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The Role of NBFC's in India's Credit Architecture

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THE ROLE OF NBFCs

in India’s Credit Architecture

Event Report

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FOREWORD

India, with its vision of Viksit Bharat 2047, has set a clear and ambitious path towards a developed nation status. Achieving this goal requires, amongst other factors, a financial architecture that is inclusive, agile, and capable of reaching into the farthest households of our economy, improving the standard of living at the very micro level. An often overlooked player has unexpectedly emerged to reinforce this forward looking vision: the Non-Banking Financial Companies (NBFCs). With every 4th rupee of credit in India being provided by the NBFCs, they have emerged as indispensable protagonists and critical financial engines of the economy, acting as vital conduits for credit and fostering fiscal inclusion nationwide.

The agility, innovative credit disbursement methods, deep expertise of their local economy, and last mile connectivity of NBFCs uniquely position them to serve underserved segments like MSMEs, gig economy workers, and first-time borrowers. They are no longer an adjunct to the formal banking system but a critical and complementary force, driving growth from the grassroots up. Recognising this immense potential and the challenges that accompany it is essential to crafting a policy environment that empowers the sector to thrive.

It was in this spirit that Chintan Research Foundation convened a high level roundtable, "Building Economic Bridges: NBFCs and India's Growth Story." The dialogue brought together a formidable group of senior bankers, NBFC leaders, regulatory experts, and policy thinkers for a candid and constructive exchange of ideas. The multifaceted exchange of ideas, held under Chatham House Rule, underscored a shared commitment to strengthening the NBFC ecosystem for the nation's benefit.

This report is a direct outcome of that vital conversation. It synthesizes the collective thoughts and expertise of the participants on addressing regulatory challenges, funding constraints, efficient use of technology and effective methods of risk mitigation into a coherent and actionable roadmap. The report provides a comprehensive overview of the sector's landscape and offers sustainable policy recommendations. As we chart the course ahead, the insights contained within these pages are aimed to serve as a resource for policymakers and industry stakeholders. It is my hope that this document sparks further dialogue on the topic and, more importantly, help reflect upon the decisive actions required to help India's NBFC sector achieve its full potential. By doing so, we can ensure they continue to be powerful engines of inclusive growth, helping to build the prosperous and equitable India we envision for 2047.

Warm regards,
Mr. Shishir Priyadarshi
President, Chintan Research Foundation

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NBFCs Crucial to India's Financial Future: Chintan Hosts Strategic Roundtable

In a decisive step toward reimagining India's financial architecture for Viksit Bharat@2047, the Chintan Research Foundation convened a high-level, closed-door roundtable on the role of Non-Banking Financial Companies (NBFCs) in India's Financial Future, at its office in New Delhi, on July 30, 2025.

Held under the theme "Building Economic Bridges: NBFCs and India's Growth Story", the session brought together senior representatives from the largest commercial banks, leading NBFCs, regulatory experts, and prominent policy think tanks. The two-hour discussion focused on expanding the role of NBFCs in India's credit ecosystem, addressing operational and regulatory bottlenecks, and charting a cohesive reform roadmap for the sector.

The roundtable followed the remarks by Finance Minister Nirmala Sitharaman at the NBFC Symposium, held earlier in July, where she highlighted the need to scale up NBFC participation in credit delivery. "NBFCs currently account for around 24% of the volume of credit disbursed by scheduled commercial banks. NBFC credit should aim to reach at least 50% of the total volume disbursed by scheduled commercial banks," she had said. She also emphasised that by 2047, at least 50% of NBFC credit should be directed towards high-growth, high-impact sectors.

Set against this backdrop, the roundtable served as a platform for NBFCs to voice their perspectives, deliberate on sector-specific challenges, and explore ways to strengthen resilience, innovation, and financial inclusion. While the session was held under Chatham House Rule and no comments are directly attributable, the deliberations reflected a shared recognition of the NBFC sector's potential to serve as an agile and decentralised complement to the formal banking system.

A key outcome of the meeting was consensus on the need for harmonised regulation, flexible funding mechanisms, and a clear long-term policy vision that empowers NBFCs to support India's development priorities without compromising financial stability.

Chintan's initiative, held on a reflective Wednesday afternoon, reaffirmed the power of closed door dialogue in shaping public policy. This booklet carries forward that dialogue by capturing the insights gained from the roundtable and translating them into concrete policy reform proposals for strengthening the NBFC sector in the years ahead.

This booklet presents briefs on six broad themes—Strategic Role of NBFCs in India's Viksit Bharat Vision, Market Gaps and Inclusion, Economics of NBFC Lending: Costs, Capital, and Rates, Navigating the Regulatory Maze, and Credit Data Gaps, Political Economy Risks and International Lessons—culminating in a section on the Way Forward. Together, these sections build on the insights of the roundtable to provide a comprehensive view of the challenges and opportunities shaping the NBFC sector, while also laying out a reform-oriented roadmap for its future.

TOPIC 1: STRATEGIC ROLE OF NBFCS IN INDIA'S VIKSIT BHARAT VISION

The World Bank explains financial inclusion as the process of making formal financial services such as payments, savings, credit, and insurance accessible, affordable, and usable by individuals and businesses. By removing barriers to accessing financial services and utilising them to meet everyday needs and long-term goals, financial inclusion fosters economic growth and employment, reduces poverty, and promotes empowerment of women. Therefore, it's fair to say that financial inclusion becomes imperative for the balanced growth of any country.

In India's stride towards becoming Viksit@47, financial inclusion is described as a battle, with the NBFCs acting as warriors, and rather "soldiers on foot," and technology as their most effective weapon. This was the general sentiment echoing across the room from stakeholders of all spectra.

Alongside the conventional banks, NBFCs are an indispensable segment of India's financial architecture. They play a complementary and catalytic role in extending the reach of the traditional banking system for four main reasons:

- Access to affordable credit: NBFCs expand the supply of credit by reaching borrowers who may otherwise remain outside the radar of universal banks. Their ability to innovate in product design and leverage alternative funding channels helps them offer more affordable and customised credit solutions, particularly for retail and MSME borrowers.

- Deep segmental and geographic specialisation: Unlike banks that spread their operations across a broad range of sectors, NBFCs often specialise in niche markets, such as gold loans in Tamil Nadu or two-wheeler financing in smaller, aspirational districts. This focused expertise enables them to build local trust, fine-tune products to customer needs, and operate effectively in under-penetrated geographies.

- Advantage of following a "Feet-on-street" model: With strong on-ground networks and last-mile connect, NBFCs are able to underwrite thin-file or first-time borrowers by conducting in-person assessments and informal surveys. This model allows them to serve segments where banks may hesitate due to limited credit histories, thereby broadening financial inclusion, that too at a quicker pace.

- Faster loan product launch cycles and nimble risk pricing: Compared with the multilayered approval processes of universal banks, NBFCs demonstrate agility in designing and rolling out new loan products. Their nimble approach to risk pricing, backed by continuous market feedback, enables quicker response to evolving credit demand and borrower profiles.

Over the past few years, this agility has been most visible in the rapid reduction of loan disbursal timelines. What once took 10–15 days is now completed within 2–3 days, and in the case of some digital NBFCs, within just 24 hours.

While these inherent factors strengthen the credit mechanism of the country, NBFCs don't want to stop just there; they aspire to go beyond their current role. Their full potential must be harnessed and channelled effectively to ensure that the benefits they bring to the economy are maximised.

In recent years, India has witnessed an unparalleled rise in digital transactions, marking a significant milestone in its journey towards becoming a cashless society. In order to keep up with the national trajectory, all NBFCs now aspire to extend credit through UPI — i.e., let borrowers tap and repay loans inside the same app they use for everyday payments. Concretely, the emerging proposal is a credit-on-UPI model; the NBFC-fintech consortia have asked the Reserve Bank of India (RBI) to pilot small (sub-₹10 k) revolving credit lines that are disbursed and repaid via a UPI handle or QR code. The RBI too believes that digitalisation is the way to reduce costs, indicating that the regulator's vision is broadly in sync with that of NBFCs.

Crucially, this shift is not only about new credit channels but also about technological innovation as a force multiplier for deep market penetration. The integration of digital rails —UPI, Aadhaar-e-KYC, account-aggregator APIs, CKYC, credit bureau feeds, cloud-based LOS/LMS platforms, etc.—shrink origination costs and enable data-driven risk pricing. In effect, technology is what allows NBFCs to extend their reach while preserving commercial viability.

At the same time, the market position of NBFCs is evolving in ways that highlight both opportunity and risk. Large NBFCs already dominate private placements and account for the single largest slice of new corporate bond issuances, highlighting their capital market heft. However, such concentration also generates a crowding-out effect, squeezing the space for small scale, local informal credit players. In order to ensure maximum representation and market liquidity, small scale NBFCs can be assigned higher reliability ratings which may have a spillover effect towards MSMEs borrowing from them based on their performance ratings.

NBFCs are not merely adjuncts to the banking system but pivotal actors in India's journey towards Viksit Bharat @ 2047. Their agility, reach, and innovative capacity allow them to complement universal banks while addressing segments that remain underserved. The challenge, however, lies in translating this strategic role into measurable impact; an issue best understood by examining the persistent credit gaps and inclusion challenges that NBFCs are uniquely positioned to bridge.

TOPIC 2: MARKET GAPS & INCLUSION

Having highlighted the crucial role that the non-banking financial institutions play in India’s development journey, it is equally important to examine how their presence at the grassroots level can accelerate the process of formalisation and resilience-building in underserved segments of the economy. By building financial resilience in underserved segments of the economy, they support the country’s growth via various channels, such as GDP growth, export strengthening, and employment generation.

One of the most pressing areas where NBFCs serve as a lifeline is the gig economy. A large share of gig and platform-based workers enter the market with what is often termed a “–1” credit score, which implies that they have no formal file or credit history with the credit bureau system. For them, NBFCs are the only viable gateway to formal-credit lifeline. A bottom-up approach is needed to serve this segment effectively, acknowledging its specific realities and constraints including irregular income streams, lack of collateral, and geographic dispersion.

The same is true for India’s micro, small, and medium enterprises (MSMEs). India’s MSME credit gap remains between ₹20-25 lakh crore, and this gap has not just persisted, but has widened over the past five years. While both, banks and NBFCs, take responsibility of this shortfall, the NBFCs are better positioned to bridge it owing to their flexibility and reach. Rural entrepreneurs and small business in particular must be fuelled by timely and accessible credit to scale up their operations. To make this possible, the RBI must ensure a greater flow of funding and technology for a more efficient ecosystem. The potential is visible in data trends. Microfinance institutions (MFIs), a critical subset of the NBFC sector, currently serve over 130 million accounts with an outstanding portfolio of nearly ₹4 lakh crore. However, growth has slowed, with CAGR declining from around 20% in the latter half of the previous decade to almost 4%, raising concerns about sustainability. At the same time, NBFCs have modestly expanded their share of outstanding agricultural credit (from 3% to 4%), and more significantly, their share in industrial credit has risen from 24% in FY2020 to 29% in FY2025. Within this:

- Large industries now account for 32% of NBFC exposure,
- Micro and small industries have grown from 9% (2020) to 12% (2025), but
- Medium industries have fallen from 12% (2020) to just 6% today.

These shifts reflect both opportunities and imbalances that call for calibrated policy support.

Yet, challenges remain; not least of which is public perception. In several regions, NBFCs are still conflated with informal moneylenders, leading to mistrust and reluctance to engage with formal institutions. Addressing this requires well-designed consumer education campaigns that communicate the benefits of regulated NBFC products vis-à-vis informal borrowing.

TOPIC 3: ECONOMICS OF NBFC LENDING: COSTS, CAPITAL, AND RATES

The outreach potential of NBFCs is undeniably impressive. Yet, realising this potential requires examining the constraints that prevent them from scaling further. Before turning to the external hurdles they face, it is important to first understand the internal cost pressures that weigh on their operations.

Banking, by its very nature, is a low-margin, scale-driven business. For NBFCs, on the other hand, operating costs are much higher, especially when technology and compliance expenses is layered on top. Technology investments are no longer optional; they are essential for efficiency and risk management. But unlike large banks that can spread such expenses over massive balance sheets, NBFCs face disproportionately higher tech and human costs per loan. This cost imbalance places them in a difficult position: investors and lenders tend to demand higher risk premia when they perceive weak governance or controls, which only adds to the financial burden.

Tech and human costs are much larger per piece in NBFCs than in banks. This puts them in a tough spot; investors and lenders charge more if they perceive weak governance/controls, which further increases their burden. The way forward is a balanced combination of lean tech and strong governance—i.e. enough controls to win cheaper capital and trust, without inflating unit costs that make loans unaffordable.

At the same time, structural funding challenges persist. For microfinance institutions and NBFCs alike, the high cost of funds remains the single most pressing obstacle. Historically, NBFCs have leaned heavily on banks for liquidity, but this dependence must be gradually reduced through improved capital structuring and diversification of funding sources. Equally, credit guarantees remain difficult to access at affordable terms, constraining smaller NBFCs and MFIs from expanding their outreach.
Participants further emphasised that in India's financial system, the binding constraint is not 'liquidity' but 'equity.' Large banks, for instance, maintain a liquidity surplus of nearly ₹5 lakh crore at any given time, yet the real gap lies in strengthening domestic risk capital buffers. As one participant noted, "no country gets rich by borrowing abroad." Unless domestic equity pools deepen, NBFCs will remain constrained in their ability to scale sustainably.

A related concern is the limited institutional appetite for long-term lending. India still lacks the risk capacity and market depth to provide credit with long term tenors, say of 30–35 years, which are essential for financing infrastructure and long-horizon projects. This gap represents a clear opportunity for reform, particularly if India is to align its financial system with the aspirations of Viksit Bharat @ 2047.

In this context, questions were raised about whether the regulatory framework for NBFCs is being designed to genuinely support this national vision, or whether it risks being shaped in ways that primarily protect promoter interests and select industries. At the same time, part of the onus rests squarely on NBFCs themselves. Regulations cannot substitute for their responsibility to ensure transparent and accountable usage of funds, coupled with borrower-centric recovery practices. Only by upholding these standards can NBFCs counter negative perceptions, strengthen their creditworthiness, and position themselves as vehicles of inclusive growth rather than instruments of narrow interest.

Interest rate dynamics further illustrate these pressures in concrete terms. Banks typically lend to MFIs at rates of around 14–15 percent, which, after being passed on, translate into borrowing rates of nearly 19 percent for end-users. The markup reflects both the high operating costs of MFIs and the need to cushion against credit-loss risk in unsecured portfolios. Historical experience reinforces this reality: risk cannot be eliminated, only priced appropriately. During the early years of the Grameen Bank in Bangladesh, for instance, MFIs on-lent at 28–30 percent annually. While high by conventional standards, borrowers valued the certainty and speed of credit more than marginal rate reductions. Receiving ₹5,000 at the doorstep within a day or two, with minimal paperwork, often mattered more than shaving a few percentage points off the rate. Moreover, when compared with local moneylenders, who charged anywhere between 4–10 percent per month, these loans still appeared affordable and attractive.

Taken together, these observations underscore a critical policy lesson: for low-income and last-mile borrowers, access and reliability often outweigh cost considerations. The task before policymakers, therefore, is not only to lower the cost of funds for NBFCs but also to strengthen governance, expand equity buffers, and institutionalise empathetic recovery practices. This combination would enable NBFCs to scale responsibly while preserving their role as vital engines of inclusion in India's credit ecosystem.

TOPIC 4: NAVIGATING THE REGULATORY MAZE

Having understood the cost and funding economics of NBFCs, we now talk of the regulatory and fiscal frictions faced by the NBFCs that constrain their ability to operate efficiently. While rapid loan disbursal has improved customer experience and widened access, it has also raised concerns regarding overlap and potential over-indebtedness. The problem is particularly acute in digital lending, wherein regulations are still evolving and not uniformly enforced, leaving gaps in oversight. Data suggests that the overlap between NBFCs and MFIs in lending portfolios has risen sharply from 2% to over 10% in just the last two years. This convergence heightens the risk of borrowers juggling multiple loans simultaneously, with insufficient visibility across institutions. This calls for strengthening of the supervisory frameworks to prevent such over-lending, especially in the microfinance segment where repayment capacity is thin and repayment discipline is fragile.

One of the most debated issues during the roundtable was the grey area around co-lending. For instance, some lenders using digital platforms or fintech infrastructure cannot co-lend with MFIs because of structural constraints. There is a need for tighter integration between the Ministry of Finance (particularly by the Department of Finance), the RBI, and state-level actors, so that policies are coherent on paper and at the same time effective on the ground.

Another major barrier to formalisation is the ₹ 10 crore Net Owned Fund (NOF) minimum requirement. While it was introduced to safeguard systemic stability, it has had the unintended effect of burdening small MFIs, many of which struggle to meet this threshold. Rather than pushing them into the regulated space, the rule risks excluding them from it altogether.

The fundamental differences between banks and NBFCs also manifest in the regulatory treatment. Disparities in interest rates and the applicability of the GST were repeatedly flagged. A particular pain point is that co-lending servicing fees attract an 18% GST, with only 50% input tax credit allowed. This adds up to an additional 40 to 60 basis points in Annual Percentage Rates (APRs), which implies that the burden is ultimately borne by good borrowers. Added to this is the regulatory borrowing cap of ₹20 lakh, which further restricts flexibility.

Housing finance represents another area of concern. Many small borrowers finance house construction through informal sources such as family and friends, only later approaching NBFCs or banks for formal loans. However, in April 2023, certain small-ticket home loans were reclassified, raising their risk weights. This change has made it harder for the banks to offer competitive rates for home loans, pushing up borrowing costs and reducing affordability for households. Stakeholders argued that the earlier classification framework should be restored to preserve accessibility.

Stamp duty emerged as yet another friction point. When an NBFC first registers collateral, be it a house, gold or invoices, it pays state stamp duty on the security deed. If that same collateral is later refinanced, securitised, or transferred, many states insist on charging the duty again, even though nothing about the asset has changed. This "double stamp-duty" inflates transaction costs, discourages secondary market sales of loans, and ultimately pushes up borrowers' APR. A potential solution suggested to eliminate was a harmonised, all-India e-stamping system, expressed as a single percentage figure. This comprehensive figure would capture the total yearly cost of a loan, including interest and all mandatory fees, which could then be updated without triggering a fresh tax. By assigning each security document a unique digital ID, there could be a significant reduction in costs for both lenders and borrowers.

Encouragingly, the Reserve Bank's Innovation Hub initiative, "Frictionless Finance," was welcomed as a step towards providing a fast-track regulatory channel for piloting digital lending models. If scaled responsibly, such platforms can bridge the tension between innovation and oversight.

From a regulatory process standpoint, participants voiced concerns about the responsiveness of the RBI. The turnaround time for addressing issues is often lengthy, with silence sometimes extending for as much as ten months. This not only creates uncertainty in the market but also slows down innovation. From an ease-of-doing-business perspective, resolving GST-related dual taxation was also flagged as an urgent priority.

Establishing regulations and formalising this 'non-formalised' segment of the economy is neither simple nor straightforward. It needs immense skill and caution. Adding to this complexity is the behavioural dimension of NBFCs, with distinct motivation driving them. Many larger NBFCs are "banks-in-waiting," as they aspire to become full-fledged formal banks in the near future. Recognising these aspirations is crucial for regulators so that they frame policies that both protect consumers and incentivise NBFCs in a way that aligns with their growth aspirations.

Banks, for their part, acknowledged that regulatory arbitrage by NBFCs has, in many ways, worked in their favour. This can be eased out a bit if needed. Yet, they also mentioned that this regulatory imposition is not very transparent and creates systemic blind spots. When NBFCs default, only then do the flaws in the regulatory framework come to the surface. Therefore, in order to attain long term efficiency, they argued for a more balanced framework—one that removes distortions while still allowing customised regulatory treatment across classes of institutions.

Keeping this in mind, creation of a dedicated but lighter-touch NBFC regulator or self-regulatory organisation (SRO) can be fruitful. Such a body could streamline oversight, reduce overlaps, and simplify compliance without compromising prudential safeguards. Experiences from countries like Bangladesh, Peru, and Kenya show that proportionate regulation (tailored to the scale and function of institutions) can preserve the dynamism of non-banks while maintaining financial stability. India has already moved in this direction through the Scale-Based Regulation (SBR) framework, but the case for a formal SRO remains strong. A sector-led supervisory body, operating under broad RBI guidance, could ensure that compliance is not reduced to box-ticking, but instead becomes a collaborative mechanism to raise governance standards, lower compliance costs, and protect borrower interests. Such an approach would avoid the pitfalls of one-size-fits-all regulation and help smaller, community-focused NBFCs continue serving last-mile borrowers without being crowded out by rising fixed costs of regulation.

TOPIC 5: CREDIT DATA GAPS AND POLITICAL ECONOMY RISKS

Apart from the external and internal political and economic hurdles, one of the most persistent challenges facing NBFCs and MFIs is data asymmetry. A large share of micro-borrowers remains outside the coverage of existing credit information bureau systems, leaving a significant portion of lending activity beyond the ambit of formal reporting. This absence of reliable data undermines risk assessment and forces lenders to rely on limited or indirect proxies. While the Credit Information Companies (Regulation) Act, 2005 (CICRA) provides the legislative basis, its framework has not kept pace with the realities of financial deepening. There is an urgent need to update the law, particularly by mandating real-time bureau feeds from all lenders, so that a richer and more accurate credit history can be constructed. Sa-Dhan's Bharat Microfinance Report is one initiative in the direction of developing an open-access, microfinance-focused database.

In the absence of comprehensive bureau records, lenders often fall back on alternatives like thin digital trails, such as mobile purchase histories or basic payment transactions, to assess creditworthiness. While these proxies have opened up new possibilities for thin-file borrowers, they are still limited in scope and depth. As a result, the traditional banks remain reluctant to serve this segment, leaving NBFCs and MFIs to fill the gap, often through co-lending partnerships with banks.

Since there is a higher risk of defaults associated with such loans with minimal collateral or credit history, pricing models must account for risk in a transparent and proportionate manner, without making credit prohibitively expensive. More importantly, instead of simply focusing on the ability to pay, loan assessments must also capture the intention to repay, especially when formal credit records are missing. To ensure fairness, regulatory adjustments could take into account state-level conditions and inflation as well, so that credit reports do not unfairly penalise borrowers from certain regions. India's Financial Inclusion Index may serve as a useful parameter for introducing such contextual adjustments.

The political economy further complicates the landscape. As practical evidence suggest, loan waivers remain highly appealing to the Indian audience. Consequently, loan waivers are frequently announced as part of electoral campaigns. This misleads the borrowers, predominantly from poorer and less-informed segments, into believing that microfinance loans are essentially government money. These pledges undermine repayment discipline, weaken community credit histories, and blur the line between genuine borrowers and wilful defaulters. In this sense too, microfinance resembles behavioural finance, where perceptions and expectations matter as much as balance sheets.

To counter these dynamics, an ex-gratia interest-subvention fund was proposed, triggered only in officially notified calamities. In contrast to blanket loan waivers, a calamity-triggered fund is more targeted, transparent, and fair alternative that helps borrowers in genuine distress without creating a habit of wilful default.

TOPIC 6: INTERNATIONAL LESSONS

India's NBFC sector has followed a unique and diverse trajectory, shaped by its own economic and social context. Yet, experiences from abroad provide valuable guidance for the journey ahead. Global experience demonstrates that proportionate and functional regulation can preserve the dynamism of non-banks while maintaining financial stability.

Uganda's tiered supervision model, for instance, applies separate regulators for societies, trusts, and moneylenders, ensuring that rules are tailored to the nature and scale of institutions rather than imposed uniformly. This allows smaller players to operate under lighter compliance, while larger entities face tighter norms. Closer home, the operational challenges faced by MFIs in Manipur highlight how jurisdictional ambiguities, fragmented oversight, and weak ground-level data can create barriers to effective credit delivery, underscoring the value of clear and consistent frameworks.

Cautionary lessons also come from advanced economies. The United Kingdom's high entry-capital thresholds for new banking licenses illustrate how over-tightening norms can stifle competition and innovation. For India, a similar approach to NBFCs could risk undermining their diversity and dynamism, which are essential qualities for serving the country's vast and varied credit demand.

Equally important are positive models from other emerging markets. In Bangladesh, the regulatory framework for Grameen Bank and other microcredit institutions has allowed mission-oriented lending to thrive at scale, with over US$40 billion disbursed to low-income borrowers while maintaining recovery rates close to 96%. Peru offers another example, where Mibanco (serving over 750,000 small borrowers) operates under tiered capital requirements proportionate to its micro and SME loan profile, while also tapping capital markets through social bonds. In Kenya, the central bank licenses deposit-taking MFIs and digital lenders under categories distinct from universal banks, applying lighter prudential ceilings for smaller institutions and using regulatory sandboxes to test innovative products before mainstream adoption.

The common thread in these cases is the recognition that not all lenders need to be treated like banks. Bespoke regulation, calibrated to institutional size and function, enables innovation and last-mile inclusion without compromising systemic safeguards. India has taken steps in this direction through the RBI's SBR framework, but the global evidence suggests that further refinement is possible, particularly in creating space for smaller, community-focused NBFCs, while allowing larger institutions to mobilise significant liquidity for high-growth sectors.

These global insights make one thing very clear: regulation need not be one-size-fits-all. Tailored frameworks can foster both inclusion and resilience. For India, the task now is to adapt such lessons to its own financial architecture, translating them into a forward-looking reform agenda.

POLICY RECOMMENDATIONS

Crucial themes from the 2025 NBFC symposium echo many of the concerns and insights at the roundtable. Taken together, these themes can be distilled into four broad points: First, over-lending must be avoided, particularly in the microfinance space, to avert risks of financial instability. Second, there is scope to loosen regulations selectively to allow banks and NBFCs to collaborate more effectively without undermining prudential safeguards. Third, participants highlighted the importance of empathy in credit delivery, particularly for vulnerable and first-time borrowers, where rigid practices can do more harm than good. Finally, co-lending arrangements must respect upper caps to prevent risk concentrations and ensure that no single class of lenders is disproportionately exposed. These reflections, alongside the roundtable deliberations, point towards a set of actionable priorities for regulators, industry, and policymakers alike.

While the text until now touches upon the below mentioned suggestions in some way or the other, this section provides a comprehensive mechanism as policy recommendations that can play a significant role in enhancing the sector's effectiveness.

1. India's digital credit and inclusion frameworks must be strengthened.

With UPI emerging as the backbone of the payment ecosystem, piloting and scaling credit-on-UPI models offers a powerful opportunity to expand access. At the same time, this expansion requires clear safeguards to preserve repayment discipline. Data asymmetry remains a critical bottleneck, and updating the CICRA 2005 to mandate real-time bureau feeds from all lenders is essential to reduce blind spots in risk assessment.

In order to tackle the challenge of unfair penalisation of borrowers from certain states, using metrices like the Financial Inclusion Index to adjust credit scoring frameworks for regional disparities and inflationary conditions, ensuring that borrowers from certain states are not unfairly penalised due to structural constraints.

2. NBFCs' cost and funding challenges need urgent redressal.

A dedicated low-cost funding architecture is necessary to reduce dependence on bank funding. NBFCs and MFIs mainly borrow from banks or issue bonds to get the money they lend out. This makes them heavily dependent on banks and subject to the terms and conditions imposed by them. For instance, if the banks raise lending rates or pull back credit, NBFCs get squeezed. Establishing a low-cost funding architecture would mean building alternative, stable, and cheaper funding channels (such as refinance facilities, specialised credit lines, or credit-enhanced bond markets) that NBFCs and MFIs can tap. This would reduce their over-reliance on banks and allow them to pass on cheaper loans to MSMEs, households, and gig workers.

Concurrently, deeper domestic risk capital pools must be developed so that equity, not liquidity alone, supports the sector's growth. While liquidity ensures NBFCs' functioning in the short-run, equity is essential for long-term stability and growth. This provides them with a cushion during downturns via risk-bearing capital. Right now, India has a shortage of deep domestic risk capital, which forces NBFCs to depend too much on debt, and sometimes even on foreign borrowing. Larger domestic equity pools can be developed through pension, insurance and sovereign, as well as domestic capital markets. This would ensure that NBFCs are backed not just by borrowed money but also by strong, patient, risk-taking capital, thus strengthening the balance sheets and improving investor confidence, further allowing NBFCs to scale sustainably.

3. Long-term lending is a matter that requires urgent attention.

Supporting loans for longer tenors up to 30 to 35 years to finance infrastructure and other long-horizon projects, a step that would bring the credit system in line with the aspirations of Viksit Bharat @ 2047. In practice, NBFCs often shoulder a disproportionate share of the risk during the early stages of such projects. They typically provide the upfront financing required to get projects off the ground, bearing higher uncertainty, execution risks, and longer gestation periods. Yet, once the projects begin to take shape and risks start to stabilise, larger banks frequently step in, refinancing or taking over the portfolio at more favourable terms. This dynamic leaves NBFCs exposed to the riskiest part of the credit cycle while limiting their ability to capture the long-term benefits of the projects they helped incubate.

Some instruments that could allow NBFCs to recycle capital while still benefiting from the long-term growth of the projects they finance are:

- Credit-enhanced infrastructure bonds - These are bonds issued to raise money for infrastructure projects, but with an extra layer of protection which comes from a guarantee by either a government agency, a multilateral institution (like the World Bank), or even a reserve fund. This reduces the risk for investors, allowing the bonds to be issued at lower interest rates.

- Blended finance models – Combines concessional capital (e.g., from government, development banks, or philanthropy) with commercial capital (from private investors), allowing lenders to take on more risk or accept lower returns, which makes private investors more comfortable coming in. For NBFCs, this would provide access to patient, lower-cost capital that can support risky, early-stage infrastructure or social projects.

- Partial guarantee frameworks - Here, a third party (government, development institution, or large bank) agrees to cover a portion of the losses if the borrower defaults. This would allow NBFCs to lend to riskier sectors (like MSMEs or greenfield infrastructure) without carrying the entire burden of default risk. The Partial Credit Guarantee Scheme is one such example wherein the government shares the risk of NBFC loan pools to improve their ability to raise funds.

Without such interventions, NBFCs risk remaining locked in the role of "risk-bearers of first resort," undermining both their financial sustainability and the efficiency of India's infrastructure financing ecosystem.

4. NBFCs' cost and funding challenges need urgent redressal.

A harmonised, all-India e-stamping system, assigning each security document a unique digital ID, would end the problem of double stamp duty and lower transaction costs. Likewise, resolving GST-related dual taxation on co-lending servicing fees would prevent unnecessary additions of 40 to 60 basis points to borrowers' APRs. The ₹10 crore Net Owned Fund minimum requirement, while designed for stability, needs reconsideration so that small MFIs are not excluded from formalisation.

Equally important step toward maintaining affordability is restoring the earlier classification of certain small-ticket home loans, whose reclassification in 2023 has inadvertently raised risk weights and increased borrowing costs. In terms of oversight, the creation of a dedicated but lighter-touch NBFC regulator or self-regulatory organisation (SRO) could streamline compliance and reduce overlaps without compromising prudential safeguards.

5. The political economy surrounding NBFCs and MFIs too needs redressal.

Blanket loan waivers announced during elections severely undermine repayment culture, further blurring the distinction between genuine borrowers and wilful defaulters. A more credible and targeted alternative would be the creation of an ex-gratia interest-subvention fund, triggered only during officially notified calamities, which would support borrowers in genuine distress without creating a habit of default.

Alongside this, consumer education campaigns are urgently needed to differentiate regulated NBFCs from informal moneylenders and build trust among borrowers. Raising awareness among political actors about the systemic importance of NBFCs and MFIs is equally vital so that populist waiver pledges in manifestos instead give way to more sustainable support mechanisms.

6. Operational practices around co-lending and digital lending must be optimised.

Co-lending as a practice was discussed extensively during the roundtable. It was recognised as both an opportunity and a challenge. When structured with transparency, co-lending partnerships with banks can significantly reduce the cost of funds and expand outreach. With participation in such arrangements already reported at close to 80%, co-lending has become central to the economics of NBFC lending. Yet, concerns remain about risk-sharing imbalances: smaller NBFCs often carry a disproportionate share of risk, while larger players capture greater market share. Clear exposure caps within co-lending portfolios and stronger disclosure norms would help prevent such concentration risks while still preserving scale efficiencies.

In parallel, the rapid rise of digital NBFCs calls for a differentiated regulatory approach—one that balances innovation with consumer protection. This means allowing NBFCs to pilot new products, such as instant UPI-based credit lines or AI-driven underwriting, without being constrained by rules designed for large banks, while also embedding safeguards against over-lending, hidden charges, misuse of personal data, and coercive recovery practices. Such proportionate oversight would enable innovation to thrive without compromising borrower trust or systemic stability.

In this manner, the way forward for NBFCs lies in addressing funding costs, modernising regulations, tackling data asymmetries, embedding safeguards against political distortions, and institutionalising fair and transparent operational practices. These measures, if implemented in tandem, would enable NBFCs to evolve as engines of financial inclusion and growth.

As India charts its path to Viksit Bharat @ 2047, NBFCs will remain pivotal to bridging the country's vast credit gaps. Their comparative advantage lies in reaching segments and geographies that banks often overlook, yet their growing systemic importance also calls for proportionate oversight. Global experience shows that one-size-fits-all regulation risks diluting the very strengths that make NBFCs dynamic, while excessively lax supervision can destabilise the wider system. The challenge, therefore, is to strike a balance—preserving the entrepreneurial spirit and risk-taking agility of NBFCs while embedding guardrails that ensure stability and accountability. If this balance is achieved, NBFCs can evolve from being complementary financiers to becoming central engines of inclusive growth, helping to deliver on India's developmental priorities in the decades ahead.

Chintan
Research
Foundation

1st Floor, Bharti Crescent Building, 1 Nelson Mandela Marg, Vasant Kunj Phase II, New Delhi - 110070

info@crfindia.org +91 9311630957, +91 6358871398 www.crfindia.org