***Shared Vision, Shared Responsibility – Strenghtening NBFCs***

(Speech by Shri Swaminathan J, Deputy Governor at the Conference of Non-Banking Financial Companies held at Chennai on March 28, 2025)

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CA Shri Charanjot Singh Nanda, President, Institute of Chartered Accountants of India; Chairpersons of the Audit Committee of the Boards, MDs & CEOs of NBFCs, and Statutory Auditors of NBFCs, Executive Directors from RBI and my colleagues from the Reserve Bank of India, Ladies and Gentlemen. A very good morning to all of you.

1. It is an honour to address this esteemed gathering representing the key pillars of the NBFC ecosystem —CEOs entrusted with driving business responsibly, Chairpersons of Audit Committees overseeing assurance, Statutory Auditors who ensure transparency and integrity, along with regulators and supervisors committed to maintaining financial stability and fostering a sound regulatory environment. The theme of our engagement today — “Shared Vision, Shared Responsibility – Strengthening the NBFCs” — could not be more timely or relevant.

2. The evolution of the NBFC sector is indeed a story of entrepreneurial energy, innovation and social impact. However, as the sector grows in scale and systemic importance, so too must our efforts to reinforce its foundations. A resilient, customer-centric, and well-governed NBFC sector is a shared aspiration — and delivering on it our shared responsibility.

3. NBFCs have emerged as powerful engines of credit. By complementing the traditional banking system, they have significantly expanded access to credit, particularly for segments that have historically been underserved or excluded. Through innovative credit delivery models that harness technology and local insights, NBFCs have been able to design customised financial products tailored to diverse borrower needs. Their agility and close connect with customers have enabled them to play a role that is not only complementary to the role traditionally played by banks but, in many instances, catalytic in building a financial ecosystem characterised by deeper intermediation and wider opportunity.

4. The importance of NBFCs has only grown with time. In fact, over the past decade, their growth has consistently outpaced that of banks — a trend that has

become even more pronounced in the last few years. This rapid growth is a testament to the sector's relevance and resilience — but it also raises the stakes. As NBFCs become more systemically important, the standards of governance, risk management, and customer treatment must rise accordingly.

**Understanding the Risks- Need for Responsible Innovation**

5. The business model of NBFCs — while effective — comes with its own set of structural risks. Their funding is short-term as compared to the maturity of their lending or is directed towards higher-risk customer segments.

6. This maturity and credit transformation is at the heart of the NBFC model — but it also demands a heightened focus on risk management. If not carefully managed, it can create vulnerabilities, especially during periods of market stress or liquidity shocks.

7. Risk-taking must be intelligent and well planned, and never beyond the risk absorption capacity of the entity concerned. Liquidity and credit risks must be rigorously assessed and managed. Asset-liability mismatches, nature and tenor of the funding sources, and concentration risks all need board-level oversight which should be ably supported by robust internal controls.

**Growth with Fairness: Customer-Centricity is Non-Negotiable**

8. Most importantly, even as we pursue scale, speed, and profits, we must not lose sight of fairness to the customer — that is the cornerstone of a sustainable business model. The NBFC sector must live up to its promise of inclusion by treating customers with dignity, transparency, and care. This entails ensuring transparent and easy-to-understand pricing, free from hidden charges or usurious interest rates. In instances of default, recovery practices must be conducted in an empathetic and respectful manner.

9. Unfortunately, some NBFCs think they can pursue a business model where it is par for the course to resort to weak underwriting in pursuit of quick growth, coupled with excessive and unsustainable interest rates — at times masked as upfront charges or processing fees — which is followed by aggressive recovery practices upon default.

Let me state unequivocally: this is not an acceptable model. Financial inclusion cannot be used as a pretext for financial exploitation. I urge each one of you to commit your institutions to upholding fairness in all your dealings.

10. This responsibility for fair conduct is shared commitment by the CEO, the Board, and assurance functions in any entity. A customer-centric culture must be driven from the top and embedded at all levels.

11. How do we ensure that our shared vision is realised, and our collective responsibilities are fulfilled? One of the most effective ways is by strengthening both internal and external assurance mechanisms.

**Strengthening Oversight: the Role of Audit Committee**

12. Let me begin with the Audit Committee of the Board (ACB). Far from being a routine compliance requirement, the ACB is the lynchpin of institutional oversight and long-term financial health. It plays a critical role in reinforcing governance, guiding management on assurance, and ensuring the integrity of internal control systems. When functioning effectively, it becomes a proactive forum for identifying vulnerabilities and initiating timely corrective actions.

13. The role of the Audit Committee Chairperson is particularly significant in setting the tone for effective governance. It is essential that committee meetings are held regularly, conducted with clear purpose, and thoroughly documented to ensure accountability and follow-through.

14. The effectiveness of the Committee is in the substance of its deliberations. The ACB must actively monitor the adequacy and functioning of internal control systems — not merely to confirm their presence, but to ensure they are operating effectively in practice. Similarly, audit observations should not remain confined to meeting minutes; they must translate into timely and meaningful corrective actions. A strong ACB also tracks audit findings and ensures that corrective measures are implemented without delay.

15. Equally important is the establishment of an effective whistleblower mechanism overseen by the Board or the ACB which empowers employees and grants them anonymity, to report unethical or non-compliant behaviour, without fear of reprisal.

16. CEOs too have a crucial role in upholding the integrity of financial reporting. They must actively deter any attempts—whether deliberate or cleverly disguised—to misapply accounting standards or regulatory provisions. It is equally important to foster an environment where the Chief Financial Officer and Head of Internal Audit feel empowered to engage in open, honest, and transparent dialogue with the Audit Committee of the Board.

**The Crucial Role of Statutory Auditors**

17. Now let me come to the role of Statutory Auditors, who are an indispensable part of the assurance ecosystem. In fact, the role of auditors has never been more critical — not merely in checking compliance, but in upholding trust. And trust, once lost, is hard to rebuild.

18. Auditors are expected to provide an independent, professional opinion on whether the financial statements present a true and fair view of the NBFC's financial position and comply with regulatory and accounting standards. However, in today's complex and dynamic environment, this is no longer enough.

19. Recent incidents — both in India and abroad — have shown that traditional financial audits must evolve. Auditors must bring technical expertise, forensic insight, and an ethical lens to their work. Red flags must not be ignored. Complex structures, derivatives, off-balance sheet items, related party transactions, and provisioning policies must be closely examined.

**Facilitative Role of Regulators and Supervisors**

20. As regulators and supervisors, we shoulder a dual responsibility — to safeguard stability and discipline, while also fostering an environment that encourages innovation, inclusion, and sustainable growth. Contrary to perception in certain quarters, our approach actively seeks to strike the right balance. At the Reserve Bank of India, we are acutely aware that regulation is not merely about control; it is about

enabling responsible financial intermediation within a well-defined and transparent framework. Several initiatives in recent years reflect this facilitative and proportionate approach to regulation. In my previous role as a commercial banker, I had the fortuitous opportunity to be closely associated with one such initiative -the Regulations Review Authority 2.0 – which reinforced the RBI's strong commitment to easing the regulatory burden and streamlining compliance without compromising regulatory objectives.

21. The regulatory framework for NBFCs has evolved in the recent years with this understanding — gradually moving toward greater harmonisation with banks where warranted, while still preserving operational flexibility suited to the unique role NBFCs play in the financial system. The introduction of the scale-based regulatory framework explicitly recognises that the intensity of regulation and supervision must be proportionate to systemic importance. At the same time, the regulatory architecture encourages the development of responsible innovation and healthy competition in the sector.

22. Similarly, the role of the supervisor has also become more interactive and forward-looking. It is not just about identifying compliance breaches after the fact, but about engaging with entities to strengthen internal systems, enhance governance, and build resilience against emerging risks. Through onsite inspections, offsite surveillance, thematic reviews, and structured engagements, the supervisory process aims to be a partner in the financial sector's long-term soundness — not an impediment to its progress.

**Conclusion**

23. Our shared vision is clear: a dynamic, inclusive, and trusted NBFC sector that complements the banking system and serves the evolving needs of the Indian economy. And the way to achieve it is through shared responsibility — in governance, in customer protection, in financial prudence, and in ethical conduct.

24. We in the regulatory community stand committed to supporting this journey. Our intent is not to stifle innovation but to ensure that growth is sustainable, risks are well-managed, and customer trust is never compromised. On behalf of the RBI, I can

assure you that as regulators and supervisors we will remain committed to playing our part, not just as watchdogs, but as enablers of a robust, inclusive, and future-ready financial ecosystem.

25. This conference gives us an opportunity to reflect on how we can contribute to this shared agenda. Whether making strategic decisions, chairing audit committees, or signing off on financials, drafting regulations or conducting supervision — we are shaping the sector's future.

26. Therefore, let us work together — with clarity of purpose and unity of action — to build a stronger, fairer, and more resilient NBFC ecosystem. Wealth creation should not just be for personal or institutional gain but to support the community, reflecting a sense of shared responsibility amongst all of us, in our pursuit to achieve an inclusive growth for all and realise the vision of Viksit Bharat 2047.

27. With this I wish you all fruitful and enriching deliberations over the course of this conference and look forward to the ideas and insights that will emerge in pursuit of our shared vision. Thank you for this opportunity and wish you all good luck, Jai Hind!

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