

WHITE PAPER

Data-Driven Compliance for NBFCs in India



Executive summary

NBFCs are the backbone of India's financial system, but compliance challenges are rising. With RBI's scale-based regulations and a push towards data-driven reporting, the future of NBFC compliance depends on building strong data foundations. This whitepaper explores what regulators and NBFCs must do to stay ahead.

The Growth & Challenges of NBFCs in India

Reserve Bank of India (RBI) is globally known as one of the most pragmatic supervisors, which for the last so many decades has ensured strong consumer protection coupled with elasticity to financial services for innovation and growth. India has over 9300 NBFCs, which vary greatly in size. The minimum capital requirement to start an NBFC is relatively modest at ₹20 million, unlike banks, which need a larger initial capital (currently ₹5 billion for a universal bank)[i]. Favorable government policies, deep understanding of the neo-affluent population in Tier 2 and below markets, cash risk FinTech interest in taking up large stakes in this segment, and co-lending arrangements with universal banks are fueling significant growth in the NBFC segment. But significant challenges on asset quality, focus on high level of unsecured lending, lack of access to low-cost deposits, challenges of raising capital in a cautious investment climate and challenges to adapt to an evolving interest rate scenario due to geopolitical uncertainties are posing a threat to the overall growth of this segment.

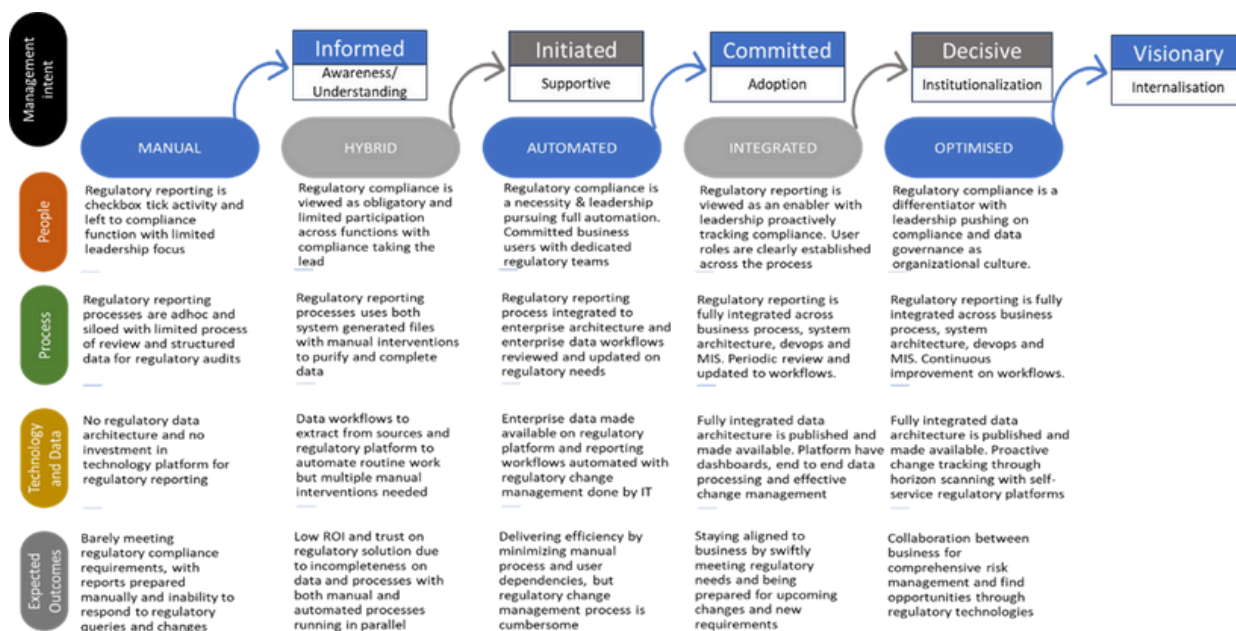
RBI's Scale-Based Approach to NBFC Compliance

Recognising the gravity of the challenge, the government of India and the RBI have taken up a slew of measures to address the concern through a series of interventions and changes in policies. The market applauded when in October 2023, the RBI came out with a scale-based approach for monitoring and regulating the non-banking financial services (NBFC)[ii]. The scale-based measurement of NBFCs will ensure that the compliance and opportunity costs are proportionate to their operational scales.

The regulatory reporting maturity model

It's important for RBI to measure benefits and costs while implementing regulatory guidelines to NBFCs. Globally, the regulators have adopted a phase-wise method for implementing regulatory reporting guidelines, keeping in mind the people, process, technology, and data maturity of the regulated entities[1]:

[1] <https://www.linkedin.com/pulse/regulatory-reporting-maturity-model-shailendra-mruthyunjayappa/>



What should the regulator do?

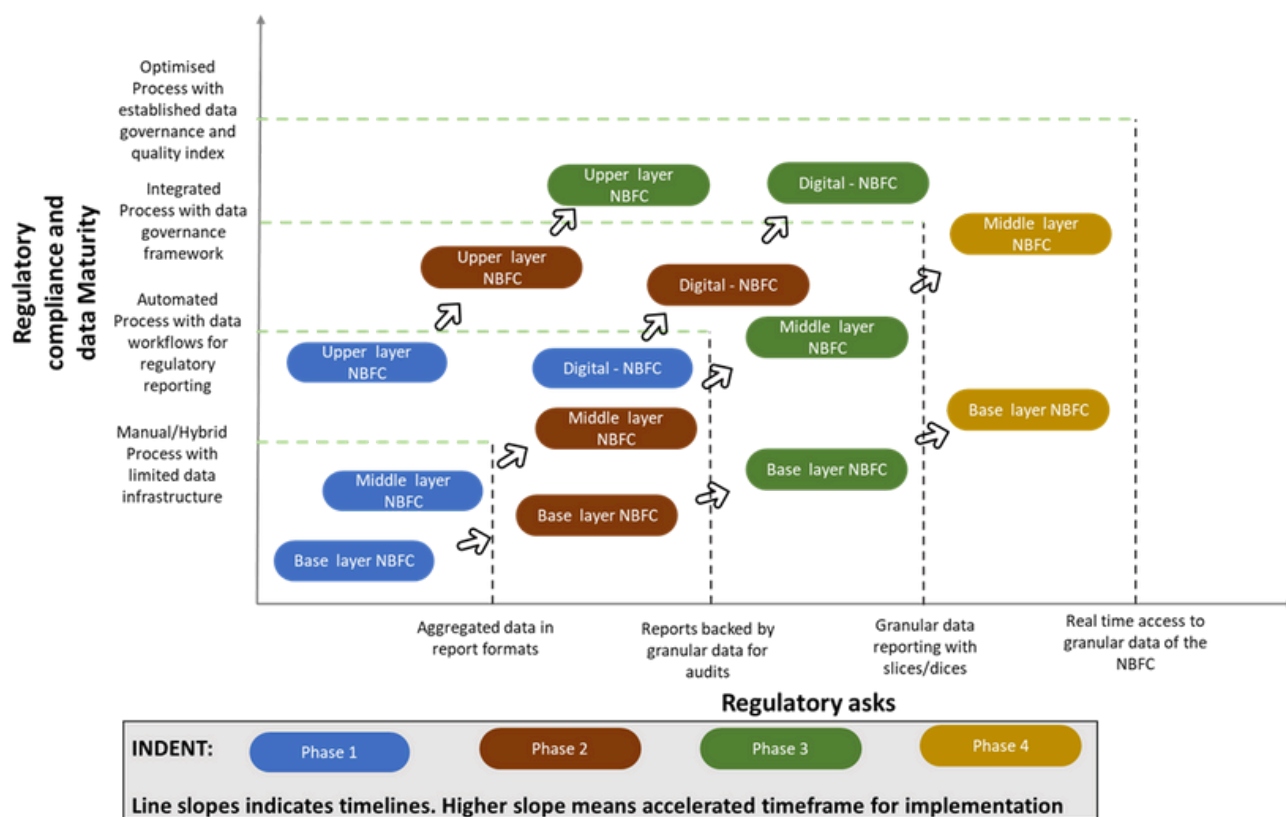
The perspective of collecting reports and information from a regulated entity is to find anomalies in business through the analysis of data, which potentially indicates risks in the system. The biggest challenge for the regulator at this point in time is that the quality, accuracy, completeness, and timeliness of data that comes from NBFCs result in potential misses of systematic risks. To address the same, the regulator should adopt a long-term approach for ensuring data quality and completeness in the NBFCs while balancing regulatory guidelines in the process.

To build a robust framework that is driven by an evolving data maturity of the regulated entities, the regulator must think about what events to measure and how to measure them.

What to measure?	How to measure?
What event has happened?	Aggregated data in report formats
How did the event happen?	Aggregated data backed by granular drill down data
Why did it happen?	Granular data reporting with capabilities of slicing and dicing
How do I stop the event from happening again?	Real time access to granular data of the NBFC

As a first step, the regulator should ask the NBFCs for a self-evaluation of their data management processes and accordingly bifurcate the segments in terms of process and data maturity. The self-evaluation should consider data governance practices, data warehouse/data lake initiatives,

investments in data infrastructure, including data quality and master data management, ability to provide granular information across multiple systems, and ability to provide accurate and complete reports and information within the stipulated time period, and many more. Based on the outcomes, the organisations can be put into different buckets of reporting and data processing regulatory needs:



However, the regulator should ensure that they measure the cost of compliance (cost to abide by regulatory guidelines and opportunity cost) against the overall cost of the organisation before moving to the next phase for that organisation.

What should the NBFCs do?

- 1. Big data in small banks:** The NBFCs should ensure to collect and process data (including external data) to understand their internal and external risks at any given point in time.
- 2. Integrated data:** To enable a single source of truth, the NBFCs should invest in data lake/data warehouse projects and have a granular and harmonized set of data across the institution.

3.Data protection: The organisation should ensure that the personal data is collected and stored with consent and that all data privacy rules are followed. They should also ensure that the data is protected at all costs.

4.Data purification: Significant and focused efforts, including senior leadership buy-in, are required to make sure the data quality challenges are resolved effectively.

5.Data analytics: Once the data is collected, purified, and harmonized, the NBFCs should look to build analytical capabilities on the data and bring insights to mitigate risks across the organisation.

6.Data governance: As NBFCs grow, there will be multiple roles with overlapping responsibilities. The leadership should prudently invest in data governance processes and systems to create data ownership, stewardship, and consumers.

In a nutshell, the NBFC decade should be built on a strong data foundation, and this can only be done through regulatory asks and leadership mandates in the organisation.

Discover how Fintellix enables NBFCs to meet RBI's evolving compliance requirements with scalable, data-driven regulatory reporting solutions. Check the [NBFC Solution Sheet](#) for more details.

Author

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[i] <https://www.adb.org/sites/default/files/publication/746261/sawp-083-nonbanking-financial-companies-india.pdf>

[ii] https://rbi.org.in/Scripts/BS_NBFCNotificationView.aspx?Id=12179