

NBFC LICENCE: ECONOMY

NEWS: Flipkart secures NBFC licence from RBI, to begin lending from own books

WHAT'S IN THE NEWS?

Flipkart has received an NBFC licence, allowing it to lend directly to customers and sellers via its fintech arm, increasing financial autonomy.

NBFCs play a crucial role in credit delivery, especially to underserved sectors, and are regulated by the RBI under the RBI Act, 1934.

Context: Flipkart Granted NBFC Licence

- Flipkart has received a licence to operate as a Non-Banking Financial Company (NBFC).
- This allows Flipkart to offer **loans directly** to customers through its platform and its fintech app '**super.money**'.
- Earlier, Flipkart offered credit via **third-party financial partners**; the NBFC licence enables it to operate independently, improving **control and profitability**.
- The licence may also allow Flipkart to **offer working capital loans** to sellers on its platform, enhancing ecosystem support for small businesses.

What is an NBFC?

- An NBFC is a **Non-Banking Financial Company** registered under the **Companies Act, 1956**, and regulated by the **Reserve Bank of India (RBI)** under the **RBI Act, 1934**.
- It provides **financial services** such as **loans, advances, acquisition of stocks, leasing, insurance, pensions**, but **does not hold a full banking licence**.
- NBFCs **cannot accept demand deposits**, issue cheque books, or allow customers to open savings/current accounts.

Key Functions and Economic Role of NBFCs

- NBFCs are crucial in providing **formal credit** to underserved and financially excluded segments like:
 - **MSMEs**
 - **Small businesses**
 - **Rural and informal sectors**
- Contribute approximately **12.5% to India's GDP**.
- NBFCs are important agents of **financial inclusion**, reducing reliance on **informal money lenders**.
- Play a significant role in **infrastructure financing**—offering long-term funding which banks are often reluctant to provide due to **asset-liability mismatches**.

- Support the **financial market ecosystem** through instruments like **leasing, hire purchase, and securitisation**.
- Contribute to **capital formation** by mobilising idle savings into productive investments.

NBFCs vs Banks – Major Differences

Feature	Banks	NBFCs
Deposit Acceptance	Accept all deposits	Cannot accept demand deposits; some can take term deposits with RBI approval
Deposit Insurance (DICGC)	Available (up to ₹5 lakh)	Not applicable
Payment Systems	Part of RTGS, NEFT, IMPS	Not eligible to participate
Cheque Books	Can issue	Cannot issue
Foreign Investment Cap	Up to 74%	Up to 100%
Cash Reserve Ratio (CRR)	Applicable	Not applicable
Statutory Liquidity Ratio (SLR)	Applicable	Only for deposit-taking NBFCs (15%)
Capital Adequacy Norms	Applicable	Only for deposit-taking and systemically important NBFCs (15% CRAR)
Regulatory Law	Banking Regulation Act, 1949	Companies Act 2013; RBI Act, 1934

Funding Sources of NBFCs

- NBFCs rely on **diverse funding instruments**, such as:
 - **Bank borrowings**
 - **Commercial papers**
 - **Debentures**
 - **Term loans**
- **Term loans and debentures** form approximately **75% of total NBFC borrowings**.

Classification of NBFCs

1. **By Asset-Liability Type:**

- **Deposit-taking NBFCs (NBFCs-D)**
- **Non-deposit-taking NBFCs (NBFCs-ND)**

2. **By Systemic Importance:**

- **NBFCs-ND-SI:** Non-deposit-taking NBFCs with **assets \geq ₹500 crore** considered systemically important.

Rising Credit Share and Trends

- NBFCs' share of total **Scheduled Commercial Bank (SCB)** credit increased from **15% in 2014** to **22.5% in 2024**.
- This reflects growing public and institutional reliance on NBFCs as **alternative credit channels**.

Conclusion

- Flipkart's entry into the NBFC space marks a significant **intersection of e-commerce and fintech**, allowing for **in-house credit services** that can boost customer retention and profitability.
- As NBFCs continue to **deepen their footprint** across sectors, ensuring **prudent regulation, credit discipline, and consumer protection** becomes imperative for systemic stability.

Source: <https://economictimes.indiatimes.com/tech/technology/walmarts-flipkart-secures-approval-for-direct-lending-in-india/articleshow/121647541.cms?from=mdr>