

नेपाल राष्ट्र बैंक

**NON-BANK FINANCIAL INSTITUTIONS
SUPERVISION REPORT
2022/23**



**NEPAL RASTRA BANK
NON-BANK FINANCIAL INSTITUTIONS
SUPERVISION DEPARTMENT**

Non-Bank Financial Institutions Supervision Report
2022/23



Nepal Rastra Bank
Non-Bank Financial Institutions Supervision Department
Baluwatar, Kathmandu, Nepal

July, 2024

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Acronyms/Abbreviations

AML	Anti-Money Laundering
ALPA	Asset Laundering (Money Laundering) Prevention Act
BFI	Bank And Financial Institution
BFIRD	Banks And Financial Institutions Regulation Department
BS	Bikram Sambat
BSD	Bank Supervision Department
CFC	Convertible Foreign Currency
CFT	Combating The Financing Of Terrorism
FCY	Foreign Currency
FEMD	Foreign Exchange Management Department
FERA	Foreign Exchange (Regulation) Act
FIU	Financial Intelligence Unit
FOREX	Foreign Exchange
FXOL	Foreign Exchange Licensing And Reporting System
GDP	Gross Domestic Product
HIDCL	Hydroelectricity Investment And Development Company Limited
HR	Human Resources
HRMD	Human Resources Management Department
IC	Indian Currency
ITD	Information Technology Department
KYC	Know Your Customer
ML	Money Laundering
M-o-M	Month-On-Month
MTO	Money Transfer Operator
MVTS	Money Or Value Transfer Services
NBFI	Non-Bank Financial Institution
NBFISD	Non-Bank Financial Institutions Supervision Department
NCBL	National Cooperative Bank Limited
NFRS	Nepal Financial Reporting Standards
NRB	Nepal Rastra Bank
OCR	Office Of Company Registrar

RBA	Risk Based Approach
SAR	Suspicious Activity Reporting
STR	Suspicious Transaction Reporting
TF	Terrorist Financing
TTR	Threshold Transaction Reporting
USD	United States Dollars
Y-o-Y	Year-On-Year
AML:	Anti-Money Laundering

Message from the Executive Director

Dear valued stakeholders,

It is my pleasure to present Non-Bank Financial Institutions Supervision Report 2022/23 before you. This is the first Annual Supervision Report of the Department since its establishment in Fagun, 2078 BS. This Report mainly covers the activities carried out by the Department during last fiscal year in its role as the supervisor of non-banking entities licensed by Nepal Rastra Bank.

The establishment of this department is a part of NRB's continuous effort to strengthen its supervisory role. The Department has been given the mandate of inspecting, supervising and monitoring the institutions engaged in foreign exchange transactions as well as other non-bank financial institutions licensed by NRB. Previously these institutions used to be supervised through different Departments of NRB. With the growing importance of these institutions in the overall financial system, a dedicated supervision Department was set up within the Bank. NRB aims to supervise these institutions more effectively in pursuant to its objectives of attaining financial sector stability and external sector stability.

The Department supervises the licensed institutions under its purview through onsite and offsite basis. During the review period, the Department carried out regular and follow-up inspections. Based on the inspection findings, necessary directions were given to the concerned institutions to comply with regulatory provisions. The Department has also been following up these institutions to ensure the enforcement of the given directions. Further, the Department regularly reviews the transaction and financial data submitted by these institutions. The supervisory approach has been mainly compliance-based. However, the areas such as corporate governance, risk management and internal controls are also assessed.

The Department is committed to carry out its mandate effectively. Besides onsite and offsite supervision, it conducted interaction programs and meetings in order to enhance its understanding on relevant issues, as well as to communicate supervisory expectations with the stakeholders, including the senior management and Association members of the relevant licensed institutions. Likewise, the staff members of the Department have participated in capacity building programs, including domestic and international trainings. The Department has also coordinated with the concerned regulatory Departments and Financial Intelligence Unit in matters related to regulatory provisions and supervision of the licensed institutions.

It is my great pleasure to have the opportunity to extend my sincere gratitude to Respected Governor and Deputy Governors for their regular encouragement. I would also like to extend my sincere thanks to all the Executive Directors along with concerned authorities for their continuous support. Similarly, I would like to express my gratitude to our valued stakeholders for their cooperation and support in our Department's effort to carry out its supervisory duties effectively. Finally, I would like to thank the Off-site Unit along with all the staff members of the department for their dedication toward fulfilling the assigned responsibilities and for their excellent effort to bring this report in the present form.

Warm regards,

Executive Director

Executive Summary

1. Non-bank Financial Institutions (NBFIs) are diverse institutions, ranging from large corporations to small, independent businesses. They act as valuable alternative to bank financing and help to support the real economy. NBFIs contribute to the economy by enhancing financial inclusion, supporting small businesses and diversifying financial services. The types of NBFIs that exist or are predominant in any country mainly depend on the country's economic and social structure, as well as, the level of financial sector development.
2. Globally, the NBFIs sector grew significantly over the past decades, especially after the financial crisis of 2007/08. The sector, which comprised around 40% share before the crisis, now accounts for almost half of the global financial assets.
3. While much smaller in size and significance compared to the banks and financial institutions, a number of NBFIs operate in various segments of the Nepalese financial system. The NBFIs Sector in Nepal covers around 20% of the total financial sector assets.
4. In Nepal, the NBFIs providing payment services, foreign exchange services and credit facilities are mainly regulated and supervised by NRB. The other NBFIs like insurance company and stockbrokers fall under the purview of other regulators such as Nepal Insurance Authority (NIA) and Securities Board of Nepal (SEBON).
5. Non-Bank Financial Institutions Supervision Department (NBFISD) was established within NRB in Fagun, 2078 BS with the mandate to supervise the institutions carrying out foreign exchange transactions, Hire Purchase companies, National Cooperative Bank Limited (NCBL) and Hydroelectricity Investment and Development Company Limited (HIDCL).
6. NBFISD carries out the supervision of the institutions under its supervisory scope on onsite and off-site basis. The onsite inspection is mainly compliance-based. NBFISD solely supervises remittance companies, NCBL, hire purchase companies and HIDCL. Whereas, in case of money changers and other institutions licensed to carryout foreign exchange transactions, the institutions located outside the Kathmandu Valley are inspected by the Provincial Offices too.

7. The types of onsite inspection that are carried out by the Department are: Regular Inspection (including Full-scope Inspection), Targeted Inspection, Special Inspection and Follow-up Inspection.
8. The Foreign Exchange Licensing and Reporting (FXOL) System was implemented by NRB in May, 2017 in order to streamline the reporting of foreign exchange transactions by the licensed institutions. Initially, the system was accessible to the institutions licensed through FEMD. Presently, the institutions licensed by the provincial offices are also included in the FXOL System.
9. In the fiscal year 2022/23, the Department carried out a total of 153 onsite inspections, 26 of which were conducted outside the Kathmandu valley. The Department was also engaged in continuous monitoring of the licensed institutions on offsite basis.
10. Remittance companies contribute around 50 percent of the total remittance inflows. The remaining portion of remittance inflows is facilitated by BFIs holding separate license from the NRB to conduct remittance transactions. The region-wise inflow of remittance shows that the top remittance source region for Nepal is Middle East, which occupies 44.50% share of the inward remittances that come through remittance companies.
11. Department organized four knowledge sharing programs and four interaction programs in the fiscal year 2022/23. Knowledge sharing programs are organized with the aim of sharing the experience and knowledge among staff of the Department. Likewise, interaction programs with the stakeholders are organized to understand issues and risks in the relevant sectors as well as increase awareness regarding the relevant Acts, regulations, directives and circulars.

1. Introduction

1.1 Background

Non-bank financial institutions are the institutions that provide financial services to individuals and institutions without holding banking license. While these institutions can provide financial services similar to those provided by banks, they are not usually allowed to accept deposit from the general public or provide checking/current account facilities. NBFIs are diverse institutions, ranging from large corporations to small, independent businesses. They act as valuable alternative to bank financing and help to support the real economy. NBFIs contribute to the economy by enhancing financial inclusion, supporting small businesses and diversifying financial services. The major types of NBFIs are insurance companies, pension funds, investment funds, finance/loan companies, mortgage lenders, and trust companies. The types of NBFIs that exist or are predominant in any country mainly depend on the country's economic and social structure, as well as, the level of financial sector development. Although they are not as tightly regulated as banking institutions, they are usually kept under the supervisory purview of national authorities, including the central bank.

1.1.1 NBFIs in the Global Financial System

The NBFIs sector grew significantly over the past decades, especially after the global financial crisis. The sector, which comprised around 40% share before the crisis, now accounts for almost half of the global financial assets. Globally, NBFIs have become important in financial intermediation and are now the crucial driver of capital flows to emerging markets and developing economies. They have also played the role of shock absorbers by providing loan during stress periods, when bank lending tends to decline. Besides, the NBFIs sector includes institutions that support financial inclusion, risk pooling, funding diversification, and increased competition. However, as shown by the case studies in the IMF's Global Financial Stability Report, the growing NBFIs sector has increased the vulnerabilities in the financial system with elevated leverage, liquidity mismatches and high levels of interconnectedness with the banking sector.

As per Financial Stability Board's Global Monitoring Report, the NBFIs sector grew by 8.9% in 2021 to reach USD 239.3 trillion but declined by 5.5% in 2022 to USD 217.9 trillion, which is still 47.2% share of the total global financial assets. The decrease in the NBFIs assets was due to the decrease in investment funds, particularly money market funds, hedge funds and real estate investment funds.

The narrow measure of NBFI, which includes institutions that are involved in credit intermediation activities and may pose bank-like financial stability risks, has also reached USD 67.8 trillion in 2021, representing 28.3% of total NBFI assets and 14.1% of global financial assets. Likewise, this measure also decreased to USD 63.1 trillion in 2002, representing 28.9% of total NBFI assets and 13.9% of total global financial assets.

1.1.2 NBFIs: The Nepalese Context

Banks are the dominant players in Nepal's financial system. As per the monthly statistics published by Banks and Financial Institutions Regulation Department, NRB, the total credit (bank loans) to GDP ratio was 90.65 percent and the total Deposit to GDP ratio was 107.25 percent as of Asar end, 2080. While much smaller in size and significance, a number of NBFIs operate in various segments of the Nepalese financial system. The NBFI Sector in Nepal covers around 20% of the total financial sector assets as per the Financial Stability Report 2022/23 published by Nepal Rastra Bank.

In Nepal, the NBFIs providing credit facilities, payment services and foreign exchange services are regulated and supervised by NRB. The other NBFIs like insurance company and stockbrokers fall under the purview of other regulators such as Nepal Insurance Authority (NIA) and Securities Board of Nepal (SEBON). Some major NBFIs are as follows:

- a) *Insurance companies*: A total of 34 insurance companies are operating in Nepal as on mid-July, 2023. Among them are 16 life insurance companies, 16 non-life insurance companies and 2 reinsurance companies. These insurance companies are licensed and supervised by NIA. As per the Financial Stability Report 2022/23 published by NRB, the percentage of population covered by insurance services have risen steadily over the years and has reached 44.38 percent in FY 2022/23.
- b) *Merchant bankers/ Mutual Fund Managers/Stockbrokers*: Merchant bankers manage the issuance of new securities in the market. There are currently 30 merchant bankers, 18 mutual funds and 50 stock brokers operating in Nepal as on mid-July, 2023. Further, the merchant banks that are the subsidiary of the Commercial banks are allowed to manage mutual funds. The mutual funds act as institutional investors. These NBFIs are regulated and supervised by SEBON.
- c) *Savings and Credit Cooperatives (SACCOs)*: There are estimated 13,000 Savings and Credit Cooperatives in Nepal. They are registered at Department of

Cooperatives and fall under the oversight of the Central, Provincial, and Local Government depending on the scope of their operation. These Cooperatives basically obtain deposits from their members and provide credit to them for various purposes. Borrowed funds from National Cooperative Bank Ltd. or Microfinance companies are also the important source of fund.

- d) *Employee Provident Fund (EPF), Citizen Investment Trust (CIT) and Social Security Fund (SSF)*: EPF manages provident fund on the behalf of the Government of Nepal for government, public enterprises and some private sector employees. It also manages Contributory Pension Scheme of public sector employees. CIT manages various retirement fund schemes. Likewise, SSF manages contribution based retirement/ social security funds.
- e) *Remittance Companies and Money Changers*: The Remittance companies are licensed to carry out international money transfer business. These companies sign agreements with foreign partners to receive inward remittance transactions. They arrange to distribute the remittance money to the beneficiaries through a large network of subagents located throughout the country. The Remittance companies and money changers are licensed, regulated and supervised by NRB.
- f) *Hire Purchase Companies*: Hire Purchase Companies provide hire purchase loan, i.e. loans for the purchase of equipment, machineries and vehicles, to individuals and companies. There are 10 Hire Purchase Companies in Nepal as on mid-July, 2023. They are regulated and supervised by NRB.
- g) *National Cooperative Bank Ltd (NCBL)*: NCBL is the only cooperative bank in Nepal. It accepts deposits from its member cooperative institutions and societies, as well as, provides various types of loan to them. As per the mid-July, 2023 financial figures, NCBL mobilizes Rs.58.24 billion in deposit and has provided loan of Rs.31.65 billion to its member cooperatives.
- h) *Hydroelectricity Investment and Development Company Ltd (HIDCL)*: HIDCL was set up as a special purpose vehicle (SPV) by the Government of Nepal in order to address the funding requirements of the hydroelectricity sector in Nepal. It mainly mobilizes funds for investment in the generation, transmission, and distribution of hydroelectricity. As on mid-July, 2023, HIDCL has provided Rs.9.27 billion loan to hydropower projects.

The NBFIs licensed and regulated by NRB used to be supervised by various departments of NRB. Non-Bank Financial Institutions Supervision Department was established within NRB in Fagun, 2078 BS with the mandate to supervise the institutions carrying out foreign exchange transactions, Hire Purchase companies, National Cooperative Bank Ltd (NCBL) and Hydroelectricity Investment and Development Company Limited (HIDCL). Payment System Operators (PSOs) and Payment System Providers (PSPs) are currently supervised by Payment Systems Department of NRB.

1.2 Overview of the Department

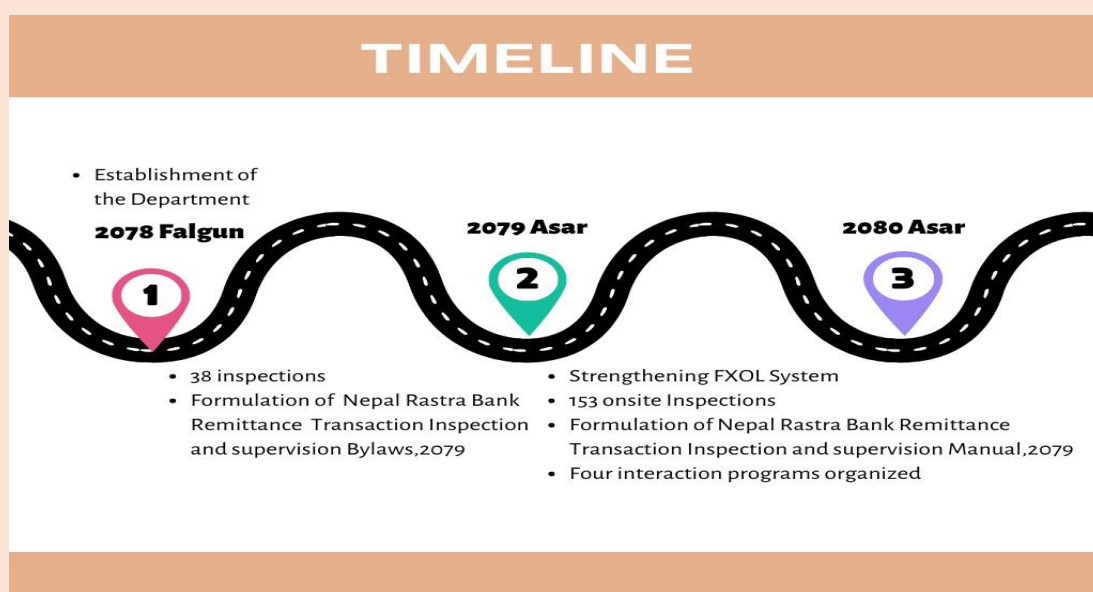


Figure 1: Timeline of the Department

1.2.1 Departmental Responsibilities/ Functions

The responsibilities/functions of the Department are as follows:

- Conduct regular, targeted and follow-up onsite inspections based on annual plan.
- Conduct special inspections as needed.
- Monitor transactions of the licensed institutions through offsite surveillance.
- Carry out enforcement actions as needed.
- Obtain data and reports on regular basis as well as when needed.
- Organize workshops and interaction programs with various stakeholders in the matters related to the Department's functions.
- Coordinate with FIU with respect to TTR, STR/SAR and other relevant issues.
- Address requests received from constitutional bodies and government agencies.
- Provide policy feedbacks to the Regulatory Departments of NRB.

1.2.2 Organogram

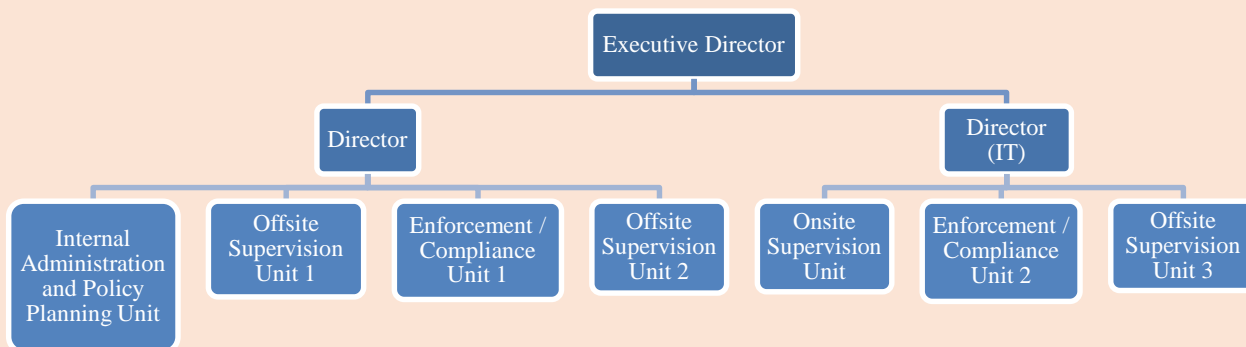


Figure 2: Organogram of the Department

1.2.3 Department Staffing

As of the end of Fagun, 2080, the Department is staffed with a total of 24 employees, led by an Executive Director. The breakdown of positions is detailed in Table 1 below:

Table 1: Staff Distribution in the Department

S.N.	Position	Number
1.	Executive Director	1
2.	Director	1
3.	Director (I.T.)	1
3.	Deputy Director	7
4.	Assistant Director	6
5.	Head Assistant	4
6.	Assistant	2
7.	Subordinates	2
Total		24

1.3 Rationale for Supervision from NBFISD:

The rationale behind the establishment NBFISD for the supervision of NBFIs under the supervisory purview of NRB are:

- Growing number and volume of transactions, especially that of remittance companies.
- Interconnectedness of NBFIs with the banking sector
- Need for better inspection and enforcement of transactions conducted by these institutions.
- Need to strengthen offsite reporting of the transactions carried out by these institutions.

1.4 Existing Guiding Documents

The supervisory activities of the Department are carried out mainly based on the following Acts, Bylaws, Directives and Circulars:

1. Nepal Rastra Bank Act, 2058

2. Foreign Exchange (Regulation) Act, 2019
3. Nepal Rastra Bank Remittance Bylaws, 2079
4. Nepal Rastra Bank Remittance Transaction and Supervision Bylaws, 2079
5. Nepal Rastra Bank Money Changer Licensing and Supervision Bylaws, 2077
6. Foreign Exchange Transaction Inspection and Supervision Bylaws, 2077
7. Unified Circulars issued by Foreign Exchange Management Department
8. Policy and Procedural Provisions related to Hire Purchase Companies, 2070
9. Notices issued by NRB
10. Related licensing terms and conditions
11. Other related Acts, Regulations and Provisions

1.5 Objectives of the Report

This Annual Report of the Department has been prepared with the following objectives:

1. Presenting the financials and transactions of licensed companies based on the reported data for the fiscal year 2022/23.
2. Providing the stakeholders with information about the Department's scope, structure and process of supervision.
3. Informing about the supervision related activities carried out by the Department throughout the fiscal year 2022/23.

1.6 Scope and Limitations of the Report

This Report mainly includes the supervision and other related activities carried out by the Department throughout the fiscal year 2022/23. The financial analyses presented in the Report are mainly based on the audit reports submitted by the licensed institutions.

The transaction reports presented are limited to data obtained from the licensed institutions through emails and other online platforms like FXOL System and NRB Reporting and Analytics System. The list and number of licensed institutions included in the Report areas on Fagun end, 2080 BS if not stated otherwise.

2. Inspection and Supervision

2.1 Department's Scope of Supervision

The Department has the mandate of carrying out inspection and supervision of diverse institutions that were previously being supervised other NRB Departments. These licensed institutions are regulated and guided by different laws, rules, policies and directives.

The licensed institutions under the Department's supervisory purview were previously supervised by other Departments of NRB. Institutions carrying out foreign exchange transactions such as Remittance companies, Money Changers, Hotels, Travel and Trekking agencies, Airlines, Cargo etc. were supervised by Foreign Exchange Management Department. HIDCL used to be supervised by Bank Supervision Department, Hire Purchase Companies were supervised by Finance Company Supervision Department (Now merged to form Financial Institutions Supervision Department) and NCBL used to be supervised by Microfinance Institutions Supervision Department.

NBFISD carries out the supervision of the institutions under its supervisory scope on onsite and off-site basis. The onsite supervision is mainly compliance-based. The inspection team examines whether the licensed institutions are adhering to relevant laws as well as bylaws, regulations and circulars issued by NRB. Likewise, transaction and financial details are reviewed both during onsite inspection and offsite supervision. The licensed institutions are given directions to the concerned institutions for the non-compliances found during onsite inspection or offsite supervision. Enforcement actions may also be taken in case of more serious violations of regulatory provisions. Onsite inspections are mainly carried out based on factors such as volume of transactions, inspection history, geographic regions, nature of business etc.

NBFISD solely supervises remittance companies, NCBL, hire purchase companies and HIDCL. Whereas, in case of money changers and other institutions licensed to carryout foreign exchange transactions, the institutions located outside the Kathmandu Valley are inspected by the Provincial Offices too.

The Department mainly performs the following types of inspection:

- **Regular Inspection:** This is a regular inspection conducted by the Department based on the approved annual plan. Some of the regular inspections conducted at the licensed institutions are full-scope in nature and covers all the operational and business areas of those institutions. The regular inspections conducted at institutions such as hotels,

airlines, travel, trekking and cargo that are licensed to accept foreign exchange are mainly limited to foreign exchange transactions carried out by these institutions. There is a provision for carrying out onsite inspection of remittance companies at least once in two years.

- **Targeted Inspection:** This kind of inspection focuses on a particular area of operation or transaction. Targeted inspections require less supervisory resources and are usually conducted when there no need for a full-scope inspection for the particular institution during the period.
- **Special Inspection:** Special inspections are carried out based on offsite reports, media reporting, or requests by governmental and other bodies or information obtained from external sources including complaints against the licensed institutions.
- **Follow-up Inspection:** This kind of inspection is carried out to follow up on the implementation of directions given to the institutions during prior inspections. Follow-up inspections complement the enforcement function of the Department.

Some of the reviews that may be covered during onsite inspection include: analytical review, policy appraisal and data verification. The analytical review covers analysis of trend of past and present performance of the NBFIs. It also covers the review of financial figures based on audited and unaudited financial reports. Likewise, policy appraisal covers appraisal and review of policies, products and plans of the NBFIs. Similarly, data verification involves the verification of data submitted to the onsite team and also regular reports submitted to Offsite Unit.

2.2 Structure of the Department

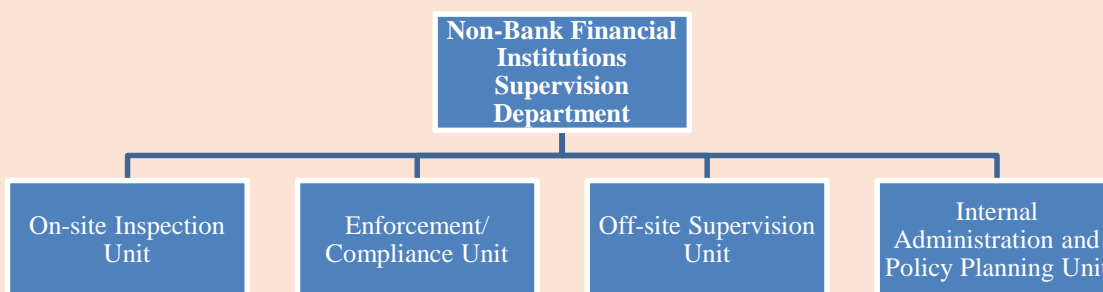


Figure 3: Units under the Department

The Department has set up various units to support its supervision functions. Currently there are four Units in the Department: Onsite Inspection Unit, Offsite Supervision Unit,

Enforcement/Compliance Unit and Internal Administration/ Policy Planning Unit. These Units coordinate with each other to carry out the supervision function of the Department.

2.2.1 Onsite Inspection Unit

The Department conducts onsite inspections based on the Inspection and Supervision Bylaws and Manuals as per the approved annual plan. Besides, it may carry out special inspections as deemed necessary. While there is a separate Onsite Inspection Unit, the onsite inspection function is also supported by the staff members from all Units. The staff members from various Units are assigned to the inspection teams. The inspection team prepares an inspection report after the completion of the onsite inspection and submits the report to the Department for approval from the approving authority.

The objectives of the Onsite inspection function are as follows:

- To examine whether the licensed institutions are complying with the prevalent laws as well as relevant directives and circulars issued by the NRB in the course of carrying out their business.
- To assess the sufficiency of internal policies, processes and control measures developed and implemented by the licensed institutions.
- To give directions and/or suggestions to the licensed institutions based on the inspection findings.
- To initiate necessary enforcement actions against the licensed institutions or the officials/promoters of those institutions.

2.2.2 Enforcement/Compliance Unit

Enforcement function starts when the directions are given to the concerned institution after the approval of the inspection report. Enforcement is a continuous process in which the Enforcement Unit communicates with the concerned institution for evidence of the implementation of the directives given. The Enforcement Unit may also initiate the punitive actions against the institution or officials for more serious non-compliance issues. A follow up inspection may also be carried out to examine the implementation of issues raised during various prior inspections. The Unit also maintains enforcement matrix as per the implementation of enforcement issues.

The Enforcement function has the following objectives:

- To ensure compliance of directions given to the individual licensed institutions based on the onsite inspection reports.

- To initiate enforcement actions against the concerned institution or the officials/directors in case of serious non-compliance issues.
- To prepare compliance/enforcement reports covering enforcement actions taken by the Department and compliance status of the licensed institutions.

2.2.3 Offsite Supervision Unit

The Offsite Supervision Unit is involved in carrying out offsite surveillance of the licensed institutions under the Department's supervisory purview. The Unit reviews and analyses the transaction and financial data as necessary.

The offsite supervision function has the following objectives:

- To continuously monitor the licensed institutions through the data and reports provided by those institutions.
- To prepare quarterly reports based on the review and analysis of reported information.
- To support onsite inspections by providing offsite data to the inspection team.
- To recommend enforcement actions and provide policy-feedbacks based on the reporting made by the licensed institutions.

2.2.4 Internal Administration/Policy and Planning Unit

This unit mainly serves as the main administrative unit of the Department supporting other units and serving as the back office.

The Internal Administration/Policy and Planning function has the following objectives:

- Propose the upcoming year's Annual Plan and prepare quarterly progress report for the current year's Plan.
- Collect the information regarding inspection activities conducted by the Department.
- Maintain and update risk register of Department.
- Receive and provide policy feedbacks from and to other Departments and other Units of the Department.
- Propose the Department's budget and monitor budget spending.
- Obtain annual HR quota and position details from HRMD and make necessary arrangements for internal placement of the available human resources.
- Make necessary procurement and supply logistics to the concerned units.
- Issue travel orders for inspection and other deputation as well as recommend to Financial Management Department for necessary payment to vendors and suppliers.

- Organize interaction programs as per approved Annual Plan.
- Organize meeting with internal and external parties as per departmental need.

2.3 Institutions under Department's Supervisory Scope

2.3.1 Remittance Companies

Remittance companies in Nepal are engaged in cross-border remittance inflows into Nepal. They partner with Money Transfer Operators or other financial institutions worldwide and distribute the transferred funds to the beneficiary, usually through a network of sub-agents or sub-representatives. These companies are licensed, regulated and supervised by NRB as mandated by Foreign Exchange (Regulation) Act, 2019 and Nepal Rastra Bank Act, 2058. Further, as money remitters, these companies have the responsibilities and obligations of a reporting entity under Asset Laundering (Money Laundering) Prevention Act, 2064. Remittance companies contribute around 50 percent of the total remittance inflows. The remaining remittance inflows are facilitated by the BFIs holding distinct licenses from the NRB to conduct remittance transactions. The remittance companies, however, are not allowed to remit funds out of Nepal.

As on Fagun end, there were 36 licensed remittance companies. Out of these companies, the following 25 were active (not expired for more than 6 months as on Fagun end, 2080):

Table 2 : List of Remittance Companies

S.N.	Company Name	S.N.	Company Name
1	A.T.T. Remit Pvt. Ltd.	14	Maya Remit Pvt. Ltd.
2	Advance Money Transfer Pvt. Ltd.	15	MyPay Money Transfer Pvt. Ltd.
3	CG Finco Pvt. Ltd.	16	Namaste Remit International Pvt. Ltd.
4	CG Remit Pvt. Ltd.	17	Nepal Remit International Pvt. Ltd.
5	City Express Money Transfer Pvt. Ltd.	18	Panos Remit Pvt. Ltd.
6	Easylink Remittance Pvt. Ltd.	19	Prabhu Money Transfer Pvt. Ltd.
7	Esewa Money Transfer Pvt. Ltd.	20	Remit to Nepal Pvt. Ltd.
8	G.M.E. Remit Pvt. Ltd.	21	Samsara Remit Pvt. Ltd.
9	Hamro Patro Remit Pvt. Ltd.	22	Surya Remit Pvt. Ltd.
10	Hub Remit Pvt. Ltd.	23	Thamel Remit Pvt. Ltd.
11	Hulas Remittance Pvt. Ltd.	24	United Remit Pvt. Ltd.
12	IME Limited	25	Zenith Remit Pvt. Ltd.
13	Ipay Remit Pvt. Ltd.		

Source: FXOL System as on Fagun end, 2080

Under the current NRB provision, sub-agents are not required to obtain license from NRB. The remittance companies can themselves appoint sub-agents for the distribution of

remittances. The Province-wise sub-agent details as per monthly sub-agent report submitted by the remittance companies for January, 2024 is as below:

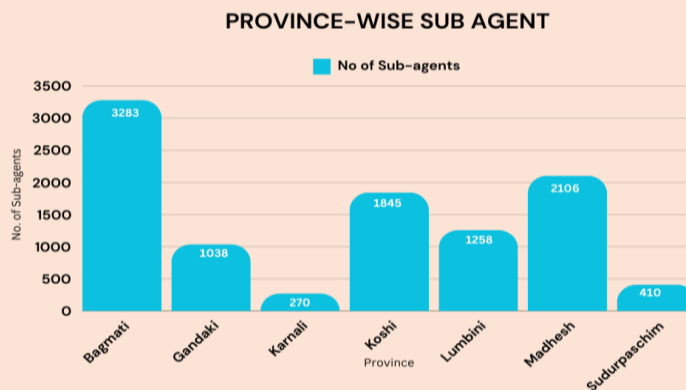


Figure 4: Province-wise number of sub-agents

2.3.2 Money Changers

Money changers are licensed to engage in the exchange of foreign currencies with foreigners and Nepalese with foreign exchange source. Only those located at the international airports are allowed to obtain permission to sell a limited amount of convertible foreign currencies (up to USD 200 per customer). The details of money changer companies licensed by NRB are as follows:

Table 3: Number of Money Changers

Licensing Department/Office	Buying CFC Only	INR - Buy and Sale / CFC - Buy Only	INR - Buy and Sale	Total
FEMD	138	15	-	150
Biratnagar	2	1	57	60
Janakpur	-	3	6	9
Birgunj	4	2	9	15
Pokhara	35	-	-	35
Siddarthanagar	-	10	39	49
Nepalgunj	-	3	6	9
Dhangadhi	-	-	2	2
Total	179	34	119	332

Source: FXOL System as on Fagun end, 2080

Out of them, 329 were active (license not expired for more than 3 months).

2.3.3 Other Companies Licensed to carryout Foreign Exchange Transactions

NRB provides foreign exchange license to institutions such as airlines, cargo, hotel, travel, trekking and other firms/companies allowing them to accept foreign currency while providing services. Besides FEMD, these institutions may also be provided license through the provincial offices in accordance with their place of business.

Table 4: Other Licensed Institutions

Licensing Department/ office	Airlines	Cargo	Hotel	Travel	Trekking	Others	Total
FEMD	72	64	187	953	1,712	35	3,023
Biratnagar	-	-	4	-	1	2	7
Janakpur	-	-	1	-	-	-	1
Birgunj	-	-	-	-	-	-	-
Pokhara	-	-	30	16	25	6	77
Siddarthanagar	-	-	6	2	1	1	10
Nepalgunj	-	-	3	-	1	-	4
Dhangadhi	-	-	-	-	-	-	-
Total	72	64	236	971	1,740	44	3,127

Source: FXOL System as on Fagun end, 2080

Out of these institutions, 2,341 were active (license not expired for more than one year) as on Fagun end, 2080.

2.3.4 Other NBFIs

a) Hire Purchase Companies

Hire purchase companies are the companies that are licensed to provide hire purchase loans for the financing of motor vehicles, machinery, and other equipment used for agricultural, industrial, commercial, or private purposes. There are currently ten hire purchase companies licensed by NRB.

Table 5: Hire Purchase Companies

S. N.	Name of Company	S. N.	Name of Company
1	Agni Hire Purchase Pvt. Ltd.	6	MAW Investment Pvt. Ltd.
2	Batas Investment Pvt. Ltd.	7	Omni Pvt. Ltd.
3	Hulas Fin Serve Pvt. Ltd.	8	Sipradi Hire Purchase Pvt. Ltd.
4	Jagadamba Credit & Investment Pvt. Ltd.	9	Syakar Investment Pvt. Ltd.
5	Manokamana Hire Purchase Pvt. Ltd.	10	Venture Hire Purchase Pvt. Ltd.

Source: BFIRD, NRB

b) NCBL

NCBL was established on 2060/03/25 BS as per the Article 26 sub-article (5) of the then Cooperative Act, 2048. It received its license from Nepal Rastra Bank to carry out limited banking activities on 2067/04/10 BS. NCBL has been carrying out financial activities like accepting deposits from and providing wholesale loans to cooperative institutions. Its central office is located in Pulchowk, Lalitpur and it has 68 branches spread throughout seven provinces.

c) HIDCL

HIDCL is a state-owned enterprise established with the primary objective of mobilizing funds for investment in middle to mega hydroelectricity generation, transmission, and distribution projects in Nepal. The company obtained approval from the NRB on 2069/03/26 BS to make loan investments to the hydroelectricity project. Besides investing in hydropower projects as a part of consortium financing with other BFIs, the company owns subsidiary companies and has made equity investments in several hydropower companies. The Government of Nepal holds the majority share in the company.

2.4 Onsite Inspections Details

2.4.1 NBFISD

Table 6: Onsite Inspections conducted by NBFISD in FY 2022/23

Licensed Institution	No. of Inspection		
	Regular	Follow-up	Total
NCBL	1	-	1
HIDCL	1	-	1
Hire Purchase Companies	5	1	6
Remittance Companies	25*	5	30
Money Changers	39	8	47
Airlines	5	-	5
Cargo	4	-	4
Hotel	13	4	17
Travel	21	1	22
Trekking	16	-	16
Others	4	-	4
Total	134	19	153

* Full Scope Inspection

Note: Out of total 153 inspections, 26 were conducted outside the Kathmandu Valley

2.4.2 NRB Provincial Offices

Table 7: Onsite Inspections conducted by Provincial Offices in FY 2022/23

Office	Money Changers	Hotel	Travel	Trekking	Others	Total
Biratnagar	18	2	-	1	-	21
Janakpur	8	-	-	-	-	8
Birgunj	14	2	2	-	-	18
Pokhara	16	8	8	4	4	40
Siddharthanagar	15	1	-	-	-	16
Nepalgunj	7	2	-	1	-	10
Dhangadhi	2	-	-	-	-	2
Total	80	15	10	6	4	115

Source: Respective NRB Provincial Offices

2.5 Major Issues

Some general non-compliance issues found during the course of onsite inspection and offsite supervision are listed below:

- Issues with corporate governance
- Weak internal control system
- Lack of adequate internal policies and procedures
- Lack of adequate risk assessment
- Lapses in record keeping
- Weaknesses in transaction monitoring
- Lack of proper credit appraisal
- Monthly reports not submitted on time
- Insufficient training and capacity development programs

Directions have been given to the concerned institutions to ensure compliance with the relevant Acts, Bylaws, Directives and Circulars. The Enforcement Unit follows up on the implementation of the directions. Follow-up inspections have also been conducted to check the implementation status.

2.6 FXOL System

The Foreign Exchange Licensing and Reporting System was implemented by NRB in May, 2017 in order to streamline the reporting of foreign exchange transactions by the licensed institutions. Initially, the system was accessible to the institutions licensed through FEMD. Presently, the institutions licensed by the provincial offices are also included in the system. The reporting entities are provided with unique username and password. They have also been given training from time to time regarding the reporting process.

2.6.1 Upgrading FXOL System

- **E-map:** The exact location of reporting companies is marked in the map. Different categories of reporting entities can also be filtered. Location of 825 companies has been added till Fagun end, 2080 BS.
- **Inspection module:** This module has allowed for listing inspections done by the department and provincial offices. A total of 959 Inspections has been added till Fagun end, 2080 BS.

- **Reports:** Month-wise, Year-wise, Y-o-Y (for the month), Y-o-Y (up to the month) of remittance inflows reporting have been added.
- **Report Statistics:** This new tool shows the report submission delay by companies.
- **Report Submission Unlock:** This function can be used to unlock report submission portal for back-date report submission.

3. Financial and Transaction Analysis

NBFISD supervises the institutions under its scope through both onsite and offsite modes. For offsite surveillance, the licensed institutions are required to submit their transactions and financial details. The institutions licensed to carry-out foreign exchange transactions submit details of foreign exchange transactions through FXOL System. Likewise, other NBFIs submit their financial details through NRB Reporting and Analytics System. Further, the Department seeks information related to the institutions' transactions, financials and other details through emails.

For the purpose of this Report, the data from the FXOL system was retrieved on Fagun end, 2080 BS unless otherwise stated. Likewise, the transactions reported by businesses carrying out foreign exchange transactions like hotels, trekking companies are mainly limited to foreign currency cash receipts and the foreign currencies received in their foreign currency accounts. Further, in case of foreign exchange transactions, the data for the period from August to July of the following year is considered as the data for the fiscal year. These figures may not reflect the actual service income these licensed institutions earned by selling services to foreigners.

3.1 Remittance Companies

Remittance companies are licensed by NRB in accordance with Foreign Exchange (Regulation) Act, 2019 and Nepal Rastra Bank Act, 2058 to carry out international money transfer business. These companies enter into agreements with foreign remittance companies and financial institutions to receive inward remittances. Remittance companies contribute around 50 percent of the total remittance inflows. The remaining portion of remittance inflows is facilitated by BFIs holding separate license from the NRB to conduct remittance transactions.

A significant portion of the remittance entering Nepal originates from Nepalese migrants employed abroad. The remittance companies, however, are not allowed to remit funds out of Nepal.

3.1.1 Financial Data of Remittance Companies

The aggregate financial details of remittance companies for the last two fiscal years based on the reporting of the remittances given below:

Table 8: Aggregate Financial Data of Remittance Companies

Particulars	Amount (in Billion Rupees)		Percent Change
	FY 2022/23	FY 2021/22	
Total Assets	13.10	13.81	-5.14%
Paid Up Capital	2.77	2.08	33.17%
Total Liabilities	8.60	9.43	-8.80%
Reserve and Surplus	1.74	2.31	-24.68%
Total Income	3.36	3.44	-2.33%
Total Expenses	2.44	2.61	-6.51%
Net Profit/(Loss) Before Tax	0.92	0.93	-1.08%

The remittance industry has net worth of Rs. 4.50 billion despite decreasing in the fiscal year. The aggregate net profit before tax remained almost same in the last two fiscal years.

3.1.2 Region-wise Remittance Inflows

The region-wise inflow of remittance shows that the top remittance source region for Nepal is Middle East, which occupies 44.50% share of the inward remittances that come through money transfer companies. Similarly, the second highest remittance source region is Asia-Pacific, which occupies 29.22% share, followed by North America region with 14.26% share in the remittance inflows.

REGION-WISE REMITTANCE INFLOW

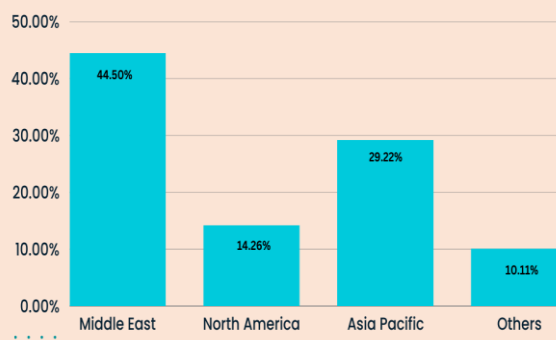


Figure 5: Region-wise remittance inflows

3.1.3 Monthly and Yearly Remittance Inflow Trend

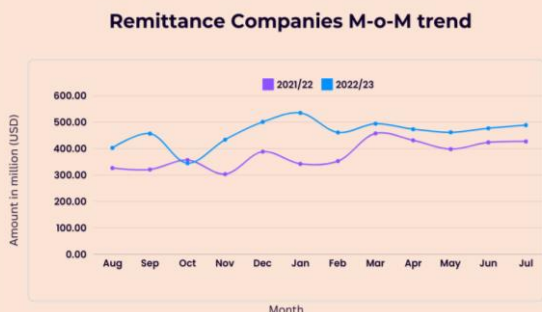


Figure 6: M-o-M FCY inflows from Remittance Companies

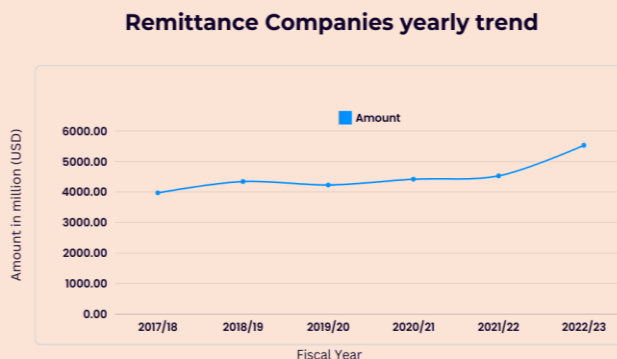


Figure 7: Yearly FCY inflows from Remittance Companies

A consistent and gradual growth in the inflow of remittances through remittance companies is seen in the last five fiscal years. The M-o-M data of the remittance inflows show that there was an increased remittance inflow in all the months of FY 2022/23 when compared with FY 2021/22, except in the month of October. Further, the M-o-M data shows highest remittances inflow was in the month of March in FY 2021/22 and in the month of January in FY 2022/23. The Y-o-Y growth was 22.11% in the last fiscal year when compared to previous fiscal year.

3.2 Money Changer

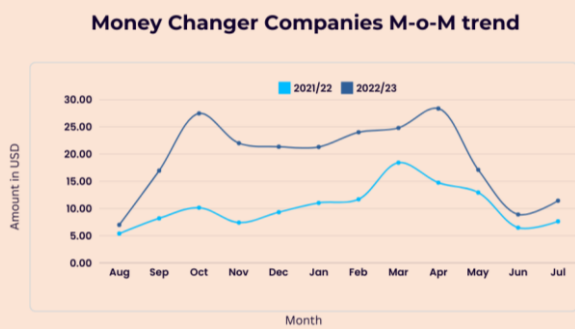


Figure 8: M-o-M CFC transactions by Money Changers

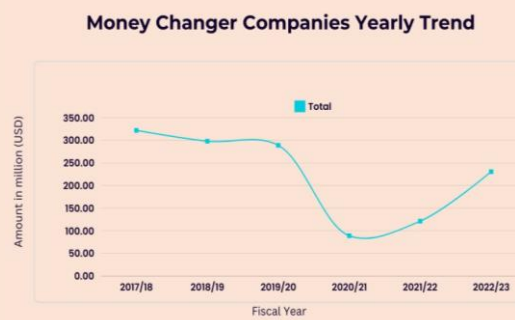


Figure 9: Yearly CFC transactions by Money Changers

There was a slightly decreasing trend in the transactions of foreign currency by money changers from FY 2017/18 to FY 2019/20 as per the reported data. The transaction further declined in FY 2020/21, evidently due to the sluggish tourism activities in the aftermath of Covid-19 pandemic. The transactions as reported by money changers slightly increased in the next fiscal years as the tourism industry slowly recovered. There is variability in monthly transactions with the highest transactions reported for the months of March, April and October.

3.3 Trekking Companies



Figure 10: M-o-M of CFC transactions by Trekking Companies



Figure 11: Yearly Trend of CFC transactions by Trekking Companies

The yearly trend figures show that the foreign currency transactions of trekking companies declined from FY 2018/19 to FY 2020/21, due to Covid-19 pandemic that restricted international travel severely. However, the transaction of these companies has jumped to almost the pre-pandemic level in FY 2022/23. The monthly transaction trend depicts the seasonal nature of the business. The last two years' M-o-M trend shows that March is the busiest month for this business as compared to other months. In FY 2022/23, a significant increase in transactions has also been seen in Sept/Oct as compared to same months previous year.

3.4 Travel and Tours



Figure 13: Yearly CFC transactions by Travel and Tours



Figure 12: M-o-M CFC transactions by Travel and Tours

Foreign currency transactions of Travel and Tours fell sharply from FY 2017/18 to FY 2020/21 as reported by these firms. This decline in transaction can be linked to Covid-19 pandemic, which severely affected the tourism industry. However, there has been a slight uptick in transactions in the FY 2021/22 and FY 2022/23 as the tourism industry gradually recovered. The M-o-M data shows that there is monthly fluctuation in foreign exchange income of the travel and tours firms, with highest transactions reported for the months of March/April and Oct/Nov, the peak tourist season in Nepal. The monthly transaction has been higher for all the months in FY 2022/23 when compared with FY 2021/22.

3.5 Cargo Companies

Unlike other categories of firms licensed to accept foreign currency during their course of business, the cargo companies experienced increased foreign currency transactions during FY 2019/20 and FY 2020/21. As the tourism sector has been recovering in the last two fiscal years, the foreign currency transaction of the cargo companies has started to decline to the pre-pandemic level.

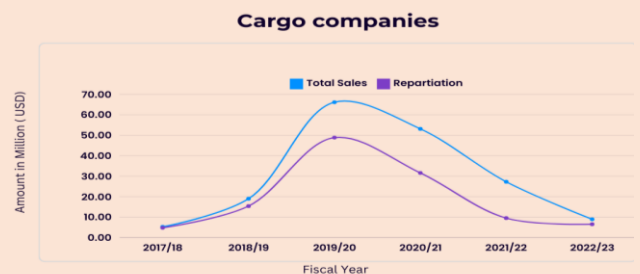


Figure 14: Yearly FCY sales and repatriation by Cargo Companies

3.6 Airlines

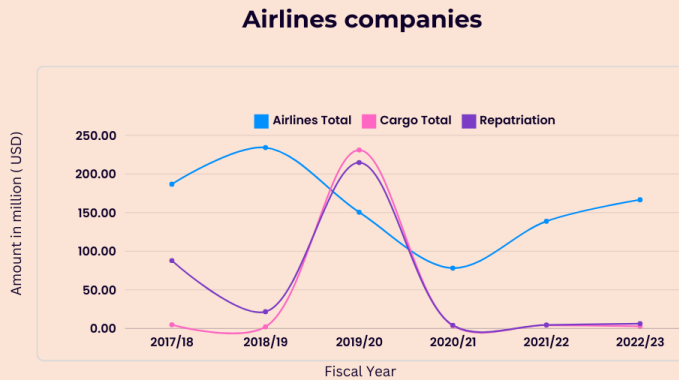


Figure 15: Yearly FCY transactions by Airlines Companies

The foreign currency transactions of the airlines companies declined from FY 2018/19 to FY 2020/21. This lower foreign currency transaction of the airlines can again be attributed to the travel restrictions caused by Covid-19 pandemic in the period. As the tourism industry recovered in the years thereafter, the foreign exchange transactions carried out by the Airlines has also increased. Within the airlines business, the foreign currency transactions through cargo activities were higher than air ticket sales during the period affected by the COVID-19 pandemic.

3.7 Hotels

The foreign currency receipts of the licensed hotels declined from FY 2017/18 to FY 2020/21. The foreign currency transaction in the sector has been increasing in the last two fiscal years as the tourism industry is recovering.



Figure 16: Yearly CFC transactions by Hotels

3.8 NCBL

The audited financial data of NCBL shows a rise in total funds used from Rs.57.85 billion in FY 2021/22 to Rs.63.46 in FY 2022/23. The deposit from customers which is the largest source of fund, increased by 14.92 percent to Rs.58.24 billion. The share capital, however, decreased from Rs. 2.91 billion to Rs.2.8 billion. On the assets side, the loans and advances to cooperatives decreased by 12.98% to Rs.31.65 billion in the FY 2022/23.

Table 9: Financials of NCBL

Particulars	FY 2022/23 (Rs. in billions)	FY 2021/2022 (Rs. in billions)	Percentage Change
Total Assets	63.48	57.87	9.69%
Cash and Cash Equivalent	15.86	16.81	-5.65%
Deposit at NRB	0.32	0.27	18.52%
Deposit at BFIs	6.58	2.75	139.27%
Loans and Advances to cooperatives	31.65	36.37	-12.98%
Secured assets investment	7.39	0	-
Tax Assets	0.32	0.29	10.34%
Investment assets	0.13	0.084	54.76%
Property and equipment	0.62	0.67	-7.46%
Other Assets	0.59	0.61	-3.28%
Total Capital and Liabilities	63.48	57.87	9.69%
Deposit from Customers	58.24	50.68	14.92%
Payables	0	1.28	-
Deferred Tax Liabilities	0	0.02	-
Other Liabilities	0.40	0.48	-16.67%
Share Capital	2.81	2.91	-3.78%
Retained Earnings	0.08	0.62	-86.94%
Reserves and Surplus	2.11	1.85	14.05%

Source: Annual Report 2022/23, NCBL

3.9 HIDCL

As per the audited financials of HIDCL, the company's share capital is Rs.22.78 billion in FY 2022/23. The share capital is the main source of funds for the company. The loan to power projects increased from Rs.6.45 billion in FY 2021/22 to Rs.9.27 billion in FY 2022/23. Term deposits remained relatively unchanged during the last fiscal year. The financials show that a significant portion of the company's fund is kept as term deposit.

Table 10: Financials of HIDCL

Particulars	Mid July (Rs. in billions)		Growth (Percentage)
	2022	2023	
Sources of Fund	23.37	25.34	
Share Capital	20.72	22.78	0.10
Reserves	1.65	2.34	0.41
Current Liabilities	0.59	0.16	-0.73
Non-Current Liabilities	0.41	0.07	-0.83
Uses of Fund	23.37	25.34	
Cash and Bank Balance	0.85	0.36	-0.58
Term Deposits with Banks	12.38	12.37	0.00
Other Current Assets	1.71	0.17	-0.90
Loan to Power Projects	6.45	9.27	0.44
Investment in Corporate bonds and Equity	0.17	0.16	-0.06
Other Non-Current Assets	1.81	3.01	0.66

Source: Annual Report 2022/23, HIDCL

3.10 Hire Purchase Companies

According to Policy and Procedural Arrangements for Approving Hire Purchase Companies, 2070 (second amendment, 2078), the minimum paid-up capital (ordinary shares) required for hire purchase companies is Rs. 30 crores. As per the aggregate data obtained from combining the financials of the ten licensed hire purchase companies, there is an increment in total assets by 3.7% in FY 2022/23. Total loans and advances to customers, a major category of assets for hire purchase companies, rose by 4.6% to Rs.18.65 billion in the review period. Likewise, the total borrowings from BFIs increased by 9.46% to Rs.10.65 billion in the fiscal year.

Table 11: Aggregate Financial Data of Hire Purchase Companies

Particulars	Mid-July, 2022 (Rs. in billions)	Mid-July, 2023 (Rs. in billions)	Growth (Percentage)
Sources of Fund	20.48	21.25	
Share Capital	3.4	3.7	8.824%
Reserves and Surplus	2.53	2.28	-9.881%
Net worth	5.93	5.98	0.843%
Borrowings	9.73	10.65	9.455%
Other Liabilities	4.82	4.62	-4.149%
Uses of Fund	20.48	21.25	
Cash and Bank	0.74	0.58	-21.622%
Loan and Advances (Net)	17.83	18.65	4.599%
Fixed Assets	0.31	0.32	3.226%
Other Assets	1.6	1.69	5.625%

Source: Annual Report of respective companies, 2022/23

4. Regulatory Provisions

4.1 Regulatory Provisions for Institutions carrying out Foreign Exchange Transactions

Some of the major provisions related to the licensing, regulation and supervision of the institutions carrying out foreign exchange transactions mentioned in the relevant Acts are mentioned below. (Included here is just the summary of major provisions. Please consult the relevant documents for details)

4.1.1 Foreign Exchange (Regulation) Act, 2019

- Individuals, firms, companies or institutions willing to carry out foreign exchange transactions are required to obtain license from NRB.
- NRB may give necessary directions to the licensed institutions from time to time. The licensed institutions are obliged to comply with such directions.
- Government of Nepal or NRB may inspect or cause to inspect accounts or other documents of licensed institutions at any time.

4.1.2 NRB Act, 2058

As per Clause 63 of the Act, NRB shall manage the foreign exchange and shall have the following rights for the management of foreign exchange:

- Provide license to the persons willing to carryout foreign exchange transactions.
- Formulate regulations and bylaws as well as issue directives or notices to regulate foreign exchange transactions carried out by the licensed persons.
- Conduct inspection, supervision and monitoring of licensed persons.

4.1.3 NRB Remittance Bylaws, 2079

Major provisions in NRB Remittance Bylaws, 2079 are as follows:

- Provisions related to Capital (Min. Paid-up capital to be Rs.100 million by 2084 Asar end)
- Functions and Responsibilities of Remittance Companies
- Functions not to be carried out by Remittance Companies
- Provisions related to approval of agreements made with foreign institutions
- Provisions related to renewal, suspension, and cancellation of License
- Provisions related to punishment and enforcement actions
- Provisions related to Mergers and Acquisitions

Regulatory Framework

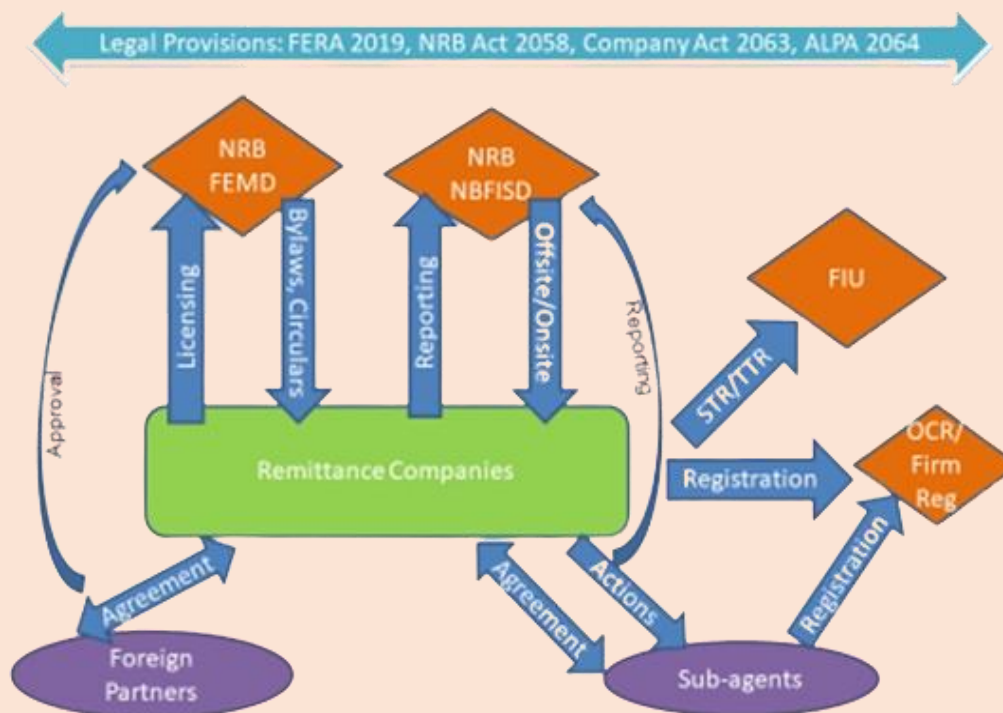


Figure 17: Regulatory Framework

4.1.4 NRB Money Changer Licensing and Inspection Bylaws, 2077

Major provisions in NRB Money Changer Licensing and Inspection Bylaws, 2077 are as follows:

- Provisions related to Fees and Deposits
- Provisions related to Capital (Min. Paid-up capital to be Rs.1 million, Rs.1.5 million or Rs.2 million based on the types of currencies allowed to exchange)
- Functions and responsibilities of Money Changers
- Functions not to be carried out by Money Changers
- Provisions related to Inspection and Supervision
- Provisions related to Enforcement Actions, Punishment and Fines
- Provisions related to renewal, suspension and cancellation of License

4.1.5 NRB Foreign Exchange Transaction Licensing and Inspection Bylaws, 2077

Major provisions in NRB Foreign Exchange Transaction Licensing and Inspection Bylaws, 2077 are as follows:

- Provisions related to Fees and Deposits
- Provisions related to renewal and cancellation of License
- Functions and responsibilities of Licensed Institutions
- Provisions related to Inspection and Supervision

- Provisions related to Enforcement Actions and Punishment

4.1.6 Relevant Circulars issued by FEMD

Table 12: Relevant Circulars issued by FEMD in FY 2022/23

S.N.	Circular	Issue Date	Amended Circular No.	Amended Provision
1	03/2079-80	2079/04/04	07/2078	Money Changers licensed to sell foreign currencies can provide up to USD 200 exchange facility against passport to Nepalese travelling abroad.
2	08/2079-80	2079/06/13	12/2078	To repatriate amount generated through sales made in foreign currency, entities should be licensed to carry out foreign exchange transactions and such license needs to be duly renewed.
			27/2078(A)	<ul style="list-style-type: none"> • Entities and executives of those entities not abiding by the rules and regulations under Assets Laundering(Money Laundering)and Prevention Act, 2064 are liable for punishment provisioned by the Act. • The nature of punishment may vary as per the severity of the offence as per schedule 4 of Unified circular issued by the FEMD.
			27/2078(B)	<ul style="list-style-type: none"> • Obtain full information of the beneficiary and originator of the wire transfer transactions. • The beneficiary institutions receiving the amount should verify whether the full details of beneficiary are provided in wire transfer using real time and post-event monitoring. • Companies with control on both the originator and beneficiary should report suspicious transactions based on the information obtained from both sides. The suspicious transactions should be reported to the Financial Intelligence Unit of the country that is likely to be affected by such suspicious transactions. • Companies should publish and timely update the list of agents and sub-agents related to the company on its website. • Entities and executives of those entities not abiding by the rules and regulations under Asset Laundering (Money Laundering) Prevention Act, 2064 are liable for punishment provisioned by the Act. • The nature of punishment may vary as per the severity of the offence as per schedule 4 of Unified circular issued by the FEMD.
3	09/2079-80	2079/06/14	-	New licenses for money changers shall not be provided except in international airports until another provision is made by NRB.
4	15/2079-80	2079/10/13	-	<i>Nepal Rastra Bank Remittance Bylaws, 2079 Issued</i>

4.2 Regulatory Provisions for other NBFIs

4.2.1 Terms and Conditions of Licensing for NCBL

Some of the terms and conditions mentioned while providing license to NCBL are as follows:

- Maintain minimum capital fund and liquidity level similar to Microfinance Institution.
- Comply with the directives/ directions of NRB with respect to loan, interest rate, liquidity and capital.
- Obtain approval from NRB while opening a new branch.
- The ratio of total loans to deposit and core capital shouldn't be higher than 80%.
- Lend up to 10% of its total loan portfolio in the real estate sector and up to 25% in real estate and residential housing.
- Submit reports as required by NRB.

4.2.2 Terms and Conditions of Licensing for HIDCL

Some of the terms and conditions mentioned while providing license to HIDCL are as follows:

- The company is required to implement necessary policies and bylaws for lending after approval from the company's board of directors.
- The company has to submit reports as required by NRB.
- The company shall be regulated and supervised by NRB. It is the duty of the company to avail information during inspection.

4.2.3 Policy and Procedural Provisions for Hire Purchase Companies

Some of the provisions mentioned in Policy and Procedural Provisions for Hire Purchase Companies, 2079 are as follows:

- Provision related to minimum paid-up capital (Rs. 300 million)
- Provision related to the renewal of license.
- Provision related to the appointment of the Executive Chief/ Managing Director.
- Hire Purchase companies are not allowed to borrow more than 10 times of net worth.
- Hire Purchase companies should maintain the maximum interest rate spread of 4%.
- The Single Obligor Limit (SOL) in lending is 30% of the company's net worth.
- The annual penal interest rate should not be greater than 2%
- Provision related to auditing and reporting.

4.3 International Context

4.3.1 Provisions related to Remittance Services

The World Bank and Bank for International Settlements (BIS) jointly published the general principles for international remittance services in 2007. The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Box 1: The General Principles for International Remittance Services

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Roles of remittance service providers and public authorities

A. Role of remittance service-providers: Remittance service-providers should participate actively in the implementation of the General Principles.

B. Role of public authorities: Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles

Likewise, Financial Action Task Force has published the Guidance for a Risk-Based Approach for Money or Value Transfer Services to help countries and financial institutions

implement a risk-based approach to combat money laundering and terrorist financing ML/TF risks associated with MVTs.

- MVTs providers play a crucial role in the financial system and financial inclusion, but are also vulnerable to ML/TF abuse.
- The RBA requires measures to counter ML/TF to be proportionate to the risks posed by each MVTs provider.
- The guidance is primarily for non-banking MVTs providers but applies to the entire sector.
- It outlines factors to consider when assessing ML/TF risks associated with MVTs, including:
 - Customer base and type of transactions
 - Geographic reach and business model
 - Products and services offered
 - Internal controls and risk management practices
- It recommends risk-mitigating measures based on the assessed risks, such as:
 - Customer due diligence and KYC procedures
 - Transaction monitoring and reporting of suspicious activity
 - Record keeping and information sharing
 - Staff training and awareness

4.3.2 Provisions related to NBFIs

The composition of Non-Bank Financial Institutions in the overall financial system is growing worldwide. The World Bank Group outlines the importance of NBFIs in providing financial services to unserved and underserved customers, emphasizing the need for regulatory certainty in a rapidly evolving financial sector. It proposes a structured framework called I-SIP to identify synergies and trade-offs in regulation, considering four key regulatory objectives:

- *Inclusion*: Focusing on promoting access, usage, quality, and customer well-being/impact.
- *Stability*: Ensuring the safety and soundness of individual NBFi provider and the financial system as a whole.

- *Protection*: Preventing harm to users of formal financial services.
- *Integrity*: Preventing criminal exploitation of the financial system.

The application of Basel Core Principles to NBFIs is discussed across various domains:

- *Licensing and permissible activities*: Tailoring requirements based on the scope and complexity of NBFI activities, considering factors like capital requirements and specific issues for financial cooperatives and Microfinance Institutions (MFIs).
- *Corporate governance*: Ensuring alignment with culture and values, understanding governance structures unique to NBFIs and providing guidance on sound governance practices.
- *Capital adequacy requirements*: Implementing specific measures such as group-based capital adequacy ratios and addressing weaknesses with higher capital requirements.
- *Cooperation and collaboration*: Encouraging formal and informal arrangements among regulators and NBFIs to minimize regulatory burden and share information.
- *Supervisory approaches*: Utilizing alternative methods like collective supervision and auxiliary supervision, alongside the use of external auditors and technology.
- *Operational risk*: Addressing risks associated with third parties through policies, procedures, and accountability of NBFIs to supervisors and customers.
- *AML/CFT*: Adopting a proportionate or risk-based approach for compliance, allowing simplified Customer Due Diligence measures for lower-risk products.
- *Consumer protection*: Implementing internal controls, IT systems, and policies to manage consumer protection and conduct risks effectively.

Overall, the focus is on ensuring that NBFIs operate sustainably, responsibly, and contribute to greater consumer trust through proportionate regulation aligned with key regulatory objectives.

5. Capacity Building

NBFISD has been given the mandate of inspecting and supervising diverse institutions that include remittance companies, money changers, other institutions licensed to carry out foreign exchange transactions, as well as, NBFIs like NCBL, HIDCL and Hire Purchase companies. It is important for the Department to prioritize continuous capacity development of its staff members so as to carry out its mandate effectively. The staff members are provided with both international and domestic trainings that help build knowledge and enhance skills. Further, knowledge sharing programs are organized with the aim of sharing the experience and knowledge among colleagues of the Department. Likewise, interaction programs with the stakeholders are organized to understand issues and risks in the relevant sectors as well as increase awareness regarding the relevant Acts, regulations, directives and circulars.

5.1 Domestic Training for Employees

Table 13: Details of Domestic Trainings

S. N.	Training	No. of participants from NBFISD	No. of Days
1	Risk Based Internal Audit	1	5
2	Research Methodology and Report Writing	1	6
3	MS Office Package	1	15
4	AML/CFT Regime	4	5
5	Risk Based Supervision	5	6
6	Payment and Settlement Systems in Nepal	1	3
7	Planning Budgeting and Risk Management in NRB	1	3
8	NFRS Training	2	6
9	Organizational Behavior	1	4
10	Central Banking Training for officer	1	6
11	Macroeconomic Modeling and Forecasting	1	6
12	Management Development Program for NRB	1	6
13	Macroeconomic Management in Nepal	1	6
14	Training for Subordinate	1	2
15	Management Development Program	1	6
16	Secretariat Training	1	4
17	Risk Officers Training	1	1
18	Central Banking Training for Non-officer	1	6
19	Regulation & Supervision of Microfinance	4	3
20	Protocol Management	1	2

21	Work Plan and Budget Preparation	1	1
22	Current Trends, Prospect and Challenges to Climate Resilient Cooperative Sector	1	1
23	Empirical Methods for Financial Market Research	2	6
24	Econometric Tools for Policy Evaluation	1	6
25	Macro prudential Regulation and Financial Stability	3	4
26	Foreign Exchange Management in Nepal	1	6
27	Legal Aspects used in Work Completion of the Bank	1	1
28	Fundamental of Credit Risk Management as per Basel Principles	1	4

5.2 International Training for Employees (FY 2022/23)

Table 14: Details of International Trainings

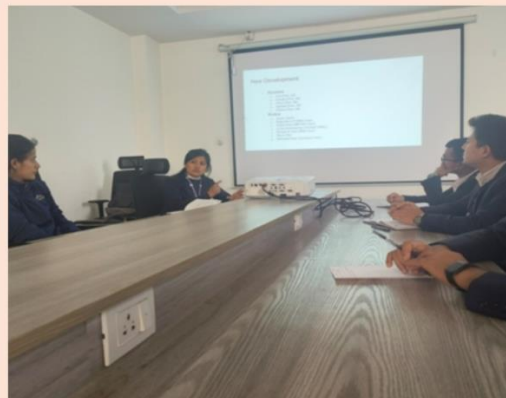
S.N.	Name of Training	No. of Participants from NBFISD	No. of Days	Mode of Training
1	Flagship Seminar on Central Bank Policy Mix	1	2	In-Person
2	Bank Restructuring and Resolution (BR)	1	11	Online
3	SME Banking and Training of Trainer Program	1	5	Online
4	Risk Based Supervision on Non-Bank Financial Institutions.	5	1	Online
5	Financial Stability and Systematic Risk	3	5	Online
6	Digital Financial Services Supervision for Financial Inclusion	2	5	Online
7	Business Development Plan for Primary Agricultural Cooperative Society	1	4	In-Person
8	Conclave of CEOs of Banks/FIs from Nepal	1	3	In-Person
9	Climate Risk: Impact on Financial Stability & Inclusion	4	5	Online
10	25th SEACEN FSI Conference & Meeting of Directors of Supervision of SEACEN Members	1	2	In-Person

5.3 Knowledge Sharing Programs (FY 2022/23 - Departmental)

Table 15: Details of Knowledge Sharing Programs

S.N.	Subject	Date (B.S.)	Resource Person
1.	Knowledge Sharing on AML/CFT related provisions	2079/04/31	Deputy Director Sworup Shrestha (FIU), Assistant Director Abhiyan Upadhyay (BSD)
2.	Knowledge sharing on the Draft of NRB Foreign Exchange Transaction and Supervision Bylaws, 2079	2079/09/14	Director Birendra Datta Awasthi (NBFISD)
3.	Knowledge Sharing on FXOL System	2079/11/21	Assistant (IT) Jayshree Maharjan (ITD)
4.	Knowledge Sharing on Onsite Inspection Process and Report Writing	2080/03/10	Deputy Director Sachin Raj Piya (NBFISD)

Glimpses of Knowledge Sharing



5.4 Interaction Programs with Stakeholders (FY 2022/23)

Table 16: Details of Interaction Programs

S. N.	Name	Participants	Resource Persons	Venue
1.	Interaction with the Department employees on regulatory provisions and supervisory issues (1 day) (2079/08/09)	All the staff of the Department	<i>Director Basu Dev Bhattarai (FEMD), Deputy Director Manoj Pokharel (NBFISD), Deputy Director Sachin Raj Piya (NBFISD)</i>	<i>Bhaktapur</i>
2.	Interaction with Associations of the licensed institutions on Reporting and AML/CFT related provisions (1 day)(2079/11/26)	Officials of the Associations of institutions licensed to carry our foreign exchange transactions	<i>Deputy Director Padam Raj Regmi (NBFISD), Deputy Director Sachin Raj Piya (NBFISD)</i>	<i>Kathmandu</i>
3.	Interaction with the top management of remittance companies on supervisory issues and AML/CFT issues (1 day)(2080/03/01)	Officials of remittance companies	<i>Deputy Director Sworup Shrestha (FIU), Deputy Director Sachin Raj Piya (NBFISD)</i>	<i>Kathmandu</i>
4.	Interaction with the stakeholders and employees of institutions licensed to carryout foreign exchange transactions on foreign exchange transaction and contemporary issues (1 day)(2079/11/12)	Officials of institutions licensed to carry out foreign exchange transactions	<i>Deputy Director Manoj Pokharel (NBFISD)</i>	<i>NRB Siddharthanagar</i>

Glimpses of Interaction Program



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Annexure

Annexure 1: Remittance Inflow (USD million)	
Year	Amount
2017/18	3,971.81
2018/19	4,343.22
2019/20	4,228.43
2020/21	4,420.12
2021/22	4,529.25
2022/23	5,530.86

Annexure 2: CFC Exchanged by Money Changer	
Year	Amount (USD million)
2017/18	322.04
2018/19	298.07
2019/20	289.06
2020/21	89.02
2021/22	121.26
2022/23	230.74

Annexure 3: CFC Exchanged by Money Changer (M-o-M)		
Month	2021/22 (USD million)	2022/23 (USD million)
Aug	5.39	6.99
Sep	8.19	16.95
Oct	10.15	27.48
Nov	7.41	22.01
Dec	9.33	21.35
Jan	11.03	21.31
Feb	11.70	24.02
Mar	18.43	24.81
Apr	14.75	28.38
May	12.94	17.11
Jun	6.48	8.91
Jul	7.63	11.43

Annexure 4: CFC Received by Trekking	
Year	Amount (USD million)
2017/18	85.42
2018/19	91.98
2019/20	59.41
2020/21	17.14
2021/22	40.00
2022/23	86.17

Annexure 5: CFC Received by Trekking (M-o-M)		
Month	2021/22 (USD million)	2022/23 (USD million)
Aug	0.78	5.17
Sep	1.29	8.72
Oct	2.50	10.00
Nov	1.68	7.49
Dec	1.29	4.78
Jan	1.09	3.77
Feb	2.53	5.10
Mar	9.37	15.09
Apr	8.06	11.66
May	4.64	6.30
Jun	4.39	4.92
Jul	2.39	3.15

Annexure 6: CFC Received by Travel and Tour	
Year	Amount (USD Million)
2017/18	318.47
2018/19	186.36
2019/20	128.81
2020/21	20.51
2021/22	31.79
2022/23	88.03

Annexure 7: CFC Received by Travel & Tour		
(M-o-M)		
Month	2021/22 (USD Million)	2022/23 (USD Million)
Aug	1.05	3.76
Sep	0.91	5.12
Oct	1.68	8.47
Nov	2.21	9.69
Dec	2.29	7.40
Jan	1.50	5.39
Feb	1.69	6.52
Mar	3.52	10.41
Apr	5.17	10.59
May	4.58	9.13
Jun	4.19	6.86
Jul	3.01	4.68

Annexure 8 :Foreign Currency Transactions of Airlines			
(USD million)			
Year	Sales		Repatriation
	Airlines	Cargo	
2017/18	186.78	4.80	87.89
2018/19	234.16	2.17	21.70
2019/20	150.49	231.04	214.77
2020/21	78.14	3.59	4.16
2021/22	138.77	4.15	4.57
2022/23	166.65	2.83	6.30

Annexure 9 : Foreign Currency Transactions of Cargo		
(USD million)		
Year	Total Sales	Repatriation
2017/18	5.26	4.81
2018/19	18.98	15.40
2019/20	66.13	48.86
2020/21	53.12	31.59
2021/22	27.27	9.53
2022/23	8.96	6.55

Annexure 10: CFC Received by Hotels	
(USD million)	
Year	Amount
2017/18	41.71
2018/19	34.69
2019/20	23.11
2020/21	2.59
2021/22	12.12
2022/23	27.22

Annexure 11: CFC Received by Other	
Businesses(USD million)	
Year	Amount
2017/18	10.38
2018/19	11.25
2019/20	6.33
2020/21	4.63
2021/22	15.20
2022/23	7.02
