

# IT Framework Stipulations for NBFCs

## Background

The Non-Banking Finance Companies (NBFCs) in India are key players in the country's economy. The asset size and credit share of NBFCs has seen geometric increase in the past decade. Industry experts predict that the credit lending by Indian NBFCs is expected to account for anywhere between 18 to 20%<sup>1</sup> of the total credit off-take in the country by 2020. As per RBI's Financial Stability Report-June 2017, there are 11,517 NBFCs registered with the Reserve Bank.

NBFCs have demonstrated their capability in promoting inclusive growth by making credit accessible to segments such as MSMEs and Individuals. Also, as per the Financial Stability Report-June 2016 of RBI, the performance of NBFC sector is relatively better than that of Public Sector Banks.

Considering the important role played by this sector, and their increasing reliance on Information Systems/Technology for service delivery, RBI has issued a Master Direction on IT Framework for NBFC sector. ([Master Direction DNBS PPD No 04/66 15 001/2016-17 released on 8<sup>th</sup> June, 2017](#)). This document lays out the key components of IT that need to be in place to ensure safety, security, and efficiency in NBFC's processes.

## Bird's eye view of the stipulations

The Master Direction prescribes detailed requirements for NBFCs with more than Rs 500 Crores Asset size in **Section A**, and simplified requirements to be met by NBFCs with less than Rs 500 Crores Asset size in **Section B**. The highlights of these stipulations have been listed hereunder:

IT Framework requirement	
Section A: NBFCs with more than Rs 500 Crores Asset size	
1. IT Governance - IT Strategy Committee, its role and responsibilities	
2. IT Policy - commensurate with its size, scale & nature	
3. Information Security – Comprising of	
• IS Policy	• Cyber-security awareness
• Cyber Security	• Digital Signatures
• Vulnerability Management	• IT Risk Assessment
• Cyber security preparedness indicators	• Mobile Financial Services
• Cyber Crisis Management Plan	• Social Media Risks
• Sharing of information on cyber-security incidents with RBI	• Training
4. IT Operations	
• Acquisition and Development	
• Change Management	
• IT enabled MIS – Financial reports, Treasury reports, Fraud Analysis, Capacity and performance analysis of IT security systems, Incident reporting, MIS for Supervisory requirements	
5. IS Audit – including use of CAATs	
6. Business Continuity Planning (BCP) and Disaster Recovery	
7. IT Services Outsourcing – Policy, Monitoring & oversight, audit	

<sup>1</sup> NBFC report 2016 by PwC & ASSOCHAM

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## IT Framework requirement Section B: NBFCs with less than Rs 500 Crores Asset size

### Simpler requirements compared to Section A!

i.	Basic security aspects such as physical/ logical access controls and well-defined password policy in place
ii.	Has well-defined user role in IT System
iii.	IT system incorporates Maker-checker concept to reduce the risk of error, misuse, and to ensure reliability of data/information;
iv.	IT system able to assure Information Security and Cyber Security
v.	IT system controls related to Digital Signatures, Mobile Financial Services & Social media to be incorporated
vi.	IT System able to generate key financial reports for Top Management
vii.	IT Systems shall be adequate to file regulatory returns to RBI (COSMOS Returns);
viii.	A BCP policy duly approved by the Board ensuring regular oversight of the Board by way of periodic reports (at least once every year);
ix.	Arrangement for backup of data with periodic testing
x.	IT Systems should be progressively scaled up as the size and complexity of NBFC's operations increases.



### Compliance Deadlines

1. NBFCs to conduct a Gap analysis between their current status and stipulations as per the Master Direction. The analysis has to be placed with a time-bound action plan (to address identified gaps) before their Board by **30<sup>th</sup> September, 2017**.
2. Master Direction compliance deadline
  - NBFCs with more than Rs 500 Crores Asset size – **30<sup>th</sup> June, 2018**
  - NBFCs with less than Rs 500 Crores Asset size – **30<sup>th</sup> September, 2018**

### Conclusion

The directive is well thought out, covering all aspects of IT relevant to NBFCs. It even includes aspects relating to Mobile and Social Media that are used extensively by NBFCs to reach their customers. Compliance to this Master Direction would help usher good management practices and mitigate IT related risks to a great extent. However, to experience the full benefit of its adoption, it is critical for organisations to ensure that the IT Framework aligns with its existing policies, processes, and technology.

### About MaGC

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#### Information Technology - Capabilities

Information Security Policy	IT/IS Audits	Process Study & Gap analysis
IT General Controls review	Operations Manual for IT	BCP & DR Policy/Procedures