

12:10 PM 24 OCT MARKET STATS ▼	SENSEX 28,147 ▲ 70.26	NIFTY 50 8,707 ▲ 13.55	GOLD (MCX) (Rs/10g.) 29,861 ▼ -85.00	USD/INR 66.86 ▼ -0.03	CREATE PORTFOLIO	Download ET MARKETS APP	CHOOSE LANGUAGE ENG
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New FDI norms may open vaults for fintech companies

By [Mugdha Variyar](#) & [Pratik Bhakta](#), ET Bureau | Updated: Oct 24, 2016, 09.56 AM IST

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BENGALURU: The Reserve Bank of India's move to allow up to 100% foreign direct investment (FDI) in regulated financial services companies other than banks or insurance companies through the automatic route is likely to benefit several [fintech](#) startups as it is expected to ease equity funding norms, increase investor interest, and also help them expand into more financial services.

So far, activities of NBFCs such as underwriting, investment advisory and stock broking were among 18 categories under the 100% FDI automatic route regime. Startups that didn't fall in these categories had to take the approval route. Now, all regulated financial services companies can take the automatic route. In its notification last week, the RBI said other financial services will include activities which are regulated by any financial sector regulators including RBI, Securities and Exchange Board of India, and the Insurance Regulatory and Development Authority.



The move is likely to further expand the huge scope for funding in NBFCs and other financial services.

Automatic

Foreign investment up to **100%** in NBFC was so far allowed under the automatic route in only the following activities:

- Merchant Banking
- Under Writing
- Portfolio Management
- Services
- Investment Advisory
- Financial Services
- Financial Consultancy
- Stock Broking
- Asset Management
- Venture Capital
- Custodian
- Services
- Factoring
- Credit Rating
- Agencies
- Leasing & Finance
- Housing Finance
- Forex Broking
- Credit Card Business
- Money Changing
- Business Micro Credit
- Rural Credit

It said such foreign investment will be subject to conditionalities, including minimum capitalisation norms, as specified by the concerned regulator, which means that it will not come under the blanket rule of the Foreign Investment Promotion Board (FIPB). The move is likely to further expand the huge scope for funding in NBFCs and other financial services. The fintech sector has over 1,200 companies, of which, 172 have been funded since 2011, according to [Tracxn](#).

While over \$1 billion was invested in mobile payments in 2015, \$200 million was invested in digital NBFCs. "We are looking to raise capital from foreign investors and the new notification is a significant step in reducing confusion for foreign investment in a company like ours. A business is protected from arbitrariness after foreign investment has come in," said Tejasvi Mohanram, CEO, [RupeePower](#), an online marketplace for finance products. "Another positive is that the minimum capital requirement will be as specified by the individual regulator and not as per FIPB norms," he said.

As per the FIPB norms, for any foreign investment for anything below a 51% stake, the minimum capitalisation required for the company was \$0.5 million; for up to a 75% stake, the minimum capitalisation was \$5 million and for anything beyond 75%, the requirement was \$50 million. Now that it is left to the regulatory agency and not the FIPB to stipulate the norms, minimum capital requirement will not be an onerous task for smaller companies looking to raise funds, according to fintech players. "Now, foreign investors can take a 100% stake in a small NBFC which adheres to the minimum capitalisation norm of the RBI that is Rs 2 crore. This should spur inflow of funds and allow more experimentation in the online lending space," said Rohit Lohia, chief operating officer, [CoinTribe](#), an online lending marketplace.

Corporate lawyer Vaibhav Parikh, partner at Nishith Desai Associates said that the new rules will help fintech companies, who want to extend into in certain financial services, not be enlisted by FIPB. "For example, if a lending company wants to take equity in addition to lending, they don't need to go through the approval route." However, experts say there needs to be more clarity on some aspects.