



## **Introduction**

Non-Banking Financial Companies (NBFCs) play an indispensable role in India's financial landscape by extending credit to sectors that are often neglected by conventional banks. Owing to their strong linkages with the larger banking network, any instability within NBFCs can have cascading effects on the financial system. RBI is the regulator for NBFC's and keeps on bringing amendment in the form of master directions in public interest.

To mitigate systemic risks and safeguard public interest, the Reserve Bank of India (RBI) established a comprehensive regulatory framework in the 1990s, empowering it to monitor and supervise NBFCs through capital adequacy standards, governance norms, and risk management regulations.

In this article we are going to talk about RBI's Power to Cancel NBFC's License.

### **1. Factors Influencing RBI's License Revocation Decisions**

The RBI evaluates several factors before deciding to revoke an NBFC's registration. These include the institution's risk exposure to the financial system, its capital adequacy, compliance history, and overall governance quality. Persistent breaches such as capital shortfalls or regulatory violations typically trigger action. The RBI strives to balance strict enforcement with financial system stability, ensuring that consumer protection does not come at the cost of market disruption.

### **2. The RBI's Authority To Cancel Nbfcl Licenses**

In accordance with **Section 45-IA(6)** of the RBI Act 1934, the Reserve Bank of India may cancel a certificate of registration granted to a non-banking financial company if such company:

- (i) ceases to carry on the business of a non-banking financial institution in India; or
- (ii) has failed to comply with any condition subject to which the certificate of registration had been issued to it; or
- (iii) at any time fails to fulfil any of the conditions referred to in clauses (a) to (g) of sub-section (4); or
- (iv) fails-
  - to comply with any direction issued by the bank under the provisions of this Chapter; or
  - to maintain accounts in accordance with the requirements of any law or any direction or order issued by the bank under the provisions of this Chapter; or
  - to submit or offer for inspection its books of accounts and other relevant documents when so demanded by an inspecting authority of the bank; or



- (v) has been prohibited from accepting deposit by an order made by the bank under the provisions of this Chapter and such order has been in force for a period of not less than three months:
- Provided that before cancelling a certificate of registration on the ground that the non-banking financial company has failed to comply with the provisions of clause or
  - has failed to fulfil any of the conditions referred to in clause
  - the bank, unless it is of the opinion that the delay in cancelling the certificate of registration shall be prejudicial to public interest or the interest of the depositors or the non-banking financial company, shall give an opportunity to such company on such terms as the bank may specify for taking necessary steps to comply with such provisions or fulfilment of such condition:

Provided further that before making any order of cancellation of certificate of registration, such company shall be given a reasonable opportunity of being heard.

### **3. Procedure for Revocation Of an NBFC License**

When the RBI contemplates cancelling an NBFC's registration, it follows a structured and transparent process. The procedure usually begins with inspections or audits to determine regulatory compliance. This power is given to the bank pursuant to **Section 45N** of the RBI Act, 1934.

If irregularities are identified, the RBI issues a show-cause notice, allowing the NBFC to present an explanation or take corrective measures. This authority is given to the bank pursuant to **Section 58G** of the RBI Act, 1934. The exact time frame is not a standard period but is determined by the RBI for each specific notice and violation.

The only specific timeframe published by the RBI for NBFCs to respond to a show-cause notice is for cases involving the classification of a loan account as fraudulent.

Should the entity fail to provide satisfactory responses or continue violating norms, the RBI may proceed with license cancellation. This ensures procedural fairness while reinforcing accountability and discipline across the sector.



#### **4. Industry Impact Of License Cancellation**

The cancellation of an NBFC's license can have immediate and far-reaching implications. For the company, it may lead to shutdowns, layoffs, and disruptions in customer services. Investors and borrowers may experience delays in loan repayments or fund recoveries. From a systemic perspective, such cancellations prompt other financial institutions to adopt more cautious lending practices, tightening liquidity and risk standards. While these measures enhance compliance discipline, they may also temporarily affect confidence and credit growth in the sector.

#### **5. Broader Economic Repercussions**

The withdrawal of NBFC licenses can indirectly influence the broader economy by reducing credit availability and dampening investor sentiment. Since NBFCs are vital in financing key segments such as housing, infrastructure, and small enterprises, their sudden exit can slow down growth and affect employment. While these regulatory interventions promote prudence and transparency, they also underscore the need for balance between financial discipline and economic expansion.

#### **6. RBI's Role In Balancing Regulation and Growth**

The RBI's approach involves maintaining a delicate equilibrium between stringent regulation and fostering innovation within the financial system. Its objective is to shield the economy from systemic risks while ensuring that credit flows and financial inclusion are not hindered. Through consistent supervision and a proportionate regulatory stance, the RBI aims to preserve confidence, promote sustainable growth, and encourage responsible innovation across the NBFC sector.

#### **7. Future Outlook: Strengthening RBI's Supervisory Framework**

As India's financial landscape evolves, the RBI's regulatory approach toward NBFCs is likely to become more adaptive and technology-driven. Future reforms may focus on enhancing transparency, improving due process in license revocations, and strengthening digital governance frameworks. With increasing digitization and complex financial products, the RBI may adopt a more flexible yet vigilant oversight strategy—promoting innovation while safeguarding systemic integrity.

#### **8. Lessons from Recent RBI License Cancellations**

Recent instances illustrate how the RBI enforces compliance among NBFCs:

**Polytex India Ltd and FinServ India Ltd (2024):** Licenses were cancelled for outsourcing core functions such as credit assessment and KYC without adequate oversight, and for data privacy violations.

**New Link Overseas Finance Ltd (2023):** The license was withdrawn due to failure to comply with operational and regulatory standards.



**Datta Finance and Trading Pvt Ltd (2025):** The company lost its registration after serious irregularities in its digital lending practices.

**Major Takeaways:**

- a. Core activities must not be delegated without proper control.
- b. Compliance with digital lending norms is essential.
- c. Business closure or restructuring can justify voluntary license revocation.
- d. NBFCs retain legal avenues to challenge RBI decisions when due process is in question.

**Conclusion**

The RBI's authority to revoke NBFC licenses serves as a cornerstone of India's financial stability framework. By enforcing discipline and ethical conduct, this power protects consumers, investors, and the economy from potential risks. Robust regulation ensures that NBFCs operate responsibly, contributing to a resilient and well-regulated financial system. Ultimately, the RBI's supervisory vigilance is vital for sustaining confidence, stability, and long-term economic growth.

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