Indian Economy · GS - III

How does RBI’s scale-based regulation of NBFCs contribute to financial stability and corporate accountability in India?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 24/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Systemic risk, public funds, NBFC-UL, mandatory listing, transparency, governance, investor protection.

Model Answer

Introduction:

Non-Banking Financial Companies (NBFCs) provide credit and financial services beyond traditional banking. Their interconnectedness with banks and corporate groups can create risks for the wider financial system.

Role of RBI regulation:

1. Risk-based supervision: The scale-based framework applies stricter requirements to larger and more systemically important NBFCs.
2. Transparency: Mandatory stock-exchange listing for applicable upper-layer NBFCs strengthens disclosure and public scrutiny.
3. Investor protection: Greater access to financial information helps investors assess risks and corporate performance.
4. Financial stability: RBI registration and oversight help monitor entities that access public funds directly or indirectly.

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Challenges:

Compliance can increase costs, while promoters may face concerns about ownership dilution, disclosure and changes to corporate structure.

Way Forward:

RBI should ensure consistent implementation, proportionate supervision and clear regulatory communication while protecting the interests of depositors, creditors and investors.

Conclusion:

Effective NBFC regulation must balance business flexibility with transparency, accountability and the stability of India’s financial system.

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