending against units of mutual funds?

Loans against units of mutual funds (except units of exclusively debt oriented mutual funds) would attract LTV requirements as applicable to loans against shares. Further, the LTV requirement for loans/ advances against units of exclusively debt-oriented mutual funds may be decided by individual NBFCs in accordance with their loan policy.

62. Can IDF-NBFCs provide additional debt, or fund the repayment of debt infused by promoters, while refinancing an infrastructure project?

While IDF-NBFCs may provide funds to projects as part of refinance for repayment of debt infused by promoters, repayment of promoters' funds infused as equity or through instruments compulsory convertible into equity is not permitted. Further, any additional debt provided to projects as part of refinancing agreements shall be utilised only for meeting expenses incurred by the project with which the IDF-NBFC has entered into a contract and to whose cashflows it has a recourse. IDF-NBFCs shall ensure that they do not fund under-construction projects directly or indirectly, including through purchase of debt from existing refinancing lenders.

H. 'NBFCs not availing public funds and not having any customer interface'

[Ref: Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 dated April 29, 2026]

Q1. Why has the Reserve Bank introduced 'Unregistered Type I NBFCs'? Why are they exempted from registration requirement under section 45IA of the RBI Act, 1934?

Ans: 'Unregistered Type I NBFCs' are those **'**NBFCs not availing public funds and not having any customer interface' which have asset size below ₹1,000 crore and fulfil the principal business criteria as set forth in Press Release 1998-99/1269 dated April 08, 1999. Hence, these NBFCs were statutorily required to seek registration as NBFC under section 45IA of the RBI Act, 1934 till date. However, these companies operate without accessing public funds and without having customer interface and their asset size is less than ₹1,000 crore, due to which the regulatory concerns on systemic risk and customer protection issues are not relevant in case of these NBFCs. These companies normally undertake investments out of their owned funds and hence, their potential to pose systemic risk is very low. Therefore, it has been decided to grant them exemption from registration requirement under section 45IA of the RBI Act, 1934

by exercising powers under section 45NC of the Act. Such exempted NBFCs shall henceforth be referred to as 'Unregistered Type I NBFCs'.

Q2. In case an 'Unregistered Type I NBFC' is found availing public funds and/ or having customer interface, what action would be taken by the Reserve Bank?

Ans: The exemption from registration available to 'Unregistered Type I NBFCs' is subject to the condition that these NBFCs do not have public funds and do not have customer interface and their asset size is less than ₹1,000 crore. Availing either public funds or customer interface, would be violation of the exemption provisions. Any 'Unregistered Type I NBFC' intending to avail public funds and/ or have customer interface must seek registration with the Reserve Bank as 'Type II NBFC' prior to having either of these, to avoid penal action. It may also be noted that **'**NBFCs not availing public funds and not having any customer interface' with asset size of ₹1,000 crore & above shall invariably be required to seek registration as 'Type I NBFC' even if they do not avail public funds and do not have customer interface.

Q3. In the light of the exemption provided to 'Unregistered Type I NBFCs', are new companies intending to apply for registration as NBFC and bringing in money as owned funds, also not required to seek registration with the Reserve Bank?

Ans: The exemption from registration provided to 'Unregistered Type I NBFCs' is only for those companies which intend to function with a conscious and long-term business model of operating without availing public funds and without having customer interface provided their asset size is less than ₹1,000 crore. New companies desirous of not accessing public funds and not having customer interface are not required to seek registration till they attain the asset size of ₹1,000 crore. In other words, companies (including new companies) desirous of accessing public funds and/ or engaging in operations involving customer interface are compulsorily required to seek registration with the Reserve Bank, irrespective of their asset size or any other factor. Failure to comply with registration requirements would attract penal provisions under the RBI Act, 1934.

Q4. Is it optional for existing registered NBFCs not availing public funds and also not having customer interface, which are eligible for exemption, to apply for deregistration?

Ans: Existing eligible NBFCs not availing public funds and also not having customer interface as their conscious and long-term business model, with asset size of less than ₹1,000 crore may apply for deregistration within the stipulated timeline of six months.

Q5. What can be the consequences of not applying for deregistration by existing registered NBFCs not availing public funds and also not having customer interface, which are eligible for exemption, within the specified timeline?

Ans: It may be noted that the differential regulatory framework applicable to 'Type I NBFC' would be applicable only to those NBFCs not availing public funds and not having customer interface which hold Certificate of Registration as 'Type I NBFC'.

Q6. When is an NBFC required to seek registration as 'Type I NBFC'?

Ans: The exemption from section 45IA of the RBI Act, 1934 i.e., from registration requirement has been provided to **'**NBFCs not availing public funds and not having any customer interface' with asset size of less than ₹1,000 crore. **'**NBFCs not availing public funds and not having any customer interface', with asset size of ₹1,000 crore or more, or intending to undertake overseas investment in financial services sector would require registration with the Reserve Bank as Type I NBFCs. The registration as Type I NBFC would be granted by the Reserve Bank subject to its satisfaction that the above conditions for registration are fulfilled and the applicant is eligible for registration as 'Type I NBFC'.

Q7. Are loans from directors or shareholders also classified as public funds?

Ans: Any funds received from outside sources and which constitute outside liability are treated as public funds for 'Type I NBFCs'. As such, loans from directors and/ or shareholders will be classified as public funds. Further, money availed through margin trading facility shall also be classified as public funds.

Q8. What is the coverage of the term 'customer interface'? Does engaging in non-fund based activities with Group companies or customers like guarantees, or grant of loans to 'entities in the Group', its shareholders, directors or staff constitute 'customer interface'?

Ans: 'Customer interface' means interaction between the NBFC and its customers while carrying on its business. Customer interface can be through an account-based relationship, lending relationship or interaction with the customers as part of business

of the NBFC. Any customer-oriented activity like lending or providing guarantee, or placing inter-corporate deposits, including to 'entities in the Group', its shareholders, its directors, or providing any other product or service to these entities would constitute 'customer interface'. However, loans to employees as per terms of employment condition/ contract and not on commercial terms, shall not be treated as customer interface.

Q9. Whether diversification of activities like distribution of mutual funds, credit cards, acting as Point of Presence for National Pension System, insurance agency etc., allowed to 'Type I NBFCs' and 'Unregistered Type I NBFCs'?

Ans: No. 'Type I NBFCs' and 'Unregistered Type I NBFCs' are not allowed to have customer interface in any form either directly or indirectly. Hence, they cannot undertake activities like distribution of mutual funds, credit cards, acting as Point of Presence for National Pension System, etc., since these activities entail interaction with customers.

Q10. Is prior approval of Reserve Bank required for 'Unregistered Type I NBFCs' and 'Type I NBFCs' to avail public funds and/ or have customer interface?

Ans: Yes. 'Unregistered Type I NBFCs' and 'Type I NBFCs' shall seek prior approval of the Reserve Bank in order to avail public funds and/ or have customer interface, and can avail public funds and or have customer interface only after obtaining CoR as 'Type II NBFC'.

Q11. How are 'Type I NBFCs' different from non-deposit taking NBFCs?

Ans: 'Type I NBFCs' operate with their own funds without accessing public funds and engage in activities which do not involve customer interface. On the other hand, non-deposit taking NBFCs are not allowed to accept public deposits but can access public funds in the form of borrowings, etc., and can have customer interface in the form of loans and advances, etc.

Q12. Whether Anti Money Laundering (AML) requirements under PMLA, 2002 are applicable to 'Type I NBFCs' and 'Unregistered Type I NBFCs'?

Ans: Since NBFCs holding CoR as 'Type I NBFC' cannot have any customer interface, KYC regulations prescribed by the Reserve Bank may not be relevant for them due to absence of any account-based relationship. However, NBFCs holding CoR as 'Type I

NBFC' and 'Unregistered Type I NBFCs' are required to comply with applicable AML requirements as also adhere to requirements emanating from Prevention of Money Laundering Act (PMLA), 2002 and Rules framed thereunder, as applicable to them.

Q13. As per regulations of the Reserve Bank, total assets of all the NBFCs in a Group are consolidated to determine the classification of NBFCs in the Middle Layer. What shall be the treatment given to 'Type I NBFCs' and 'Unregistered Type I NBFCs' in this regard?

Ans: For aggregation purposes, the asset size of 'Type I NBFCs' shall be considered but asset size of 'Unregistered Type I NBFCs' shall not be considered. It is emphasized that 'Type I NBFCs' shall always be classified in Base Layer regardless of such aggregation. Further, as prescribed in the Directions, in case of multiple 'Unregistered Type I NBFCs' in the Group, the asset size of all such 'Unregistered Type I NBFCs' shall be aggregated. If the aggregate asset size is ₹1,000 crore or above, all 'Unregistered Type I NBFCs' in the Group are required to be registered as 'Type I NBFC' and shall be subject to relevant instructions issued by the Reserve Bank.

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FAQs on "All you wanted to know about NBFCs"

ANNEX I

CHART-I

Overview of Regulators of Non-Banking Companies

Companies
(Registered under the Companies Act, 1956/ 2013)

NBFCs registered with the Reserve Bank
Regulation, Supervision, Surveillance & Enforcement under the Reserve Bank

Housing Finance Companies are regulated by the Reserve Bank but Supervised by the National Housing Bank

NBFCs Regulated by Other Regulators

Type of Financial Institutions	**Authority for Regulation, Supervision, Surveillance & Enforcement**
Housing Finance Institutions	National Housing Bank (Supervision)
Merchant Banking Company, Venture Capital Fund Companies, Stock Broking, Collective Investment Schemes (CIS)	SEBI
Nidhi Companies, Mutual Benefit Companies	MCA
Chit Fund Companies	State Government
	IRDA

Non Banking Non Financial Companies

Regulation, Supervision and Surveillance under the Companies Act 1956/ 2013.

Regulator: Ministry of Corporate Affairs (MCA)

Enforcement Agency: State Governments

Annex-II

CHART II

Overview of Regulators of Entities other than Companies

