

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

RAJYA SABHA
UNSTARRED QUESTION NO-1974

ANSWERED ON TUESDAY, MARCH 18, 2025/PHALGUNA 27, 1946 (SAKA)

UNSOUND BUSINESS PRACTICES BY NBFCs

1974. SHRI PRAMOD TIWARI

Will the Minister of FINANCE be pleased to state:-

- (a) whether RBI has come across instances of investors pushing some Non-Banking Finance Companies (NBFCs) to grow aggressively leading to unsound business practices;
- (b) if so, the details thereof;
- (c) whether some NBFCs including microfinance institutions and housing finance companies are chasing excessive returns on their equity;
- (d) if so, the details of such tendencies leading to inappropriate practices;
- (e) whether the apex bank is in favour of self correction by NBFCs; and
- (f) if not, the steps proposed to be taken by the RBI against errant NBFCs?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) to (f): The Reserve Bank of India (RBI) through its inspections and continuous supervisory oversight, closely monitors NBFCs exhibiting rapid expansion. When such growth is observed to be misaligned with the adequacy of internal controls, systems, processes, and assurance functions, RBI proactively engages with these NBFCs for necessary corrective measures. Return on Equity is one of the parameters regularly monitored by the regulator.

RBI has prescribed prudential regulations viz., capital adequacy, provisioning, corporate governance framework, etc., and conduct of business regulations viz., KYC/ AML regulations, fair practices code, etc., to ensure that NBFCs are financially sound and follow transparency in their operations. RBI also encourages NBFCs to adopt a self-regulatory approach by implementing robust internal controls, risk management practices and sound governance frameworks. Credit related matters of NBFCs are mostly de-regulated and NBFCs are operationally independent to decide on such aspects as per the policies adopted by their Boards, subject to compliance with applicable statutory/

regulatory provisions. Further, as a part of the RBI's supervisory oversight, NBFCs, which have been observed to be charging interest rates deemed excessive and inconsistent with prudent financial practices, RBI has actively engaged with such NBFCs to ensure that interest rates are appropriately moderated.

Further, RBI closely monitors the performance of NBFCs and takes measures, as may be considered necessary from time to time. NBFCs are given ample opportunity to comply with the extant guidelines, and in most cases, issues are resolved through supervisory engagement. However, in instances of persistent non-compliance or gross violations of the guidelines, an enforcement framework is in place. Enforcement action, proportionate to the materiality of the violation, is undertaken in adherence to the principles of natural justice. In very select instances, where systemic risk is perceived, supervisory action, including cease and desist orders, have been initiated against non-compliant Supervised entities.
