

## **RBI REVISED QUALIFYING ASSET THRESHOLD FOR NBFC-MFIs: ECONOMY NEWS: RBI lowers qualifying asset criteria for NBFC-MFIs to 60% from 75%**

### **WHAT'S IN THE NEWS?**

The RBI has reduced the qualifying asset threshold for NBFC-MFIs from 75% to 60% of total assets, aligning it with the definition of microfinance loans. This move allows NBFC-MFIs more flexibility to diversify while maintaining their core focus on microfinance.

### **RBI's Revised Qualifying Asset Threshold for NBFC-MFIs**

#### **Recent Revision by RBI**

- The Reserve Bank of India (RBI) has reduced the 'qualifying asset threshold' for Non-Banking Financial Companies – Microfinance Institutions (NBFC-MFIs) from 75% to 60% of total assets (net of intangible assets).
- This revision allows for greater flexibility while ensuring focus on microfinance lending.

#### **Definition of Qualifying Asset**

- The definition of qualifying asset is now aligned with the definition of 'microfinance loans'.
- A microfinance loan is defined as a collateral-free loan provided to a household with an annual income up to ₹3 lakh.
- For this purpose, *household* refers to an individual family unit, i.e., husband, wife, and their unmarried children.

#### **Legal Provision & Source of Revision**

- RBI revised paragraph 8.1 of the *Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022*.
- This paragraph specifies the "Qualifying Assets Criteria" for NBFC-MFIs.
- The updated provision aligns the definition of qualifying assets with the broader definition of "microfinance loans" provided in paragraph 3 of the Master Direction.

#### **New Provision Highlights**

- Qualifying assets of NBFC-MFIs must now constitute a minimum of 60% of total assets (net of intangible assets), on an ongoing basis.
- This threshold ensures a majority focus on microfinance activities, while allowing NBFC-MFIs to diversify their asset base.

#### **Remediation Plan Requirement**

- If an NBFC-MFI fails to maintain the qualifying asset threshold for four consecutive quarters, it must approach the RBI with a remediation plan.
- The plan will outline corrective actions and realignment strategies.

- This mechanism ensures regulatory oversight while providing NBFC-MFIs an opportunity to course-correct without facing immediate penalties.

### **Significance of the Revision**

- The provision introduces both flexibility and accountability.
- It allows NBFC-MFIs to diversify their operations and improve their financial strength, while maintaining a core focus on microfinance lending.
- Ensures that the regulator remains informed about the institution's compliance status.

### **Implications of the Revised Norm**

#### **Alignment with Core Microfinance Lending**

- The revision ensures that NBFC-MFIs remain focused on lending to low-income households that meet the microfinance definition.

#### **Diversification Opportunities**

- Lowering the threshold to 60% allows NBFC-MFIs to expand and diversify their asset portfolio.
- Enhances financial stability and balance sheet strength.
- Positions the institutions for improved earnings across business cycles.

#### **Ongoing Compliance Mandate**

- The 60% threshold is mandated on an ongoing basis to ensure sustained adherence to the institution's core mission.
- Prevents undue diversion of resources toward non-core lending segments.

#### **Structured Response for Non-Compliance**

- RBI's remediation mechanism ensures that if an institution falls short of compliance, it must present a strategy for correction.
- Encourages responsible management and transparency.

### **Non-Banking Financial Company (NBFC)**

#### **Registration and Basic Features**

- An NBFC is a company registered under the Companies Act, 1956 or Companies Act, 2013.
- It is engaged in businesses such as loans and advances, acquisition of securities, leasing, hire-purchase, etc.

#### **Exclusions**

- NBFCs do not include institutions whose primary business is agriculture, industrial activity, trading in goods (other than securities), provision of services, or sale/purchase/construction of immovable property.

### **Types of NBFCs**

- Asset Finance Company (AFC)
- Investment Company (IC)
- Loan Company (LC)
- Infrastructure Finance Company (IFC)
- Core Investment Company (CIC)
- Infrastructure Debt Fund - NBFC (IDF-NBFC)
- Non-Banking Financial Company – Microfinance Institution (NBFC-MFI)

### **Difference Between Banks and NBFCs**

- NBFCs cannot accept demand deposits.
- NBFCs are not part of the payment and settlement system; they cannot issue cheques drawn on themselves.
- Deposit insurance from Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available to depositors of deposit-taking NBFCs.

### **About NBFC-MFI**

- An “NBFC-MFI” is a non-deposit taking NBFC where at least 60% of its total assets are now required to be deployed toward “microfinance loans” as defined by the *Regulatory Framework for Microfinance Loans Directions, 2022*.
- This ensures that NBFC-MFIs continue to serve the intended low-income and financially underserved segments.

**Source:** <https://economictimes.indiatimes.com/industry/banking/finance/rbi-lowers-qualifying-asset-criteria-for-nbfc-mfis-to-60-from-75/articleshow/121679300.cms?from=mdr>