

4. Self-Regulatory Organisation – Economy

The Reserve Bank of India (RBI) has officially recognised the Finance Industry Development Council (FIDC) as the Self-Regulatory Organisation (SRO) for the non-banking financial company (NBFC) sector.

Concept of Self-Regulatory Organisations (SROs)

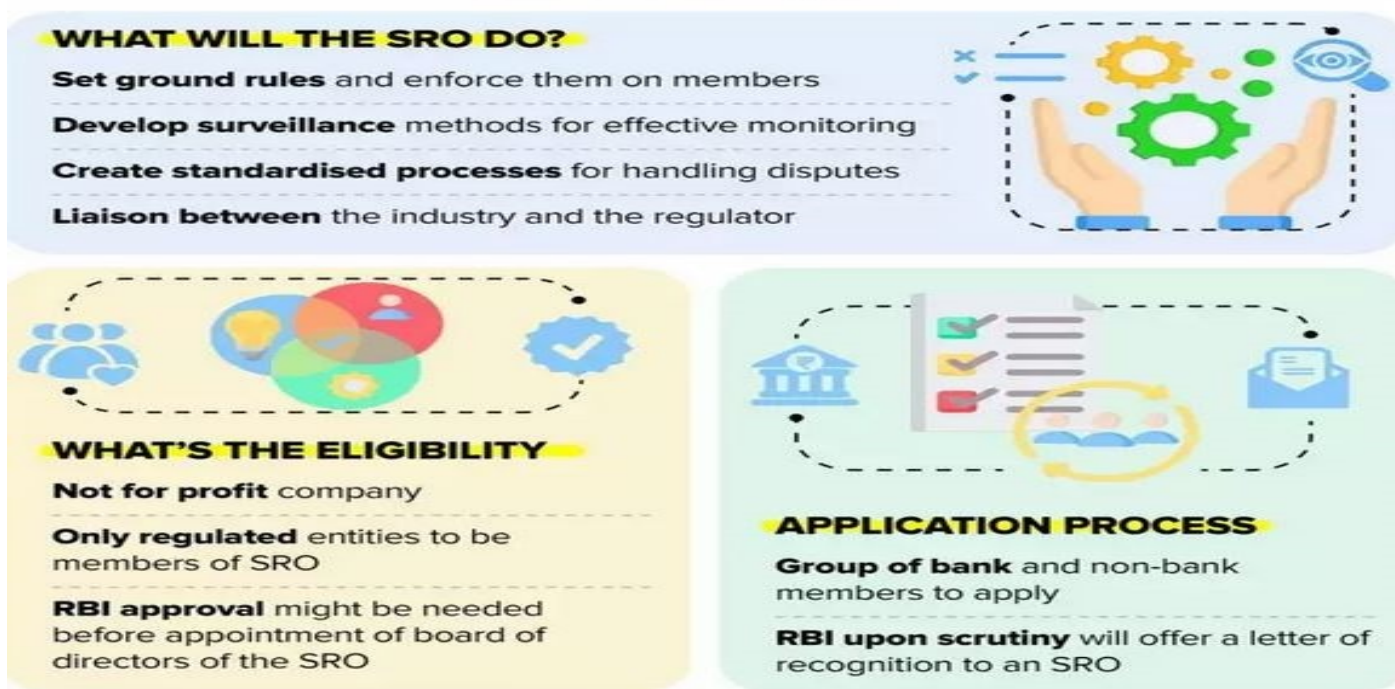
Definition – According to the RBI's Omnibus Framework, a Self-Regulatory Organisation (SRO) is a non-governmental body authorised by a regulator to regulate and oversee a particular industry or sector.

Nature and Authority – SROs derive their authority from membership agreements with the entities they oversee. They operate within legal boundaries defined by regulators and do not replace statutory authority but act as an intermediary regulatory layer.

Eligibility Criteria (RBI Guidelines) – Must be a Section 8 not-for-profit company.

Diversified shareholding – No single entity may hold more than 10% of the capital. Must maintain sufficient net worth to sustain operations and regulatory functions.

RBI's SRO push



Source: RBI

Responsibilities of SROs

SROs act as a bridge between industry participants and regulators, ensuring compliance and promoting best practices. Key responsibilities include –

Code of Conduct – Draft and enforce guidelines covering corporate governance, risk management, responsible lending, and customer protection.

Monitoring and Compliance – Conduct continuous surveillance, track misconduct, and ensure adherence to the code. Provide early-warning signals to regulators regarding emerging risks or sectoral vulnerabilities.

Grievance Redressal – Establish mechanisms for dispute resolution and complaint handling, enhancing trust and transparency in the sector.

Financial Literacy and Training – Educate borrowers on lending terms and debt obligations. Train staff of member institutions on compliance, ethics, and operational best practices.

Regulatory Liaison – Act as a first line of monitoring for the regulator, reducing its oversight burden while maintaining sector discipline.

Non-Banking Financial Companies (NBFCs)

Definition – NBFCs are companies registered under the Companies Act that engage in financial

activities, such as –

1. Providing loans and advances.
2. Acquiring shares, stocks, bonds, debentures, or other marketable securities.
3. Operating deposit schemes, including recurring and fixed deposits.

Exclusions – NBFCs do not include institutions whose primary business is – Agriculture, industrial activity, or trade of goods (other than securities). Services unrelated to finance or immovable property transactions.

Need for an SRO in the NBFC Sector

Rapid Growth and Sectoral Significance – NBFCs account for nearly one-third of total lending in India, particularly serving MSMEs, housing, vehicle finance, and micro-enterprises. Their diversity and systemic importance create a need for self-regulation to maintain stability.

Regulatory Burden on RBI – RBI supervises thousands of NBFCs, making direct oversight resource-intensive. SROs act as an extended arm of the regulator, allowing efficient monitoring and early intervention.

Sector-Specific Challenges

Crises and Liquidity Risks – Events like the IL&FS default (2018) highlighted systemic vulnerabilities and contagion risks.

Governance Gaps – Weak internal governance, poor risk management, and opaque ownership structures in some NBFCs.

Shadow Banking Risks – NBFCs perform bank-like functions without deposit insurance, posing systemic risks.

Heterogeneity – NBFCs operate across housing, vehicle loans, gold loans, micro-lending, and infrastructure finance, complicating supervision.

Way Ahead – Strengthening SRO Functioning

Comprehensive Code of Conduct – Must cover governance, risk management, responsible lending, transparency, fair debt collection practices, cybersecurity, data privacy, and ESG considerations.

Dedicated Committees – Establish committees for compliance monitoring, audits, and consumer complaint resolution.

Consumer Education and Financial Literacy – SROs should run campaigns to –

1. Explain NBFC products, interest rates, and repayment obligations.
2. Educate consumers about grievance redressal mechanisms.

Regulatory Coordination – Ensure continuous feedback to RBI on sectoral trends, liquidity issues, or emerging risks. Promote adoption of industry standards to prevent operational and reputational risks.

Technology and Analytics – Leverage data analytics for early detection of systemic risk, delinquency, or misconduct. Encourage digital platforms for customer complaints and transparency.

Significance of SROs in NBFC Regulation

1. Reduces regulatory burden on RBI while ensuring sectoral discipline.
2. Promotes standardisation of practices, ethical conduct, and governance.
3. Enhances consumer protection and confidence in NBFC services.
4. Acts as a proactive early-warning system, identifying emerging threats before they escalate.
5. Supports India's financial inclusion agenda by ensuring that NBFCs operate responsibly while expanding credit access to underserved segments.

SROs are, therefore, a key instrument to balance industry growth, systemic stability, and consumer protection in a rapidly evolving NBFC sector. They exemplify a co-regulatory approach, blending industry expertise with regulatory oversight.

Source – https://www.business-standard.com/economy/news/rbi-grants-sro-status-to-finance-industry-development-council-fidc-125100301150_1.html