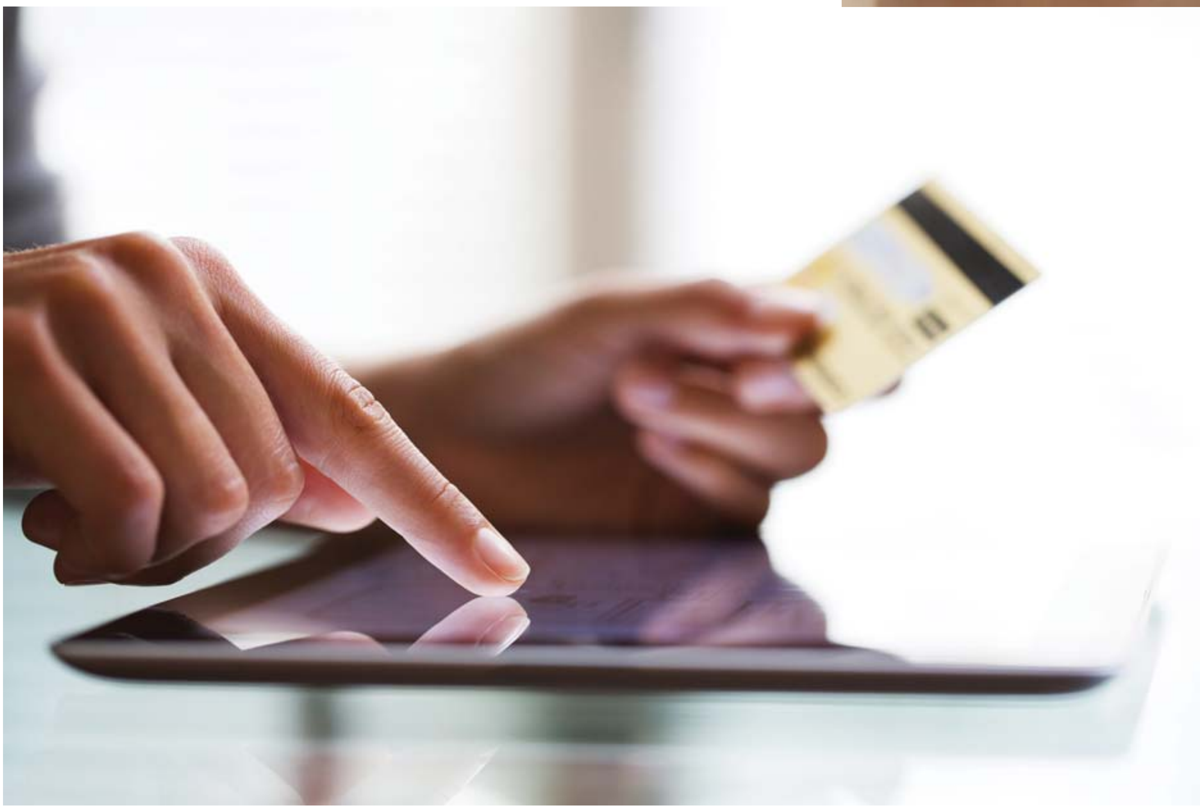
Contents

Non-Banking Finance Companies: The Changing Landscape



Foreword from PwC

In countries such as the US and UK, large credit bureaus like Equifax, Experian and TransUnion furnish lenders with credit scores primarily based on the loan applicants' past repayment data. These credit bureaus have also set up shop in India over the last decade, along with other players such as Credit Information Bureau India Limited (CIBIL) and CRIF High Mark. These players operate by leveraging sophisticated data-capturing and sharing capabilities to gather, store and share accurate loan and repayment history. This reliance on traditional credit infrastructure presents a significant lending challenge in India, where bureau data is often incomplete, if not altogether unavailable. According to the World Bank, less than 1 in 10 people in low- and middle-income countries around the world have a documented credit history.

The World Bank has endorsed the use of reported non-financial data in the credit origination processes and considers it a powerful tool for driving financial inclusion in emerging markets. More recently, in the Financial Inclusion 2020 (FI 2020) roadmap, Accion highlighted the great value of alternative data as an instrument to increase financial inclusion and help achieve their FI 2020 objectives.

Currently, payment history, amounts owed, length of credit history, new credit taken and types of credit used form the basis of credit analysis for most non-banking finance companies (NBFCs). However, in India, unless people plan to apply for a new credit card or loan, most people give little or no thought to their credit scores. For those who lack credit, the achievement of a score is often a vicious cycle—you cannot get credit without a score, and you cannot build your score without credit. Barely one-fifth of the Indian population has a valid credit score, and hence, most Indians are unable to get a loan from an NBFC or bank in the country. Further complicating this scenario are economic pressures that are driving the demand for more granular credit decisioning insight that traditional credit scoring models cannot provide.

Given this context, alternative credit scoring can help lenders establish a reasonable basis for extending credit by assessing data streams that traditional credit bureaus currently do not tap into. Data from online social networks, mobile phone records and psychometrics are helping to evaluate the potential of borrowers in cases where traditional credit information is scarce, enabling new lending and greater control over risk.

NBFCs that have focussed on traditional data sources to extend lending need to realise the value of alternative data and the need to invest in technology and analytics to develop advanced credit scoring models that incorporate non- traditional data sources. Only then will they be able to participate in the wave of change that has the potential to extend lending to India's creditworthy yet financially excluded population, and also simultaneously assisting the Indian government to achieve its goal of full financial inclusion.

Furthermore, as newer business models (of the NBFCs) evolve, so must the regulations governing the NBFCs. In order for the NBFCs to realise their true potential in the economy, the regulatory framework must succeed in walking the thin line between under-regulation and over-regulation. With this objective, the Reserve Bank of India (RBI) has brought about a spate of reforms in the NBFC regulations. Regulations for smaller NBFCs that are not systemically important have been rationalised, while systemically important NBFCs have been continuously strengthened to bring them on a par with the global standards. Some changes are also in the pipeline and should be rolled out soon. It will be interesting to see how the NBFC sector and the regulator work with each other to usher in an era of financial inclusion.

This report is divided into two parts. The first part presents an analysis of various alternate credit scoring methodologies and their feasibility in the Indian context. The second part outlines a broad overview of how the regulatory framework for NBFCs has evolved, the recent liberalisation for small NBFCs, and the strengthening of regulations for large NBFCs, as well as some changes that could be expected in the near future.

We congratulate the Associated Chambers of Commerce and Industry of India (ASSOCHAM) for engaging with the industry on this game-changing subject. We thank Paritosh, Amit, Rupal, Behram, Aastha, Nitya, Dipti and Dhawal of the Financial Services team of PricewaterhouseCoopers (PwC) for the research and writing of this report.

Hemant Jhajhria
Partner
Strategy and Digital
Financial Services

Samip Barlota
Partner
Tax and Regulatory
Financial Services

Mayur Gala
Director
Tax and Regulatory
Financial Services

Amit G. Jain
Associate Director
Tax and Regulatory
Financial Services

Paritosh Chhabria
Associate Director
Strategy and Operations
Financial Services

Message from ASSOCHAM

Non-banking finance companies (NBFCs) form an integral part of the Indian financial system. They play an important role in nation building and financial inclusion by complementing the banking sector in reaching out credit to the unbanked segments of society, especially to the micro, small and medium enterprises (MSMEs), which form the cradle of entrepreneurship and innovation. NBFCs' ground-level understanding of their customers' profile and their credit needs gives them an edge, as does their ability to innovate and customise products as per their clients' needs. This makes them the perfect conduit for delivering credit to MSMEs.

However, NBFCs operate under certain regulatory constraints, which put them at a disadvantage vis-à-vis banks. While there has been a regulatory convergence between banks and NBFCs on the asset side, on the liability side, NBFCs still do not enjoy a level playing field. This needs to be addressed to help NBFCs realise their full potential and thereby perform their duties with greater efficiency.

Moreover, with the banking system clearly constrained in terms of expanding their lending activities, the role of NBFCs becomes even more important now, especially when the government has a strong focus on promoting entrepreneurship so that India can emerge as a country of job creators instead of being one of job seekers. Innovation and diversification are the important contributors to achieve the desired objectives.

I am happy to note that ASSOCHAM is organising the NBFC Summit to bring the various stakeholders and the policymakers together on a common platform. I am sure the NBFC-specific issues will be discussed and debated at length and the findings from this event will form the policy prescription that ASSOCHAM will eventually present to the regulator and the government, so that necessary action can be initiated to ensure healthy growth of the NBFC sector.

Sunil Kanoria
President
ASSOCHAM

Message from ASSOCHAM

The NBFC sector in India has undergone a significant transformation over the past few years. It has come to be recognised as one of the systemically important components of the financial system and has shown consistent year-on-year growth. NBFCs play a critical role in the core development of infrastructure, transport, employment generation, wealth creation opportunities, and financial support for economically weaker sections; they also make a huge contribution to state exchequer.

ASSOCHAM, along with PwC, has prepared this knowledge report with the objective of examining the issues and challenges faced by NBFCs and to suggest measures that can be taken to optimise their contribution.

We hope that this study will help regulators, market participants, government departments and research scholars to gain a better understanding of the role of NBFCs in promoting financial inclusion in our country. I would like to express my sincere appreciation to the ASSOCHAM-PwC team for sharing their thoughts, insights and experiences.

D S Rawat
Secretary General
ASSOCHAM

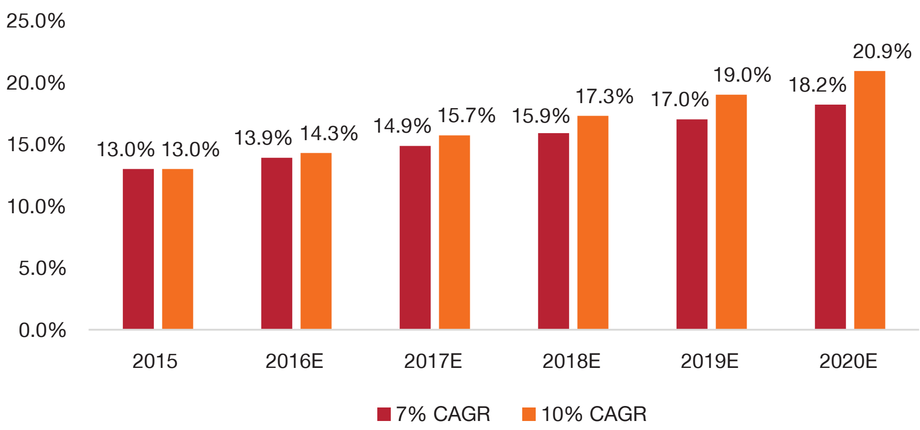
NBFC market context

So far, non-banking finance companies (NBFCs) have scripted a great success story. Their contribution to the economy has grown in leaps and bounds from 8.4% in 2006 to above 14% in March 2015.[1] In terms of financial assets, NBFCs have recorded a healthy growth—a compound annual growth rate (CAGR) of 19% over the past few years—comprising 13% of the total credit and expected to reach nearly 18% by 2018–19.[2]

With the ongoing stress in the public sector banks due to mounting bad debt, their appetite to lend (especially in rural areas) is only going to deteriorate, thereby providing NBFCs with the opportunity to increase their presence.

The success of NBFCs can be clearly attributed to their better product lines, lower cost, wider and effective reach, strong risk management capabilities to check and control bad debts, and better understanding of their customer segments. Not only have they shown success in their traditional bastions (passenger and commercial vehicle finance) but they have also managed to build substantial assets under management (AUM) in the personal loan and housing finance sector which have been the bread and butter for retail banks. Going forward, the latent credit demand of an emerging India will allow NBFCs to fill the gap, especially where traditional banks have been wary to serve. Additionally, improving macroeconomic conditions, higher credit penetration, increased consumption and disruptive digital trends will allow NBFC's credit to grow at a healthy rate of 7–10% (real growth rate)[3] over the next five years. Clearly, NBFCs are here to stay.

Figure 1: Credit Growth at NBFCs as a % of total credit



Retail NBFCs to witness robust growth despite some temporary hiccups

We believe that strong urban demand and an increase in credit penetration will continue to drive the growth in the consumer finance segment. However, there may be a period of muted growth from the rural sector.

Driven by higher disposable incomes through increased effectiveness of government schemes and the 7th Pay Commission, we remain confident of healthy growth in the consumer finance segment. On the small and medium enterprises (SME) front, business and professional loans seem to be on a growth trajectory, but mortgage-backed loans (loan against property),

Factors contributing to the growth of NBFCs:

- Stress on public sector units (PSUs)
- Latent credit demand
- Digital disruption, especially for micro, small and medium enterprises (MSMEs) and small and medium enterprises (SMEs)
- Increased consumption
- Distribution reach and sectors where traditional banks do not lend

[1] *Kotak Securities analysis, https://www.kotaksecurities.com/ksweb/Meaningful-Minutes/Why-are-Non-Banking-Financial-Companies-important and PwC India analysis*
[2] *http://articles.economictimes.indiatimes.com/2016-03-16/news/71573258_1_nbfcs-indiabulls-housing-finance-consumer-financing*
[3] *Historical trends and PwC analysis*

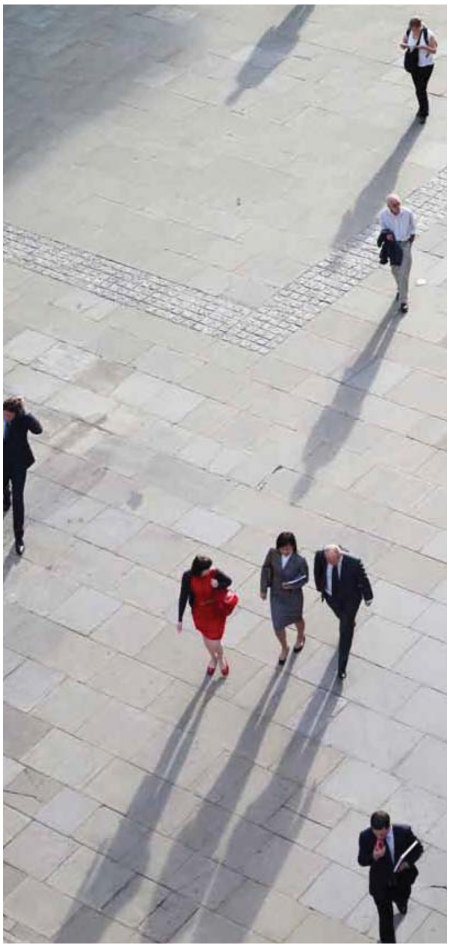
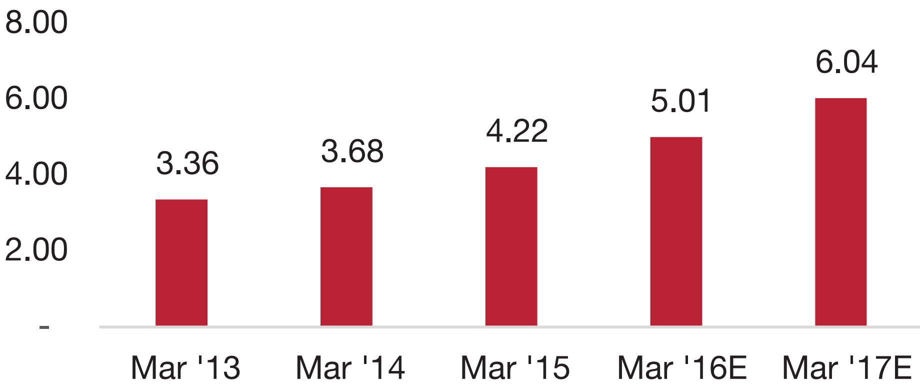


Figure 2: NBFC Retail AUM (in trillion INR)



which form a large proportion of the SME loans, will remain muted due to the increased competition from new entrants in the market and traditional banks, who have been successful in capturing and retaining the upper end of the ticket-sized band.

Gradual economic recovery and proposed regulatory changes (scrapping of old commercial vehicles [CVs] and Bharat Stage [BS] VI pollution norms) will lead to an uptick in the overall CV segment, which in turn will drive growth in the pre-owned CV sector. However, poor rural income growth and the depleted monsoons have weighed on the rural credit growth and may also lead to deterioration in the overall asset quality. But with the India Meteorological Department (IMD) predicting (earlier this month) normal to above normal monsoon in the current fiscal, we expect this to be a temporary phenomenon.

Overall, NBFCs are on their way to setting a record of a robust growth of 19–22% CAGR in retail credit to reach an AUM of approximately 6.04[4] trillion INR by March 2017.

Way forward for NBFCs

For a large and diverse country such as India, ensuring financial access to fuel growth and entrepreneurship is critical. With the launch of government-backed schemes (such as the Pradhan Mantri Jan-Dhan Yojana [PMJDY]), there has been a substantial increase in the number of bank accounts; however, a mere 15%[5] of adults have reported using an account to make or receive payments. The government and regulatory bodies have taken decisive steps to increase this number (and subsequently financial access) by granting in principal licenses to as many as 21 players to establish specialty banks over the next 18 months. This is over and above the focussed approach of the other industry bodies such as the National Payments Corporation of India (NCPI) to further strengthen and augment the payments ecosystem by launching the Unified Payment Interface (UPI) and Bharat Bill Payments System.

The introduction of such specialised players and systems will truly transform the banking value chain in its entirety. This presents a strategic opportunity for NBFCs to ensure sustainable growth over a long term. Partnerships with payments banks, bill payment providers and other financial institutions, such as insurance and asset management companies, will help NBFCs offer the complete proposition—that is, from deposits to lending, investments and transactions. The reach of NBFCs, along with their strong understanding of the market, can help them position themselves as a better alternative to the traditional ways of banking.

Furthermore, the Indian consumer is increasingly adopting digital as a way of daily life. India is currently the second biggest smartphone market, with a user base of 220 million, and is expected to cross 300 million users by 2017. To stay relevant in such an environment, NBFCs need to rethink their strategy to enhance their product portfolio (positioning and pricing), processes (internal and customer facing) and end-to-end customer experience. Additionally, they need to leverage the vast digital (and social) customer data available to be able to serve customers better. The absence of income proofs or IT returns due to temporary/self-employment are some of the primary reasons for the tepid credit penetration in India. Digital and social data can often act as a surrogate to such documents to help NBFCs make better credit decisions. With the launch of the Digital India programme, a flagship programme of the Government of India to digitally empower society, NBFCs will have to find ways to serve the millennial customers through digital means.

[4] *ICRA analysis on Indian Retail Non-Banking Finance Market for nine months ending December 2015, http://www.icra.in/Files/Articles/NOTE-DEC-12 release.pdf*

[5] *http://indianexpress.com/article/india/india-news-india/in-india-bank-account-penetration-surges-but-43-dormant/*

Alternative credit scoring: The game changer

'All data is credit data.' [6]

This mantra is increasingly being followed by lenders to use non-traditional sources of data—many of them not directly related to money—to augment their traditional underwriting mechanism. These non-traditional sources of data, coupled with advanced analytics, can be used to assess the creditworthiness of large and previously untapped customer segments, while also allowing for smaller loan ticket sizes. Different transaction-based lending models, especially those centred on peer-to-peer (P2P) lending are being rolled out in India in order to allow good applicants to demonstrate their quality.

As per the Tracxn report on alternative lending in India, the number of start-ups in the online consumer lending space has grown significantly from merely 2 in 2013 to 30 in 2015. These firms either operate as NBFCs, intermediaries for banks/NBFCs or serve as a P2P lending marketplace to connect individual borrowers and lenders directly. By using a wide variety of non-traditional data to evaluate credit risk, these start-ups are able to verify the identity of an individual and determine their intent and ability to repay a loan. In addition, the ability to scientifically match the appropriate borrower profile to the best suited lender leads to potentially higher chances of loan approvals and lower interest rates.

Such players charge a registration fee (refundable in some cases) and earn a commission from both lenders and borrowers. Additionally, P2P firms offer customers scope for negotiation of interest rates, enabling borrowers to obtain capital at a lower cost while providing investors an opportunity to earn lucrative returns.

These firms assist individuals and small businesses in obtaining personal, auto, working capital and other loans, and cater predominantly to millennials who might be either salaried or self-employed. The rapid rise in the number of customers over the past few years is a true testament to the simplicity, speed and convenience provided by alternate lending companies. Besides extending timely credit to otherwise ineligible borrowers under the traditional lending system, alternate lending firms provide numerous features and tools for an enriched and seamless customer experience. Online tools/calculators, knowledge centres, live chats, ability to track application status, etc., are all the features that increase awareness and convenience for customers, thereby resulting in greater customer satisfaction.

Figure 3: Growth of online consumer lending in India (Source: Tracxn Alternative Lending Landscape, India–July 2015)

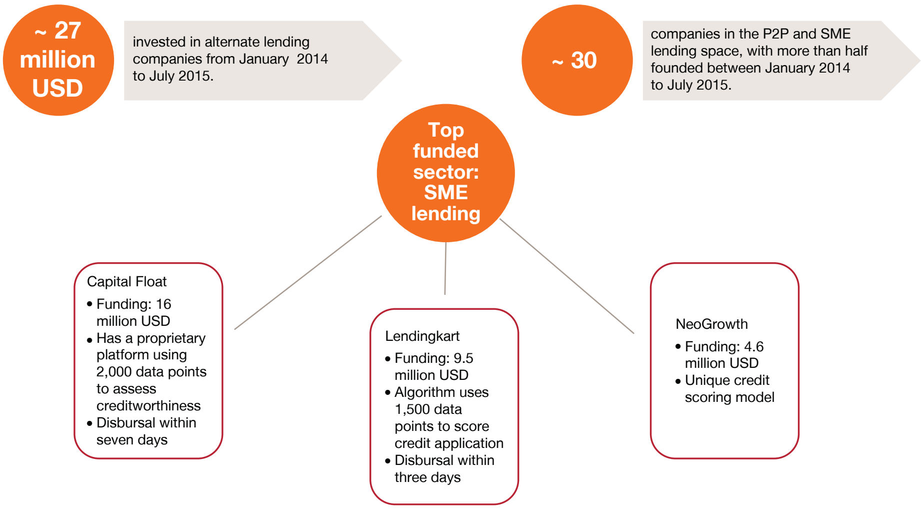
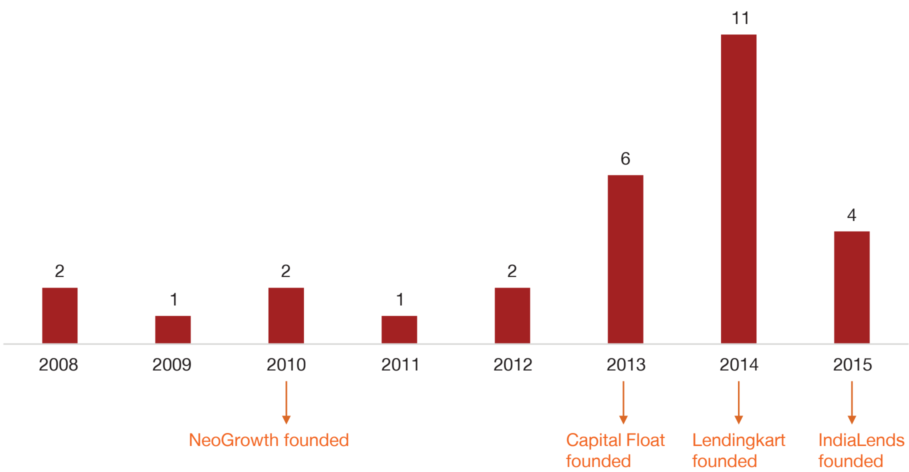


Figure 4: The number of online consumer lending start-ups founded by year (Source: Tracxn Alternative Lending Landscape, India–July 2015)



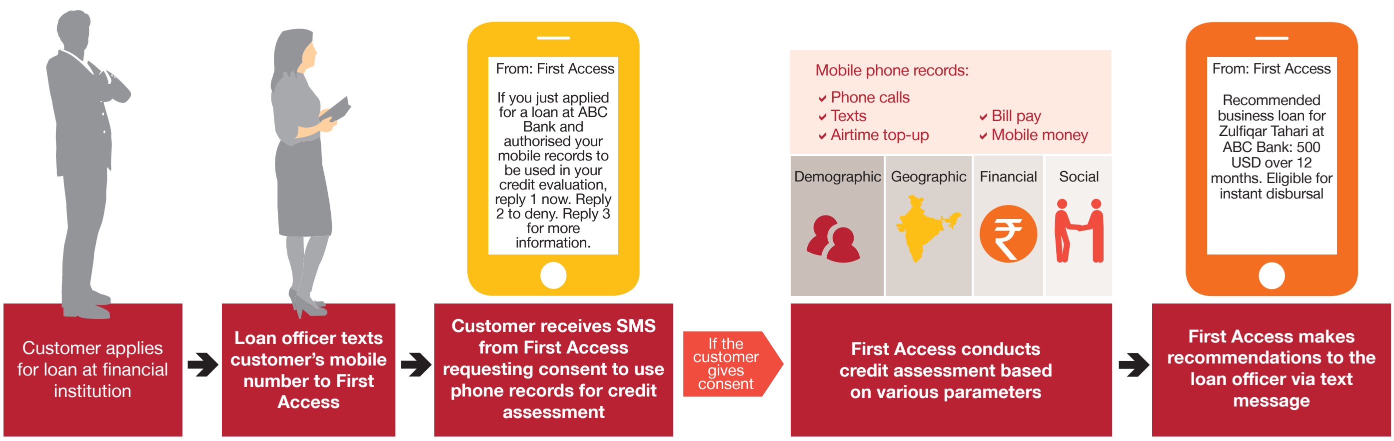
[6] *Quote by Douglas Merrill to the New York Times, Google's former Chief Information Officer*

Spotlight 1: Lending based on data from mobile phone records

Indians are the second-largest mobile phone users (over 590 million unique users) in the world.[7] Every time these individuals make a phone call, send a text, browse the Internet, engage social media networks on their phones, or top-up their prepaid cards, they deepen the digital footprints they leave behind. Data from mobile phone records, prepaid top-ups, mobile bill payments and mobile browsing or app download history can be used to assess consumer risk and determine the creditworthiness of underserved customers. Lenders can use the output of their credit scoring to offer unsecured, small ticket, short-term credit at a much lower cost than traditional loans.

Vodacom,[8] a mobile service provider in Tanzania, has partnered with First Access,[9] a for-profit social business focussed on data analytics using prepaid mobile data to predict credit risk for consumers who have never had a bank account or a credit score.[10] First Access offers an instant risk scoring tool for low-income customers by leveraging demographic, geographic, financial and social network data from a subscriber's mobile records. The scores are authorised by subscribers via text message and delivered to participating financial institutions in real time, along with a recommendation on the loan size in the local currency, and eligibility for instant disbursal. Through this partnership, Vodacom earns revenue and increases subscriber loyalty while demonstrating a firm commitment to inclusive development and corporate social responsibility (CSR).

Figure 5: How the First Access credit scoring model works



[7] *Internet and Mobile Association of India (IAMAI) research; 'Digital, Social and Mobile in India in 2015'–We are Social*

[8] *http://www.vodacom.com/about-us/home*

[9] *http://www.firstaccessmarket.com/*

[10] *http://www.csrwire.com/press_releases/36806-First-Access-and-Vodacom-Tanzania-Ink-Financial-Inclusion-Deal, 'The Consultative Group to Assist the Poor – CGAP.org'*

Spotlight 2: Rise of social media scoring

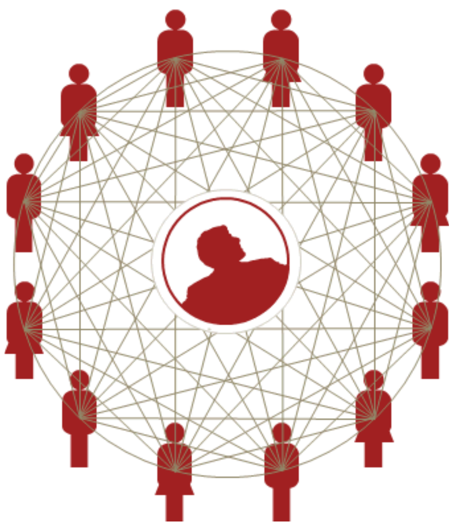
Over the last decade, the proliferation of thorough credit assessments from credit bureaus has extended lending to a wider segment of the Indian population. Nevertheless, close to 70% of the Indian population remains underserved by institutional lenders.[11]

It is important to point out some interesting facts about India's digital population. Out of 350 million active Internet users in India in 2015, 134 million actively use social media platforms—a number which is growing exponentially.[12] To add to these trends, increasing Internet and mobile penetration, growing acceptability of online payments and favourable demographics are expected to lead the e-commerce sector in India to a record revenue of 120 billion USD by 2020.[13] This explosion of e-commerce, Internet and social media usage in India has led to the emergence of a new breed of online lending platforms in India and abroad that leverage social media and Internet browsing data to assess the creditworthiness of customers.

Kreditech,[14] a Germany-based online lender, is already using data gathered from cookies, browser behaviour and social media to determine the creditworthiness of its clients in Russia, Czech Republic, Spain, Mexico and Poland. Since its launch in 2012, the company has processed more than 250,000 applications.[15]

Lenddo,[16] a Hong Kong-based company, is another company which has been successful in rolling out social media credit assessment across multiple geographies such as the Philippines, Colombia and Brazil. Leveraging a proprietary algorithm, Lenddo rates borrowers on a scale of 1 to 1,000 based on their likelihood to repay a loan. The scoring is done on the basis of thousands of data points gathered from social media activity across multiple platforms. Some of the data points used by Lenddo include the number of social media accounts linked to the customer's Lenddo profile, the number of social media friends and followers, the length of active time on social media, and the strength of the customer's social network (the last of which is evaluated by how many friends vouch for the customer's creditworthiness). In the company's opinion, their algorithm is better at predicting the intention and ability to repay the credit compared to traditional underwriting practices. According to Jeff Stewart, Lenddo CEO, 'artificial intelligence (AI) is simply better at administering credit in a fair way.'[17]

Back home, companies in India have also begun to realise the potential of using social media to evaluate credit history. Recently, Lendingkart (a Saama Capital and Mayfield Fund-backed start-up) announced a partnership with Lenddo to explore alternative credit scoring solutions based on non-financial data sources.



[11] *'BW Businessworld: A timeline of alternative lending industry in India', http://businessworld.in/article/A-Timeline-Of-Alternative-Lending-Industry-In-India/16-12-2015-89420/*

[12] *http://wearesocial.com/blog/2015/08/digital-social-mobile-india-2015; Internet and Mobile Association of India (IAMAI) research; 'Digital, social and mobile in India in 2015', We are Social*

[13] *Morgan Stanley analysis, http://economictimes.indiatimes.com/industry/services/retail/indian-ecommerce-market-to-grow-fastest-globally-over-3-years-morgan-stanley/articleshow/51031652.cms*

[14] *https://www.kreditech.com/*

[15] *http://www.ft.com/intl/cms/s/0/12dc4cda-ae59-11e5-b955-1a1d298b6250.html#axzz46L3fvkF9*

[16] *http://www.forbes.com/sites/tomgroenfeldt/2015/01/29/lenddo-creates-credit-scores-using-social-media/#599e2fa73f79; https://www.lenddo.com/*

[17] *http://yahoofinance-yahoopartner.tumblr.com/post/128188548527/what-you-need-to-know-about-social-media-credit*

The Reserve Bank of India (RBI) has consistently stressed on the importance of micro, small and medium enterprises (MSMEs) in fuelling economic growth. Despite contributing significantly to India's growth, a large majority of MSMEs are excluded from the formal financial sector. Although NBFCs and banks are already focussing their efforts on targeting this lucrative yet underserved segment, they are limited by the inability to evaluate the credit potential of borrowers with thin or invisible credit files, collateral or bank accounts.

Although alternative credit scoring methods offer immense opportunities for financial institutions to grow their lending portfolios while managing risk, we strongly believe that such alternative data should be used to augment the credit score gathered from traditional means rather than using it as a standalone means of credit underwriting. These institutions should look to alternative data as a source of opportunity and also carefully consider the distinct advantages and disadvantages inherent in each data source. It is important to make the right call on which alternative data to leverage, especially given that there are significant operational and cost considerations of acquiring, maintaining and updating such data. Based on our analysis, alternative data sources are most useful in credit scoring if they demonstrate the following:

• **Regulatory compliance:** The data source must comply with all regulations governing consumer credit evaluation. (Kindly refer to the subsequent section for more information.)

• **Predictive power:** Different sources of data have varying levels of predictability, a fact which must be considered while evaluating which type of data should be used. It is crucial that the data be able to provide futuristic insights into customer behaviour, particularly in relation to likelihood of repayment. Mobile and psychometric data have demonstrated greater predictive capability when compared with other sources such as Internet data owing to the more personal nature of mobile phones. On the other hand, customers can profile their online behaviour to demonstrate the attributes that lenders are searching for.

• **Ability to reach a diverse and widespread audience:** In emerging markets such as India, digital footprints are limited to a fairly small size of the overall population. Alternate data must be selected keeping in mind its applicability to the predominant semi-urban/rural sections of the Indian society that lacks credit scores. As opposed to more developed economies, India has a significantly lower level of Internet penetration (~33%); therefore, the richness of data available in relation to the rural population might pose a challenge.

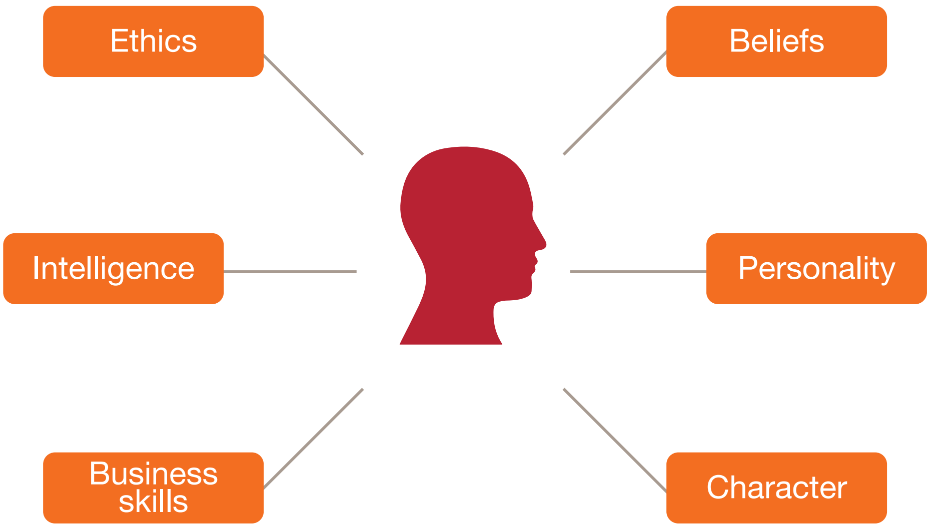
• **Integration with traditional sources of data:** Financial institutions must realise that alternate sources of data form only one part of the credit scoring process and must assess the compatibility of various sources of alternate data with their existing credit underwriting mechanisms. This will help them develop a more complete picture of their customers' creditworthiness, thus reducing the default rate. NBFCs and banks should enter into partnerships with multiple agencies both within and across industry sectors to enable more robust data capturing.

Spotlight 3: Assessing your personality

Despite widespread initial criticism, psychometric surveys that use a set of questions to evaluate a potential borrower's ability and willingness to pay are becoming increasingly popular as a credit risk assessment tool. Psychometric tests are already being used to judge a person's reputation, character and credibility across sectors, especially in hiring, marketing, or sales functions. The Entrepreneurial Finance Lab (EFL), a Harvard University incubated firm, leverages psychometrics to evaluate the creditworthiness of borrowers in over 20 emerging countries, including India. The vernacular test is a 30–45 minute survey that includes controls for fraud and gaming. Leveraging analytical models based on nine years of test responses, applicants are assigned a three-digit credit score that predicts a borrower's probability of default.[18]

EFL entered the Indian market in 2013 and has entered into partnerships with several NBFCs claiming that lenders using its screening tool have shown up to a 50% reduction in the default rate. Janalakshmi Financial Services (JFS), one of EFL's partner, uses EFL's psychometric credit scores to extend credit to high-scoring applicants with faster service and less paperwork. As per reports, JFS has deployed this tool across 15 Indian states and has tested nearly 7,000 borrowers over 10 months.

Figure 6: Personality indicators assessed through psychometric scoring



[18] *http://businesswireindia.com/news/news-details/addressing-missing-middle-efls-psychometric-credit-scores-help-financial-institutions-lend-entrepreneurs/38558; http://social.yourstory.com/2014/01/minority-report-efl-stop-loan-defaulters/*

Regulatory environment for alternative credit modelling

The Indian credit scoring environment is regulated by the Credit Information Companies Act, 2005, which allows only licensed entities to undertake the business of credit information—defined by the act as information related to loans, advances, amounts outstanding under credit cards, securities iassued, guarantees or the creditworthiness of borrowers of credit institutions. In addition, it mandates that all credit institutions in the country must be members of all licensed Credit Information Companies (CICs).[19] The recipients of data on creditworthiness from CICs are limited to banks, NBFCs, housing finance companies (HFIs) and companies engaged in the business of credit cards or distributing credit in any manner.

A quick look at the global regulatory framework on credit scoring and the World Bank's General Principles for Credit Reporting, which suggests that data points are necessary to analyse the creditworthiness of people, makes its evident that very limited information is gathered by CICs in India and analysed to churn out credit scores. Even as a number of countries are considering the inclusion of demographic and psychometric data to help build better credit scores, India has to catch up with existent practices of capturing individual- or firm-level data which is conspicuously missing from information sets and relevant to credit scoring.

As alternative data is enriching a person's chances of getting a loan approved, it is also being accessed by other businesses to offer faster or cheaper services. In China, credit scores based on a range of financial, social and demographic data points are being used to approve people for access to fast lanes in airports, express delivery of visas and even pet adoption. Employers and landlords in the US have long been accessing credit scores of potential recruits and tenants before hiring them or giving an apartment out on lease. Such applications of credit scores remain limited in the Indian scenario as only financial information on repayment behaviour is captured by CICs and only certain specified users mentioned in the act (e.g. credit institutions) are allowed to access credit scores based on this data.

While using alternative data to predict creditworthiness and allowing access to this information to multiple players have many advantages, any increase in data sharing has to be balanced with privacy concerns. Unchecked collection of all user data by agencies may infringe on a person's privacy and increase security concerns. The Austrian Data Protection Act, 2000, states that consumers must opt for the use of their private data for any purpose, with the option to retract this permission at a later stage. In a world where all our activities leave a digital footprint and are traceable, it is essential to give people the right to choose what information they want to be captured to inform their credit scores.

The multiple inadequacies of the present law have not escaped the

[19] The 'CIC Act, 2005,' required credit institutions to be a part of at least one CIC, which led to issue of incomplete information available with a CIC. Later, two RBI notifications, 'DBR.No.CID.BC.60/20.16.056/2014-15, Membership of Credit Information Companies, 15 January 2015)' and 'DNBR (PD).CC. No 019/03.10.01/2014-15, Membership of Credit Information Companies (CICs), 6 February 2015', made it necessary for them to be a part of all CICs in the country to resolve this issue.

regulator's attention. RBI had constituted a committee[20] to reduce the information asymmetry between lenders and borrowers. The committee strongly recommended the inclusion of non-financial data points such as utility bill payments and mobile phone payments as data inputs for computing a credit score. To this end, they suggested the formulation of a working group comprising the Telecom Regulatory Authority of India (TRAI), Central Electricity Regulatory Commission (CERC) and CICs to develop a framework for sharing data between telecom companies, electric utilities and credit bureaus. They also highlighted that, for every consumer of a CIC, access to a free credit report every financial year is desirable.

Ensuring speedy implementation of these recommendations through an enabling regulatory framework is the need of the hour to create a population that is better informed of their ability to obtain credit and a score which is capable of providing greater insight into more people's repayment ability.

Conclusion

In order to compete in this changing lending landscape, NBFCs need to realise the immense value of alternative data and make investments in technology and analytics to develop advanced credit scoring models that leverage both traditional and non-traditional data sources. NBFCs will need to develop behaviour-based credit risk models on the lines of those developed by online lenders, which incorporate the social graph, personal network, employment history and educational background of the borrower into their credit scoring rules.

Customers who are qualified to obtain credit but are unable to do so because of their credit score (or lack thereof) will specifically benefit from the use of alternative credit scoring mechanisms that work alongside the NBFC's traditional credit underwriting model. This will introduce healthy competition, spur product innovation, and ultimately help support the Indian government's agenda of full financial inclusion.

[20] Committee formed to recommend data format for furnishing of credit information to credit information companies, January 2014.

NBFC regulations: Evolution, rationalisation and changes ahead

Evolution of regulatory framework for NBFCs

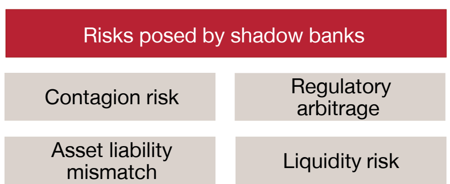
Over the past several decades, NBFCs have emerged as important financial intermediaries, particularly for the small-scale and retail sectors, in underserved areas and unbanked sectors. NBFCs have turned out to be growth engines in an arena where increased importance is assigned to financial inclusion.

The growing importance of the NBFC segment in the Indian financial system has led to a changing landscape of the NBFC framework. The evolution of the regulatory framework for NBFCs in India has gone through a cyclical phase–from simplified regulations to stringent and extensive regulations and finally towards rationalisation as part of the recently revised NBFC regulatory framework.

In 1964, Chapter III B of the Reserve Bank of India (RBI) Act, 1934, was introduced to regulate deposit-accepting NBFCs. With NBFCs emerging as an important segment deeply connected with entities in the financial sector, coupled with failures of large NBFCs, a more comprehensive and enhanced framework was put into place by the RBI in the years 1996 and 1997. This included introduction of entry point norms (EPNs), stricter and more detailed regulations with respect to acceptance of deposits with an objective to have a focussed supervision of deposit-accepting NBFCs, mandatory registration of all NBFCs with the RBI (irrespective of their holding of public deposits) for commencing and carrying on business, maintenance of a portion of deposits in liquid assets, creation of a reserve fund, etc. In 1999, the capital requirement for a fresh registration was enhanced from 25 lakh INR to 200 lakh INR. Furthermore, in 2006, in order to bridge the gap between banks and NBFCs, non-deposit accepting NBFCs were further classified into systemically important NBFCs and non-systemically important NBFCs based on their asset size. Certain prudential norms were imposed on such NBFCs. Also, the focus of RBI shifted from deposit-accepting NBFCs to non-deposit accepting NBFCs.

The true magnitude of the risks that the shadow banking sector at the global level could proffer was clearly visible in the aftermath of the global financial crisis of 2008. In the Indian context, NBFCs are considered similar to shadow banks, although they are still subject to regulatory supervision. The light-touch regulations on shadow banks gave rise to high leverage and sub-credit assets. The resultant liquidity crunch got further transferred to the banking system due to its interlinkages with

Figure 7 - Risks posed by shadow banks



the shadow banking sector. This gave rise to the need for a collective effort to preserve financial stability and one of the key issues highlighted by the G-20 leaders at the November 2010 Seoul Summit was ‘strengthening regulation and supervision of shadow banking’. The Financial Stability Board (FSB) has been constantly working towards strengthening the oversight and regulation of the shadow banking system to mitigate the risks arising therefrom.

In keeping with the work done on shadow banking by G-20 and FSB, the RBI too, along with various other regulators and the government, has been working towards improving the regulatory framework to curb shadow banking activities that pose a risk to financial stability.

At the same time, the RBI has not failed to recognise the important role played by NBFCs in bringing about financial inclusion in the country. NBFCs fill the important gaps in financial inclusions by catering to geographies and sectors where the banking sector is unable to foray into.

In light of the above, the RBI took various steps to revamp the NBFC framework. Various committees were appointed by the RBI in the past to seek recommendations on the role of NBFCs in the financial sector, growth potential, and the regulatory changes that should be introduced to bridge the inefficiencies of the sector. Based on the recommendations, the RBI has been modifying its regulatory and supervising policies from time to time to keep pace with the changes in the system. The committees that have contributed to the development of

Figure 8 - Key changes in the NBFC regulatory framework

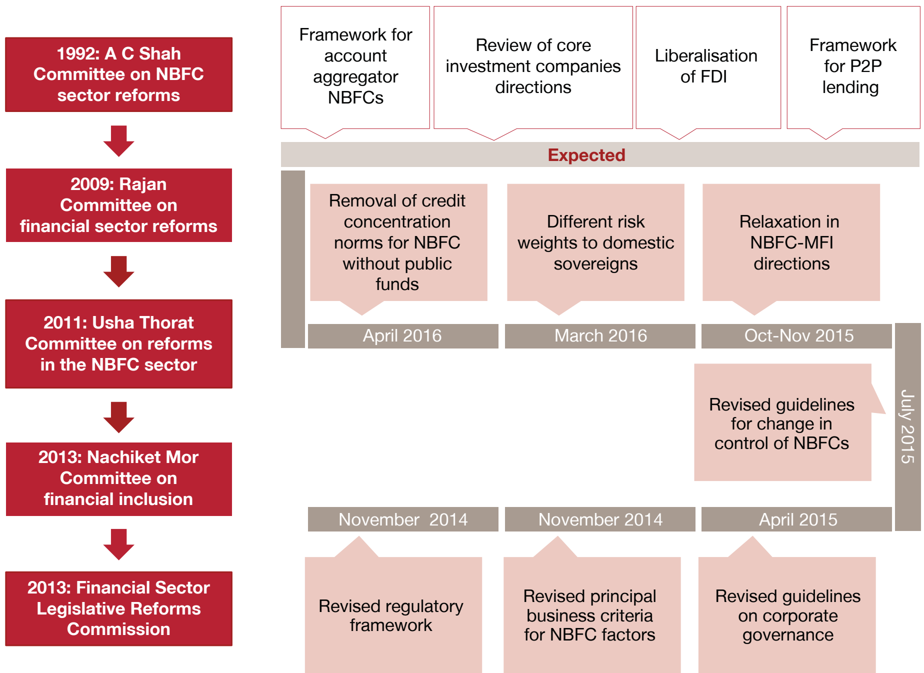
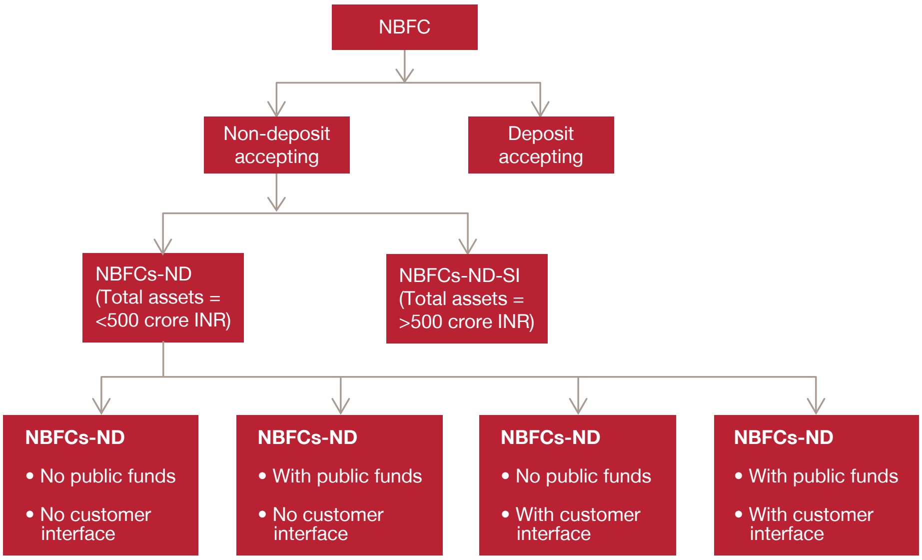


Figure 9 - Revised NBFC classification



Recent changes in the regulatory framework

A comprehensive review of the NBFC regulations was conducted by the RBI in 2014. The revised regulatory framework[21] is designed to focus supervisory attention to those NBFCs which genuinely can pose risks to the financial system and bring operational freedom to smaller NBFCs. The foremost step in this direction was the revision in the threshold for systemic significance from 100 crore INR to 500 crore INR. Under the new regulatory framework, non-deposit accepting NBFCs with total assets less than 500 crore INR are considered as not being systemically important and subject to a light touch regulation. Those with total assets above 500 crore INR are considered as systemically important non-deposit accepting NBFCs and have been subjected to a more stringent set of regulations.

Non-systemically important non-deposit accepting NBFCs (NBFCs-ND)

Limited prudential norms

Capital adequacy norms and credit concentration norms have been done away with for all NBFCs-ND. This change will bring greater operational flexibility to over 11,500 NBFCs, who have an asset size of more than 100 crore INR but less than 500 crore INR, as they were earlier subjected to these norms.

The regulations are further customised depending on whether the NBFC-ND has access to public funds and/or has a customer interface.

In order to ensure that the NBFCs-ND do not become over-reliant on leverage and have their skin in the game, they are required to ensure a leverage ratio of 7 (i.e. total outside liabilities to not exceed seven times their owned funds).

Under the earlier NBFC prudential norms, 'public funds' were defined to include funds raised either directly or indirectly through public deposits, commercial papers, debentures, intercorporate deposits and bank finance. As a measure of further liberalisation, the definition of public funds has been amended to 'exclude funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding five years from the date of issue'.

All other prudential norms such as asset classification, provisioning requirements, and accounting principles remain unchanged for NBFCs-ND.

Governance requirements

Hitherto, all NBFCs were required to comply with governance requirements, such as the Fair Practices Code (FPC) and anti-money laundering, resulting in extra compliance burden. Under the new framework, only those NBFCs that have a customer interface are required to comply with such governance requirements.

NBFCs-ND with no public funds and no customer interface are not subject to any prudential norms and thus have complete regulatory freedom to conduct their business activities. This change should give a great fillip to NBFCs engaged in investment activity through their own funds. Given the spur of start-ups in the country, this single change could make NBFCs a very attractive vehicle for private equity (PE) investments.

[21] *DNBR (PD) CC. No. 002/03.10.001/2014-15 dated 10 November 2014*

Systemically important NBFCs (NBFCs-ND-SI) and deposit-accepting NBFCs (NBFCs-D)

Prudential norms

While the regulatory framework for NBFCs-ND has been liberalised, the regulations for NBFCs-ND-SI and for all NBFCs-D have been strengthened considerably. For these NBFCs, prudential regulations and conduct of business regulations both remain applicable whereas there is no prescribed leverage ratio.

Asset classification and provisioning norms

With view to align the asset classification and provisioning norms with that of banks, a 90-day default period has been prescribed for the classification of a loan as a non-performing asset. The revised asset classification norms are summarised below:

Figure 10 - Revised asset classification norms

Type of asset / FY ending	Non-performing assets (NPA)		Substandard assets: Assets classified as NPA for a period not exceeding	Doubtful assets: Assets remaining substandard for a period exceeding
	Loan assets to become NPA if overdue	Lease rental and hire purchase assets to become NPA if overdue		
March 2016	5 months	9 months	16 months	16 months
March 2017	4 months	6 months	14 months	14 months
March 2018	3 months	3 months	12 months	12 months

Similarly, the provision for standard assets has been enhanced from 0.25–0.40% of the value of the standard assets to bring it in line with that applicable for banks. Compliance with the revised norm is to be achieved in a phased manner by the end of March 2018.

It is pertinent to note that asset classification and provisioning norms are merely accounting adjustments. Just because an asset is classified as a non-performing assets (NPA) does not imply that it has to be repossessed or recalled. While many retail NBFCs may be impacted by these stringent norms, most of the foreign-owned NBFCs may not be significantly impacted as they generally follow stricter norms based on their internal policies.

Enhancement of Tier I capital requirement for capital adequacy purposes

For the NBFCs-ND-SI and NBFCs-D, the minimum Tier I capital has been increased to 10%. This is to be achieved in a phased manner, i.e., 8.5% by end of March 2016 and 10% by end of March 2017.

Credit concentration norms

Furthermore, credit concentration norms have been harmonised between the various categories of NBFCs by removing the dispensation given to asset finance companies (AFCs) to exceed the defined norms by 5%. Dispensation given to infrastructure finance companies and infrastructure debt funds has been retained as infrastructure loans are generally high value loans.

Recently, the RBI introduced an important liberalisation measure. Earlier, any NBFC-ND-SI not accessing public funds, either directly or indirectly, or not issuing guarantees had to make an application to the RBI for dispensation from the concentration of credit/investment norms. The RBI has now issued a notification[22] whereby concentration of credit/investment norms shall not apply to an NBFC-ND-SI not accessing public funds in India, either directly or indirectly, and not issuing guarantees. This will make the NBFC model attractive for large financial groups that have significant funds on their balance sheet or plans

[22] *DNBR (PD) CC.No.077/03.10.001/2015-16 dated 7 April 2016*

to run this business through their own funds, and target high value institutional lending.

Corporate governance

Considering the need for good corporate governance practices and also keeping in line with the recommendations of the Thorat Committee, which was set up to study the issues and concerns in the NBFC sector, the following amendments have been made to the existing regulatory framework on corporate governance and disclosures for NBFCs.

Earlier, the constitution of an audit committee was mandatory for NBFCs with assets of 50 crore INR and above or deposits of 20 crore INR and above. The constitution of the nomination committee and risk committee was recommendatory. The revised framework makes it mandatory for NBFCs-ND-SI (i.e. NBFCs with assets of 500 crore INR and above) and NBFCs-D to constitute the following committees:

- Audit committee
- Nomination committee
- Risk committee

The audit committee is entrusted with the task of ensuring that an information systems audit of the internal systems processes is conducted at least once in every two years.

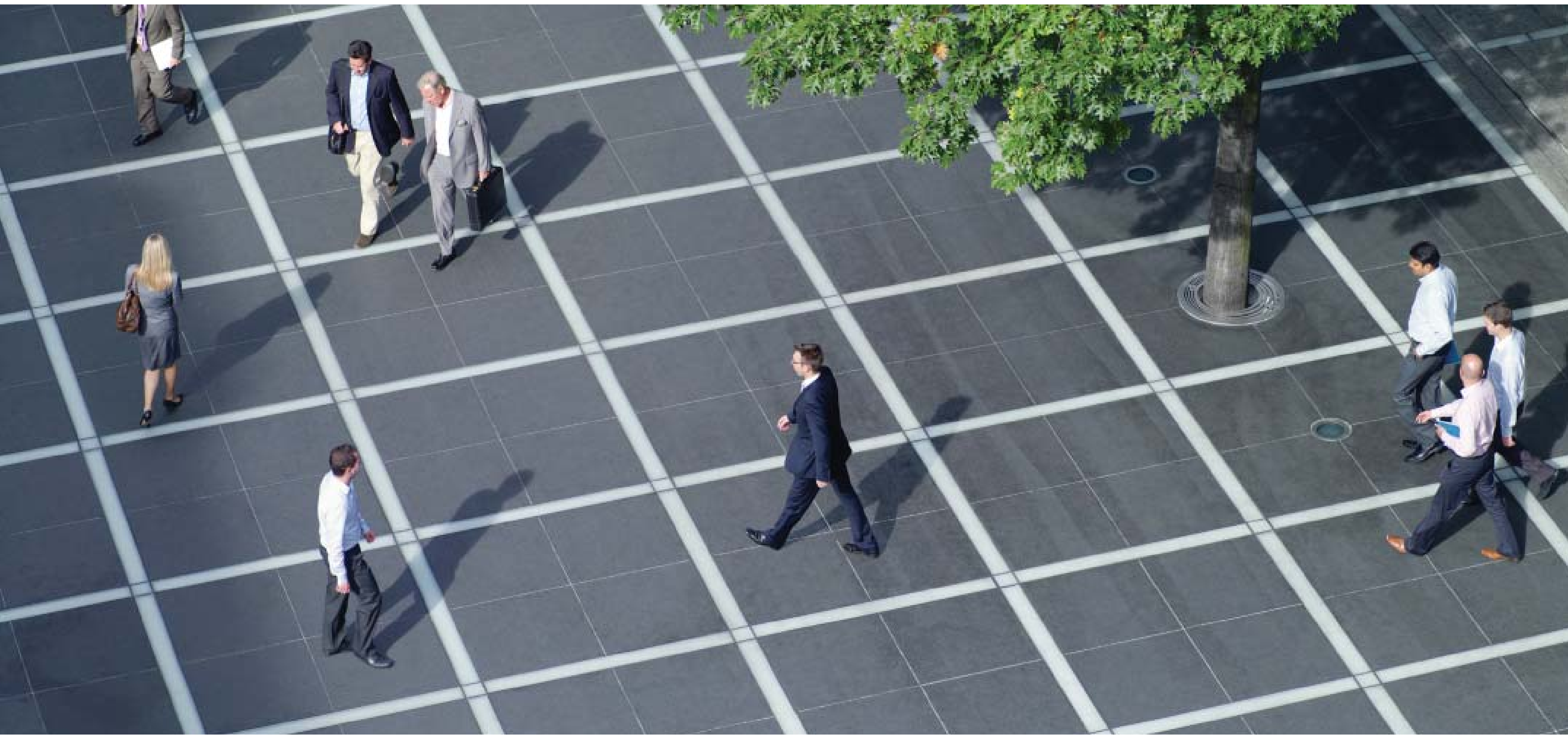
All NBFCs-D and NBFCs-ND-SI are now mandatorily required to rotate the audit partners of the firms appointed as their statutory auditors every three years. This was only recommendatory under the earlier regulations.

Moreover, effective 31 March 2015, NBFCs-ND-SI and NBFCs-D need to put in place a policy for ascertaining the ‘fit and proper criteria’ for directors, and comply with additional disclosure requirements.

Other key changes applicable for all NBFCs

Aggregation of assets of multiple NBFCs in a group

The Thorat Committee had proposed that multiple NBFCs that are part of a corporate group[23] or are floated by a common set of promoters should not, for regulatory and supervisory purposes, be viewed on a stand-alone basis but in aggregate. In line with the recommendation, the revised regulatory framework provides for aggregation of total assets of all NBFCs in the group (including NBFC-D) to determine the categorisation and supervision of an NBFC as an NBFC-ND or NBFC-ND-SI. If the combined asset size of all NBFCs within the group is 500 crore INR or more, each NBFC in the group will have to comply with the regulations applicable to NBFCs-ND-SI.



[23] ‘Companies in the group’ are defined to mean an arrangement involving two or more entities related to each other through any of the following relationships:

- *Subsidiary: Parent (defined in terms of Accounting Standard (AS) 21)*
- *Joint venture (JV): Defined in terms of AS 27*
- *Associate: Defined in terms of AS 23*
- *Promoter-promotee: As provided in the Securities And Exchange Board of India (Acquisition of Shares and Takeover) Regulations, 1997, for listed companies*
- *Related party: Defined in terms of AS18*
- *Common brand name*
- *Investment in equity shares of 20% and above*

Minimum net owned funds (NOF) of 2 crore INR for all NBFCs

Earlier, only those NBFCs registered after 21 April 1999 were required to have minimum NOF of 2 crore INR. A large number of NBFCs which were registered prior to that date were permitted to continue to maintain minimum NOF of 25 lakh INR. It is apparent that NBFCs with a minimum capital below 2 crore INR are likely to be carrying out very limited business activities, if any. Considering that a higher NOF would be required for the adoption of advanced technology and to ensure a sufficient capital base for the diverse activities conducted by NBFCs, the minimum NOF of 2 crore INR has now been made mandatory for all NBFCs, whether registered prior to or post 21 April 1999. All NBFCs were required to attain a minimum NOF level of 1 crore INR by the end of March 2016 and need to maintain the NOF level of 2 crore INR by the end of March 2017.

Rating and deposit acceptance by AFCs

The regulations for AFCs are now brought in line with those for other deposit-accepting NBFCs. Existing unrated AFCs will now have to obtain an investment grade rating by 31 March 2016 to be allowed to accept deposits. In the intervening period till 31 March 2016, unrated AFCs or those with sub-investment ratings can only renew existing deposits on maturity and

cannot accept fresh deposits till they obtain an investment grade rating.

The limit for acceptance of deposits by deposit accepting AFCs has been reduced from 4 times to 1.5 times the net owned funds, and the credit concentration norms for all AFCs have also been brought in line with those of other NBFCs.

Liberalisation of principal business criteria for NBFC-factors

To encourage the factoring business in India and based on the representation received from the industry, the RBI has, vide another circular,[24] relaxed the entry point norms by modifying the principal business criteria for NBFC-factors from 75–50%, as outlined below:

- Financial assets in the factoring business to be at least 50% of total assets
- Income from factoring business to be at least 50% of the gross income

Revised guidelines for change in control of NBFCs

To ensure that all NBFCs are managed by 'fit and proper' management, the Thorat Committee recommended that all NBFCs should be required to obtain prior approval from the RBI for a change in management or control. This resulted in the issuance of the Non-Banking Financial Companies (Approval of Acquisition or Transfer of Control) Directions, 2014.[25] However, based on several industry requests, the RBI in July 2015, issued a revised set of directions on the requirement of approval for change in control of NBFCs.

As per the new directions, prior written permission of the RBI would be required in the following situations:

- Any takeover or acquisition of control of an NBFC, which may or may not result in change of management
- Any change in the shareholding of an NBFC, including progressive increases over time, which would result in acquisition/transfer of shareholding of 26% or more of the paid up equity capital of the NBFC.
- Any change in the management of the NBFC which would result in change in more than 30% of the directors, excluding independent directors and directors who get re-elected on retirement by rotation.

Prior approval would, however, not be required in case of any shareholding

Table 1 – Revision in MFI limits as per new norms

	Existing norms	Revised norms
Total indebtedness	50,000 INR	1,00,000 INR
Household annual income	Rural: 60,000 INR Urban and semi-urban:1,20,000 INR	Rural: 1,00,000 INR Urban and semi-urban:1,60,000 INR
Loan ticket size	1st cycle: 35,000 INR Subsequent cycles: 50,000 INR	1st cycle: 60,000 INR Subsequent cycles: 1,00,000 INR
% of loans for income generation	70%	50%
Loan limit requiring mandatory tenure of 24 months	15,000 INR	30,000 INR

[24] *DNBR (PD) CC. No. 003/22.10.91/2014-15 dated 10 November 2014*
[25] *DNBS (PD) CC No.397/03.02.001/2014-15 dated 1 July 2014*
[26] *Notification No.DNBR.014/CGM (CDS)-2015 dated 8 April 2015, and Notification No. DNBR. 033/CGM (CDS)-2015 dated 26 November 2015*

going beyond 26% due to buy-back of shares/reduction in capital where it has approval of a competent court. The same is, however, required to be reported to the RBI not later than one month from its occurrence.

Increase in lending limits for microfinance NBFCs (NBFCs-MFI)

In line with the recommendations of the Nachiket Mor committee on 'Comprehensive Financial Services for Small Businesses and Low Income Households' and to give a fillip to the microfinance industry, the RBI significantly enhanced the borrowing limits for an individual, income limits of borrowers, and disbursement amount for NBFC-MFIs. The changes introduced are summarised as under:[26]

These changes are likely to aid the growth of the loan portfolio of NBFC-MFIs as it widens the base of borrowers and significantly increases their market size.

Reduction in risk weights assigned to sovereign debt

The risk weights to be applied by banks for capital adequacy purposes also take into account the credit rating of the borrower. In order to create a level playing field with banks, it has been a long standing demand of the NBFC sector to allow differential risk weights to assets similar to those applicable for banks. The RBI partially granted this industry request by reviewing the risk weights assigned to exposures to domestic sovereigns.[27]

All loans given by NBFCs to the central government or loans guaranteed by the central government will now carry risk weight of zero (as opposed to a flat risk weight of 100 earlier). Similarly, all direct loan/credit/overdraft exposure and investment in state government securities will attract zero risk weight. Furthermore, state government guaranteed claims, which have not remained in default, will attract 20% risk weight. However, if the loans guaranteed by the state government have remained in default for a period of more than 90 days, a risk weight of 100% should be assigned.

Looking ahead

NBFCs have been playing a very important role from the macroeconomic perspective and as a core catalyst in the Indian financial system. NBFCs are certainly emerging as better alternatives to the conventional banks for meeting the financial needs of various sectors. However, to survive and to constantly grow, NBFCs have to focus on their core strengths while improving on weaknesses. They will have to be very dynamic and constantly endeavour to search for new products and services in order to survive in this ever-competitive financial market. Due to the innovative and dynamic nature of the NBFC sector, there is a need to redesign the regulatory framework. We have discussed below certain changes in the regulatory framework that may be seen in the near future.

Move towards activity-based regulation

The Nachiket Mor Committee had observed that the wide number of NBFC categories unwieldy creates room for regulatory arbitrage and hinders the evolution of NBFCs, which have the ability to provide the broad range of credit products. The committee had recommended a shift from entity-based regulation of NBFCs to activity-based regulation of NBFCs. The revised regulatory framework issued by the RBI was the first step in this direction. It is expected that the RBI will bring about further modification in the NBFC regulations aimed at consolidation of the different types of NBFCs. This would essentially mean that the different categories of NBFCs, such as an investment company or asset finance company, would be subsumed into one single NBFC category. Benefits that were previously available to specific NBFC types, such as tax benefits, bank limits, and priority sector status may continue to be available even after consolidation on a pro rata asset basis. The asset class differences in behaviour would be accommodated through differential provisioning on the basis of asset class rather than by creating new NBFC categories.

Rationalisation of regulations for core investment companies

The core investment companies' regulations were issued by the RBI as a welcome move, with the intention to simplify the NBFC framework and regulations that applies to group holding companies. However, since its inception, the industry is struggling to get a complete clarity on this framework and, thereby, the framework has not completely taken off well.

There are still concerns with respect to the definition of a core investment company. Also, with the current conditions for an entity to qualify as a core investment company, it may be difficult for that entity to undertake any other business activity from the said entity. For instance, there could be several group holding companies which not only hold shares of group companies but also undertake other business activities in the same entity.

To continue with their business operations in a smooth manner, we

[27] *Notification No. DNBR 037/CGM (CDS)-2016 dated 10 March 2016*

expect the RBI to come up with some clarifications which will encourage entities to come forward to register themselves with the RBI.

Introduction of account aggregator NBFCs

As another step towards the aim of financial inclusion, the RBI released a draft regulatory framework on account aggregator NBFCs. Such NBFCs will perform the function of consolidating all financial information of a person across banks, insurance companies, mutual funds etc., in a common format. It will enable the common man to easily access all his accounts across financial institutions in a common format. It will be interesting to see how this segment of NBFCs kicks-off in the market.

Liberalising foreign investment in the NBFC sector

Harmonisation of provisions of the regulations for foreign direct investment (FDI) in an NBFC with the RBI-NBFC directions is another important area which is finally gaining some traction.

The finance minister in his Budget speech on 29 February 2016 announced the government's intention to permit FDI in all financial activities which are regulated by an Indian regulator under the automatic route. For example, once the commodity broking license is approved by the Securities and Exchange Board of India (SEBI), that company will not require any further approval from the Foreign Investment Promotion Board (FIPB) for bringing in foreign investment.

Similarly, undertaking investment activity by an NBFC having foreign investment requires approval from the FIPB. This is because, under the FDI norms, the only head under which NBFC activities are covered under automatic route is 'leasing and finance'. However, the term 'finance' has not been defined. Based on its general meaning, while 'lending' activity would get covered, 'investment' activity does not specifically get covered. Once the above-mentioned change is notified, it would be interesting to see if NBFCs are permitted to undertake investment activities without the FIPB's approval.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (SARFAESI Act) coverage

Though banks and public financial institutions enjoy the SARFAESI Act's benefits, the NBFCs were kept outside the purview of this framework. This put undue hardship in recovery of bad loans by NBFCs. Both the Thorat Committee and the Nachiket Mor Committee recognised this and recommended that NBFCs be given access to benefits under the SARFAESI Act.

In his Budget speech in 2015, the finance minister announced that NBFCs would be considered as an eligible financial institution for SARFAESI benefits. However, the corresponding amendment in the SARFAESI Act is still yet to be introduced. This appears to be a mere omission and hopefully, the relevant amendment would be incorporated in the SARFAESI Act soon.

Coverage of NBFCs under the SARFAESI Act would go a long way towards creating a level playing field for NBFCs with banks.

Simplification of the NBFC application process

To make the process of registration of new NBFCs smoother and hassle free, RBI Governor, Dr Raghuram Rajan, announced in the sixth bi-monthly policy for 2015–16, the RBI's intention to simplify and rationalise the process of registering new NBFCs. The new application forms will be simpler and the number of documents required to be submitted will be reduced to a minimum.

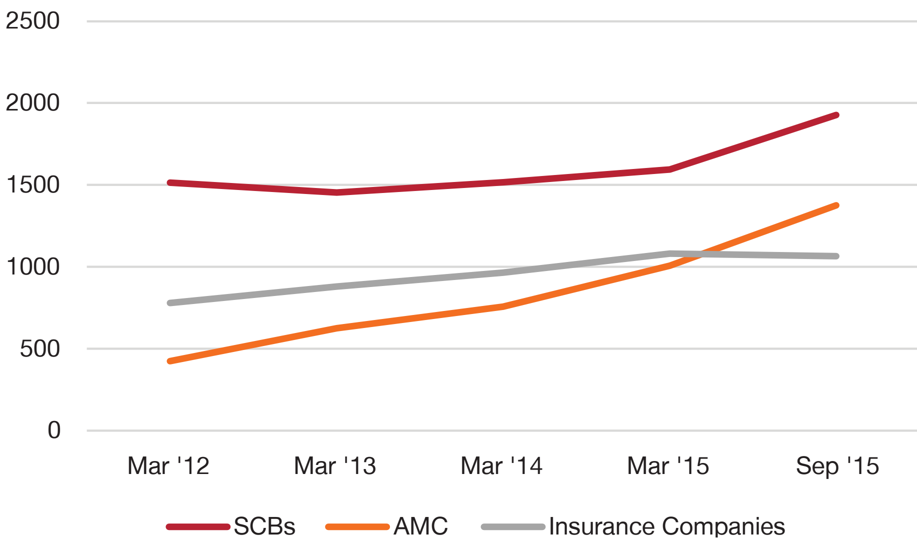
Conclusion

The NBFC segment is a catalyst to the economic development of the country. The RBI is constantly striving to bring necessary changes in the NBFC regulatory space to proactively provide regulatory support to the segment and also to ensure financial stability in the long run. We hope that the forthcoming changes in the pipeline will further strengthen the robustness of the NBFC sector and allow them to operate in an enabling regulatory environment.

Recent trends in funding sources for NBFCs

NBFCs have emerged as the largest net receiver of funds from the rest of the financial system. According to the Financial Stability Report, 2015, scheduled commercial banks (SCBs) have the highest exposure to NBFCs at 1,927 billion INR, followed by asset management companies managing mutual funds (AMC-MFs) at 1,376 billion INR and insurance companies at 1,064 billion INR (as of September 2015). The graph below shows the general trend of exposure to NBFCs from March 2012 to September 2015.

Figure 11: Exposure of SCBs, AMCs and Insurance companies to NBFCs (in billion INR)



Source: Financial Stability Report, December 2015

On close inspection, we see that the higher-rated, large NBFCs have been increasing market borrowings, and we expect this trend to continue in 2016–17 as the spread between market borrowings and bank borrowings stands high at 1–1.5%. Even though banks are not able to pass down the lower interest rates, they will still continue to be the largest source of funding for NBFCs. However, the growing reliance of NBFCs on bank funding requires additional safeguards to be introduced by RBI to contain systemic risks.

Interestingly, the funding structure is also changing from short-term borrowings to long-term borrowings. Over the last few years, the proportion of short-term borrowings has been increasing since NBFCs were hesitant to lock in long-term funding, expecting a fall in interest rates. The trend is changing towards more long-term borrowings as NBFCs will take advantage of the benign interest rate environment to strengthen their liquidity profile.

Considering the funding restraints, a regulatory architecture may be considered in the future which permits large-ticket deposits from high net worth individuals (HNIs) to NBFCs directly. This will act as another source of NBFC funding and also act as a wealth management instrument for HNIs. We have already seen some stand-alone transactions of this nature—the most recent being an investment from Jaspal Bindra (Standard Chartered group's ex-executive director and chief executive officer for Asia), picking up a significant minority stake in Centrum Group.

Over time, the industry also demanded that NBFCs be given access to refinancing schemes from the National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI), etc. The government acknowledged the demand and set up the Micro Units Development and Refinance Agency Bank (MUDRA Bank), which may become a prominent source of funding and liquidity to NBFC-microfinance institutions (NBFCs-MFIs). The cost of funding for NBFC-MFIs may come down by 1–4% according to ICRA[28] estimates. However, this would depend on the share of funding NBFC-MFIs receive from MUDRA Bank.

[28] *Micro Units Development and Refinance Agency (MUDRA) Bank Dedicated Regulator and Refinancer: A strong positive for the microfinance Sector', ICRA rating feature, 2015.*

ASSOCHAM
The knowledge architect of corporate india

Evolution of value creator

ASSOCHAM initiated its endeavour of value creation for the Indian industry in 1920. Having in its fold more than 400 chambers and trade associations, and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian economy, and contributed significantly by playing a catalytic role in shaping up the trade, commerce and industrial environment of the country.

Today, ASSOCHAM has emerged as the fountainhead of knowledge for the Indian industry, which is all set to redefine the dynamics of growth and development in the technology-driven cyber age of a 'knowledge-based economy'.

ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally.

ASSOCHAM derives its strength from its promoter chambers and other industry, regional chambers or associations spread all over the country.

Vision

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier-less technology-driven global market and help them upscale, align and emerge as formidable player in respective business segments.

Mission

As a representative organ of corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, health, corporate social responsibility and environment to be the critical success factors.

Members: Our strength

ASSOCHAM represents the interests of more than 4,50,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a chamber with a difference.

Currently, ASSOCHAM has more than 100 national councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of corporate social responsibility, environment and safety, HR and labour affairs, corporate governance, information technology, biotechnology, cyber security, telecom, banking & finance, company law, corporate finance, economic and international affairs, mergers and acquisitions, tourism, defence and aerospace, civil aviation, infrastructure, energy and power, education, legal reforms, luxury, real estate and rural development, competency building and skill development to mention a few.

Insight into new business models

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian corporates, characterised by a new mindset and global ambition for dominating the international business. The chamber has addressed itself to key areas like India as an investment destination, achieving international competitiveness, promoting international trade, corporate strategies for enhancing stakeholders' value, government policies in sustaining India's development, infrastructure development for enhancing India's competitiveness, building Indian MNCs, role of the financial sector as the catalyst for India's transformation.

ASSOCHAM derives its strengths from the following promoter chambers: Bombay Chamber of Commerce and Industry, Mumbai; Cochin Chambers of Commerce and Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; and PHD Chamber of Commerce and Industry, New Delhi.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

The Associated Chambers of Commerce and Industry of India

ASSOCHAM Corporate Office
5, Sardar Patel Marg, Chanakyapuri, New Delhi-110 021
Tel: 011-46550555 (hunting line)   Fax: 011-23017008, 23017009
Email: assocham@nic.in   Website: www.assocham.org

ASSOCHAM contact
Department of Banking & Financial Services

Chandan Kumar
Joint Director
chandan.kumar@assocham.com

Rajesh Kr. Singh
Asst. Director
rajesh.singh@assocham.com

Vivek Tiwari
Executive
vivek.tiwari@assocham.com

Saurabh Singh
Executive
saurabh.singh@assocham.com

Kushagra Joshi
Executive
kushagra.joshi@assocham.com

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

In India, PwC has offices in these cities: Ahmedabad, Bangalore, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, visit www.pwc.com/in

Contacts

Hemant Jhajhria
Partner
Email: hemant.jhajhria@in.pwc.com
Phone: +91 7738553000

Samip Barlota
Partner
Email: samip.barlota@in.pwc.com
Phone: +91 9820332667

Mayur Gala
Director
Email: mayur.gala@in.pwc.com
Phone: +91 9820192750

Amit G Jain
Associate Director
Email: amit.g.jain@in.pwc.com
Phone: +91 9821750980

Paritosh Chhabria
Associate Director
Email: paritosh.chhabria@in.pwc.com
Phone: +91 9810019809

www.pwc.in

Data Classification: DC0