

नेपाल राष्ट्र बैंक

**NON-BANK FINANCIAL INSTITUTIONS
SUPERVISION REPORT
2023/24**



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

Non-Bank Financial Institutions Supervision Report

2023/24



Nepal Rastra Bank

Non-Bank Financial Institutions Supervision Department

Baluwatar, Kathmandu, Nepal

March, 2025

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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
INR	Indian Rupees
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 the 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

Message from the Executive Director

Dear valued stakeholders,

It is my honor and privilege to present the Non-Bank Financial Institutions Supervision Report 2023/24 to you. This report marks another milestone in the journey of the Department since its establishment in Fagun, 2078 BS. It highlights the activities carried out by the Department during the last fiscal year in its role as the supervisor of non-banking entities licensed by Nepal Rastra Bank (NRB).

The establishment of this Department is a testament to NRB's unwavering commitment to strengthening its supervisory role. The Department has been entrusted with the mandate of inspecting, supervising, and monitoring institutions engaged in foreign exchange transactions, as well as other non-bank financial institutions licensed by NRB. Previously, these institutions were supervised through various Departments of NRB. However, recognizing their growing importance in the overall financial system, a dedicated supervision Department was established within the Bank. NRB aims to supervise these institutions more effectively, in line with its objectives of ensuring financial sector stability and external sector stability.

This fiscal year, the Department expanded its scope of supervision to include the oversight of remittance activities conducted by Banks and Financial Institutions, a significant step toward enhancing transparency and compliance in this critical area. This new initiative underscores our commitment to ensuring the integrity and efficiency of remittance services, which play a vital role in Nepal's economy.

The Department supervises licensed institutions under its purview through both onsite and offsite mechanisms. During the review period, the Department conducted regular and follow-up inspections. Based on the findings, necessary directions were issued to the concerned institutions to ensure compliance with regulatory provisions. The Department has also been actively following up with these institutions to ensure the enforcement of the given directions. Additionally, the Department regularly reviews transaction and financial data submitted by these institutions. While the supervisory approach remains primarily compliance-based, areas such as corporate governance, risk management, and internal controls are also assessed.

The Department is committed to fulfilling its mandate effectively. Beyond onsite and offsite supervision, we have conducted interaction programs and meetings to enhance our

understanding of relevant issues and to communicate supervisory expectations to stakeholders, including senior management and Association members of the licensed institutions. Furthermore, our staff members have participated in capacity-building programs, including domestic and international trainings, to strengthen their expertise. The Department has also coordinated closely with other regulatory Departments and the Financial Intelligence Unit on matters related to regulatory provisions and supervision.

I would like to take this opportunity to extend my heartfelt gratitude to the Respected Governor and Deputy Governors for their unwavering encouragement and guidance. My sincere thanks also go to all Executive Directors and concerned authorities for their continuous support. I am deeply grateful to our valued stakeholders for their cooperation and support, which have been instrumental in enabling the Department to carry out its supervisory duties effectively.

I would also like to acknowledge the hard work and dedication of Policy Planning Unit and Offsite Unit, particularly Deputy Director Sachin Raj Piya and Assistant Director Suprima Poudel, for their contributions to this report. Finally, I extend my appreciation to all the staff members of the Department for their commitment and tireless efforts in fulfilling their responsibilities and bringing this report to fruition.

Warm regards
Chet Prasad Uprety
Acting Executive Director

Executive Summary

1. 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 global 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 supervision 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 carry out 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 system.
9. In the fiscal year 2023/24, the Department carried out a total of 158 onsite inspections, 22 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 more than 50 percent of the total remittance inflows. The region-wise inflow of remittance shows that the top remittance source region for Nepal is Middle East, which occupies 41.88% share of the inward remittances.
11. Department organized four knowledge sharing programs and four interaction programs in the fiscal year 2023/24. 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.
12. The Department conducted several interaction programs with the stakeholders and knowledge sharing programs among the staff members. These programs enhanced the part of Department's effort to understand the risks, pertaining to issues in the relevant sectors. The activities carried out by the Department are geared towards achieving Nepal Rastra Bank's objectives of maintaining financial sector and external sector stability.

1. Introduction

1.1 Background

Non-bank financial institutions (NBFIs) provide financial services to individuals and businesses without holding a banking license. While their offerings may resemble those of banks, they typically cannot accept public deposits or offer checking/current accounts. NBFIs come in various forms, from large corporations to small independent entities. They serve as an important alternative to traditional bank financing and play a key role in supporting the broader economy. NBFIs contribute to financial inclusion, aid small businesses, and broaden the range of financial services available. The main types of NBFIs include insurance companies, pension funds, investment funds, finance/loan companies, mortgage lenders, and trust companies. The prevalence and types of NBFIs in a country depend on its economic structure and level of financial sector development. Although they aren't as heavily regulated as banks, NBFIs are typically supervised by national authorities, including the central bank.

1.1.1 NBFIs in the Global Financial System

The NBFIs sector consists of a wide range of institutions, from asset management companies and insurance firms to hire purchase companies. Over the past few decades, especially following the global financial crisis, the sector has seen significant growth. While NBFIs held around a 40% share of global financial assets before the crisis, they now account for nearly half of them. On a global scale, NBFIs have become key players in financial intermediation, driving capital flows to emerging and developing markets. They have also acted as stabilizers during times of economic stress, providing loans when bank lending typically decreases. Furthermore, the NBFIs sector plays an essential role in promoting financial inclusion, risk pooling, funding diversification, and increasing competition. However, as highlighted in the IMF's Global Financial Stability Report, the expansion of the NBFIs sector has introduced new vulnerabilities to the financial system, including higher leverage, liquidity mismatches, and increased interconnectedness with the banking sector.

As per Financial Stability Board's Global Monitoring Report on Non-Bank Financial Intermediation 2024, the NBFIs sector grew by 8.5% in 2023 to reach USD 238.8 trillion, raising the NBFIs share of total global financial assets from 47.2% to 49.1%. The growth of the NBFIs sector was largely due to mark-to-market instruments, which rebounded after a

significant decrease in 2022. Likewise, the investor inflows to NBFIs also contributed to the increase. The narrow measure of NBFIs, which includes institutions that are involved in credit intermediation activities and may pose bank-like financial stability risks, has also reached USD 70.2 trillion in 2023, representing 29.5% of total NBFIs assets and 14.6% 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 90.63 percent and the total Deposit to GDP ratio was 113.86 percent as of Asar end, 2081. While much smaller in size and significance, 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 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) respectively. Some major NBFIs operating in Nepalese Financial System are as follows:

- a) *Insurance companies*: A total of 37 insurance companies are operating in Nepal as on mid-July, 2024. Among them are 14 life insurance companies, 14 non-life insurance companies, 2 reinsurance companies and 7 micro insurance companies (3 micro life insurance and 4 micro non-life insurance 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 29 merchant bankers, 21 mutual funds and 90 stock brokers operating in Nepal as on mid-July, 2024. 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 accept deposits from their members and provide credit to them for various purposes. One of the important source of fund for these cooperatives is fund borrowed from National Cooperative Bank Ltd. or Microfinance companies.
- 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 loans to individuals and companies. These loans include loans for the purchase of equipment, machineries and vehicles. There are 10 Hire Purchase Companies in Nepal as on mid-July, 2024. These Hire Purchase Companies are regulated and supervised by NRB.
- g) *Hydroelectricity Investment and Development Company Ltd (HIDCL)*: HIDCL is a public enterprise established 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, 2024, HIDCL has provided Rs. 7.35 billion loan to hydropower projects.
- h) *National Cooperative Bank Ltd (NCBL)*: NCBL is the only cooperative bank in Nepal. It accepts deposits from its member cooperative institutions, as well as, provide various types of loans to these institutions. As per the mid-July, 2024 financial figures, NCBL mobilizes the deposit of Rs. 61.07 billion and has provided loan of Rs.26.51 billion to its member cooperatives.

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

1.2.1 Establishment and Timeline of the Department

The Department was established on Fagun 1st, 2078 with the mandate of inspection and supervision of the following licensed institutions:

- Institutions licensed to carry out foreign exchange transactions
- Hire Purchase Companies
- Hydroelectricity Investment and Development Company Limited
- National Cooperative Bank Limited



Figure 1: Timeline of the Department

1.2.2 Departmental Responsibilities/ Functions

The responsibilities/functions of the Department are as follows:

- Carry out onsite inspections (regular/ full-scope, targeted, follow-up and special) based on the annual plan.
- Monitor transactions of the licensed institutions through offsite surveillance.

- c) Carry out enforcement actions as needed.
- d) Obtain data and reports on regular basis as well as when needed.
- e) Organize workshops and interaction programs with various stakeholders in the matters related to the Department’s functions.
- f) Coordinate with FIU and other agencies on the relevant issues.
- g) Provide policy feedbacks to the regulatory departments of NRB.

1.2.3 Organogram

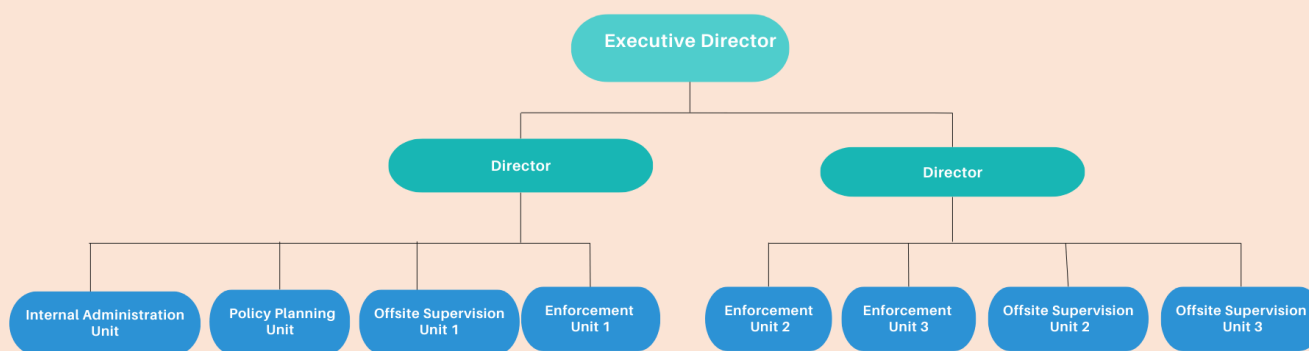


Figure 2: Organogram of the Department

1.2.4 Department Staffing

As of the Poush end, 2081, the Department is staffed with a total of 28 employees, led by the 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.	Deputy Director	9
4.	Assistant Director	9
5.	Head Assistant	2
6.	Assistant	4
7.	Subordinates	2
Total		28

1.3 Objectives of Inspection and Supervision:

The main objectives for the inspection and supervision of NBFIs under the supervisory purview of NBFISD are as below:

- To ensure that these institutions comply with relevant laws, regulation, bylaws and directives while conducting transactions.
- To review and assess corporate governance, internal control and risk management in the licensed institutions.
- To review and evaluate financial condition and operational processes of the licensed institutions.
- To provide appropriate directions based on inspection findings and to carry out enforcement actions if needed.

1.4 Existing Guiding Documents

The inspection and supervision 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 Non-Bank Financial Institution Inspection and Supervision Bylaws, 2081
4. Nepal Rastra Bank Remittance Bylaws, 2079
5. Nepal Rastra Bank Money Changer Licensing and Inspection Bylaws, 2077
6. Foreign Exchange Transaction Licensing and Inspection Bylaws, 2077
7. Circulars issued by Foreign Exchange Management Department
8. Policy and Procedural Provisions for License Approval of Hire Purchase Companies, 2070
9. Licensing Terms and Conditions
10. 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. To inform the stakeholders about the Department's scope, structure and process of inspection and supervision.
2. To present financials and transaction details of licensed companies based on the reported data for the fiscal year 2023/24.
3. To inform about the supervision related activities carried out by the Department during the fiscal year 2023/24.

1.6 Scope and Limitations of the Report

This Report mainly covers the inspection and supervision related activities carried out by the Department during the fiscal year 2023/24. The financial analyses presented in the Report are mainly based on the audit reports submitted by the licensed institutions. The transaction details 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 Poush end, 2081 BS if not stated otherwise.

The information provided in this Report are mainly of general nature and are not intended to address or depict specific circumstances of any particular individual or institution. Furthermore, the Report should not be interpreted as professional, financial or legal advice.

While the majority of the data pertains to the fiscal year 2023/24, some information may not correspond exactly to this period due to the nature and availability of data. It is also important to note that the data or other materials in the Report are not guaranteed to align perfectly with other officially published information.

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 are as follows:

S.N.	Licensed Institutions	Supervision Department (Previous)
1.	Institutions carrying out foreign exchange transactions (Remittance companies, Remittance service providing banks, Money changers, Hotels, Travel and Trekking agencies, Airlines, Cargo companies and others)	Foreign Exchange Management Department
2.	Hire Purchase Companies	Finance Company Supervision Department*
3.	Hydroelectricity Investment and Development Company Limited (HIDCL)	Bank Supervision Department
4.	National Cooperative Bank Limited (NCBL)	Microfinance Institutions Supervision Department

* Now merged to form Financial Institutions Supervision Department

2.2 Supervision Methodology

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. NRB Non-bank Financial Institutions Supervision Bylaw, 2081 has been implemented to make the inspection and supervision more effective.

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

Onsite Inspection

The Department mainly conducts the following types of inspection:

- **Regular or Full-Scope Inspection:** This is a regular inspection conducted by the Department based on the approved annual plan. The regular inspections conducted at licensed institutions such as remittance companies and hire purchase companies 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 agencies trekking agencies and cargo companies that are licensed to accept foreign exchange are mainly limited to foreign exchange transactions carried out by these institutions.
- **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 is 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.

Supervision Tools and Techniques

In the course of onsite inspection, the inspection team may use following tools and techniques:

- **Checklist:** The team may use detailed checklist for compliance and inspection areas.

- **Sampling:** Sampling of transactions, records, or customer files may be necessary as it is not feasible to review all of them. Likewise, sampling may be needed for the visit of branches or subagent outlets.
- **Interviews:** Inspection team may discuss with board members, management, employees or subagents during the inspection.
- **Documents review:** Review of documents is an important of onsite inspection. The team reviews documents such as board minutes, policies & procedures, audit reports, bank statements, agreements etc.
- **System and Software review:** The team may review the safety and integrity of IT Systems and software such as accounting software, core banking software and remittance software implemented by the concerned institutions.

2.3 Structure of the Department

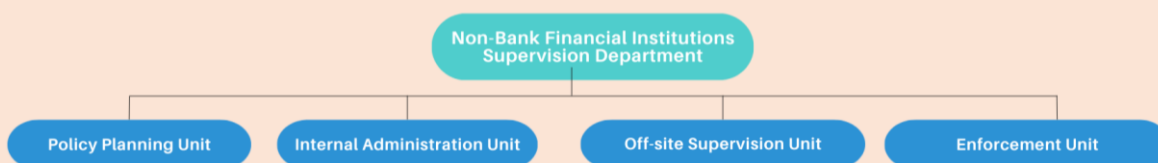


Figure 3: Units under the Department

The Department has established various units to support its inspection and supervision functions. Currently there are four units in the Department: Policy Planning Unit, Offsite Supervision Unit, Enforcement Unit and Internal Administration Unit. These Units coordinate with each other to carry out the following supervision functions of the Department.

2.3.1 Onsite Inspection Function

The Department conducts onsite inspections based on Nepal Rastra Bank Non-bank Financial Institution Inspection and Supervision Bylaws and as per the approved annual plan. Besides, it may carry out special inspections as deemed necessary. 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.

2.3.2 Enforcement Function

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

2.3.3 Offsite Supervision Function

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.

2.3.4 Internal Administration and Policy Planning Function

The Internal Administration and Policy Planning units support other units and serve as the back office.

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

- To propose the upcoming year's annual plan and prepare quarterly progress report for the current year's Plan
- To record the information regarding inspection activities conducted by the Department
- To maintain and update risk register of the Department
- To receive and provide policy feedbacks from and to other Departments
- To propose the department's budget and monitor budget spending.
- To obtain annual HR quota and position details from HRMD and make necessary arrangements for internal placement of the available human resources.
- To make necessary procurement and supply logistics to the concerned units.
- To issue travel orders for inspection and other deputation as well as recommend to Financial Management Department for necessary payment to vendors and suppliers.
- To organize interaction programs as per the approved annual plan.
- To organize meeting with internal and external parties as per the departmental need.

2.4 Institutions under Department's Supervisory Scope

2.4.1 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 subagents 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 a substantial portion of the total remittance inflows. A

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

As on Fagun end, there were 26 licensed remittance companies. Out of these companies, the following 24 were active (not expired for more than 6 months as on Poush end, 2081):

Table 2: List of Remittance Companies

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

Source: FXOL System as on Poush end, 2081

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, 2025 is as below:

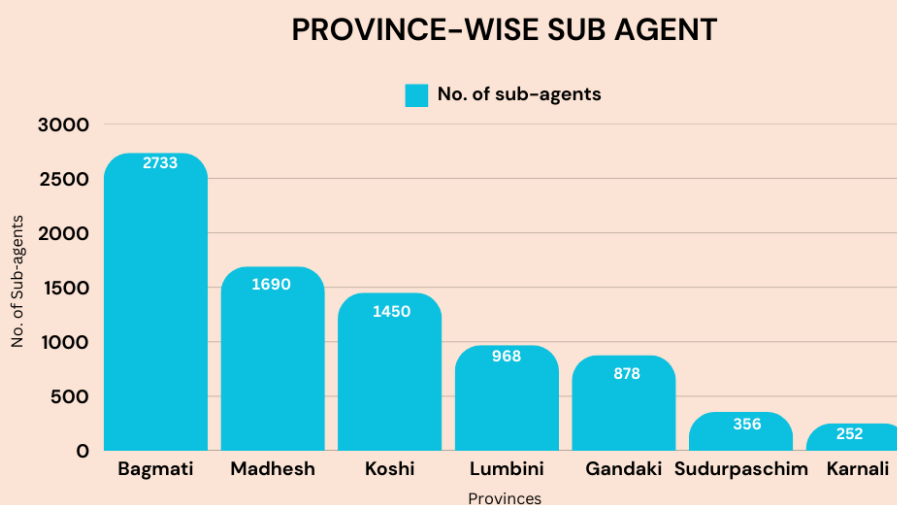


Figure 4: Province-wise number of sub-agents**2.4.2 Money Changers**

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 & Sale	INR - Buy and Sale
FEMD	135	16	0	151
Biratnagar	1	0	58	59
Janakpur	0	3	5	8
Birgunj	4	2	9	15
Pokhara	35	0	0	35
Siddarthanagar	0	9	35	44
Nepalgunj	0	0	9	9
Dhangadhi	0	0	2	2
Total	175	30	118	323

Source: FXOL System as on Poush end, 2081

2.4.3 Other Companies Licensed to carryout Foreign Exchange Transactions

NRB provides foreign exchange license to institutions such as hotels, travel agencies, trekking agencies, airlines, cargo companies 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	55	46	146	714	1421	31	2,413
Biratnagar			4		1	2	7
Janakpur			1				1
Birgunj			5				5
Pokhara			26	19	24	6	75

Siddarthanagar			6	4	1	1	12
Nepalgunj			3		1		4
Total	55	46	191	737	1448	40	2,517

Source: FXOL System as on Poush end, 2081

2.4.4 Other NBFIs

a) Hire Purchase Companies

Hire purchase companies are those companies 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	M.A.W. Hire Purchase Pvt. Ltd.
2	Batas Hire Purchase Pvt. Ltd.	7	Omni Hire Purchase Pvt. Ltd.
3	Hulas Fin Serve Hire Purchase Pvt. Ltd.	8	Sipradi Hire Purchase Pvt. Ltd.
4	Jagadamba Hire Purchase Pvt. Ltd.	9	Syakar Hire Purchase 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 loans to its member cooperative institutions. Its central office is located in Pulchowk, Lalitpur and it has 68 branches

c) HIDCL

HIDCL is a state-owned enterprise established with the primary objective of mobilizing funds for the investment in 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 specified sectors. Besides investing in hydropower projects as a part of consortium financing with other BFIs, the company has made equity investments

in several hydropower companies. The Government of Nepal holds the majority share in the company.

2.5 Onsite Inspections Details

2.5.1 NBFISD

Table 6: Onsite Inspections conducted by NBFISD in FY 2023/24

Licensed Institution	No. of Inspection		
	Regular	Follow-up	Total
NCBL	1	-	1
HIDCL	1	-	1
Hire Purchase Companies	8	-	8
Commercial Bank	8	-	8
Remittance Companies	16	8	24
Money Changers	49	1	50
Airlines	6	-	6
Cargo	4	-	4
Hotel	23		23
Travel	14		14
Trekking	15	-	15
Others	4	-	4
Total	149	9	158

Note: Out of total 158 inspections, 22 were conducted outside the Kathmandu Valley

2.5.2 NRB Provincial Offices

Table 7: Onsite Inspections conducted by Provincial Offices in FY 2023/24

Office	Money Changers	Hotel	Travel	Trekking	Others	Total
Biratnagar	16					16
Janakpur	9	1	-	-	-	10
Birgunj	7					7
Pokhara	24	16	12	8	4	64
Siddharthanagar	17					17
Nepalgunj	9	1	-	1	-	11
Dhangadi	0	-	-	-	-	0
Total	82	18	12	9	4	125

Source: FXOL System

2.6 Major Issues

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

- Issues with corporate governance and risk management
- Weak internal control system
- Lack of adequate internal policies and procedures
- Lapses in record keeping
- Weaknesses in agent and transaction monitoring
- Lack of proper credit appraisal
- Monthly reports not submitted on time
- Weak and inadequate grievance handling mechanism
- 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.

2.7 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.

2.7.1 Upgrading FXOL System

- **Location mapping:** The exact location of reporting companies is marked in the map. Different categories of reporting entities can also be filtered. Location of over 1200 institutions have been added till Poush end, 2081 BS.
- **Inspection module:** This module has allowed for listing inspections done by the department and provincial offices.
- **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 basis. 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, Hire purchase companies and NCBL submit their financial details through NRB Reporting and Analytics System. Further, the Department also obtains 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 as of Poush end, 2081 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 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 a significant portion of the total remittance inflows.

A substantial 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 remittance is given below:

Table 8: Aggregate Financial Data of Remittance Companies

Particulars	Amount (in Billion Rupees)		Percent Change
	FY 2023/24	FY 2022/23 (Revised)	
Total Assets	12.92	12.11	6.68%
Paid Up Capital	2.94	2.68	10.09%
Total Liabilities	8.56	7.78	10.02%
Reserve and Surplus	1.40	1.67	-16.12%
Total Income	3.15	3.69	-14.68%
Total Expenses	2.90	3.39	-14.62%
Net Profit (Loss) Before Tax	0.25	0.29	-15.45%

Source: Annual Reports of Remittance companies

The remittance industry reached the total assets of Rs.12.92 billion as on the fiscal year end 2023/24, a 6.68% increase from the previous year. The industry has aggregate net worth of Rs. 4.34 billion and the aggregate net profit before tax of Rs.0.25 billion as of the fiscal year end. The net worth and the net profit of the industry 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 41.88% share of the inward remittances that come through money transfer companies. Similarly, the second highest remittance source region is Asia-Pacific, which occupies 24.63% share, followed by other regions with 20.24% share in the remittance inflows. The remittance from Middle East, North America and Asia Pacific are declining in market share while remittance from other nations are increasing.

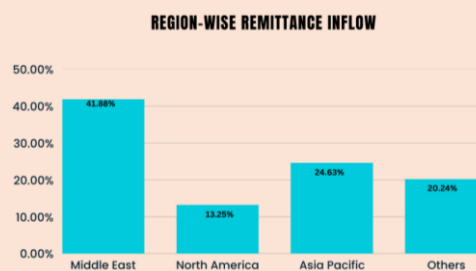


Figure 5: Region-wise remittance inflows

3.1.3 Monthly and Yearly Remittance Inflow Trend

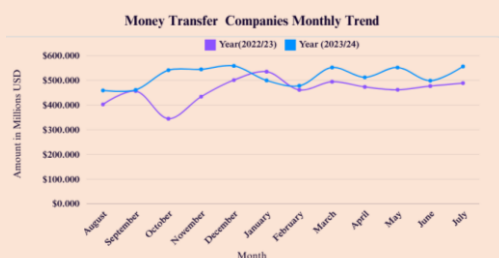


Figure 7: M-o-M FCY inflows from Remittance Companies



Figure 6: Yearly FCY inflows from Remittance Companies

A consistent and gradual growth in the inflow of remittances through remittance companies is seen in the last six 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 2023/24 when compared with FY 2022/23, except in the month of January. Further, the M-o-M data shows highest remittances inflow was in the month of January in FY 2022/23 and in the month of December in FY 2023/24. The Y-o-Y growth was 12.32% in the FY 2023/24 when compared to FY 2022/23.

3.1.4 BFIs Remittance Inflow Trend

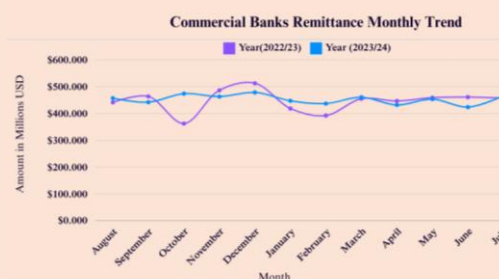


Figure 9: Yearly Remittance from Commercial Banks

Figure 8: M-o-M Remittance from Commercial Banks

The yearly trend of Remittance inflow from BFIs has been mostly been in increasing trend. The monthly trend has however been quite consistent over months in FY 2023/24 as compared to FY 2022/23.

3.2 Money Changers

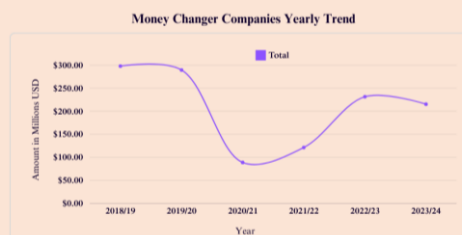
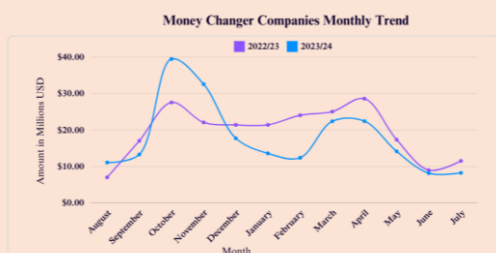


Figure 10: M-o-M CFC transactions by Money Changers

Figure 11: 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 has seen increasing trend from 2020/21 to 2022/23. There has been a slight decrease in transaction in 2023/24. The monthly statistics show that 2023/24 saw highest number of foreign exchange during September/October. This can be attributed to this month being

favorable for tourism activities which led to high number of tourist inflow. March/ April follows the rank as it is also high tourist season in Nepal. June/July/August is observed to be the season with least foreign exchange transactions. This could be result of monsoon and many natural disasters affecting tourism activities in Nepal.

3.3 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 at a high pace in the last three fiscal years as the tourism industry has been recovering.



Figure 12: Yearly CFC transactions by Hotels

3.4 Travel Agencies



Figure 13: Yearly CFC transactions by Travel



Figure 14: M-o-M CFC transactions by Travel Agencies

Foreign currency transactions of Travel agencies fell sharply from FY 2017/18 to FY 2020/21 as reported. 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 after that as the tourism industry gradually recovered. The transaction has increased this year as compared to previous years. However, it hasn't caught up with the pace of transactions prior to COVID phase. The M-o-M data shows that there is monthly fluctuation in foreign exchange income of the travel agencies, with highest transactions reported for the months of March/April and Oct/Nov, the peak tourist seasons in Nepal. The transactions have been higher in all the months of FY 2023/24 except in May, June, July when compared to the previous year.

3.5 Trekking Agencies



Figure 15: M-o-M of CFC transactions by Trekking Agencies



Figure 16: Yearly Trend of CFC transactions by Trekking Agencies

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. In 2023/24, the transaction has slightly increased as compared to last year and can be identified as all-time high in these 6 years. The monthly transaction trend depicts the seasonal nature of the business. While previous fiscal year saw March/April as the season with highest foreign transaction inflow in trekking sector, this year Sep/Oct has seen slightly more number of transactions than March/April. The seasonal trend in very much vivid while comparing transactions of 2 years.

3.6 Airlines

The foreign currency transactions of the airlines 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.

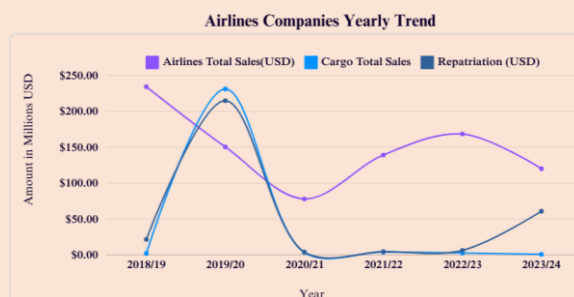


Figure 17: Yearly FCY transactions by Airlines

3.7 Cargo Companies

Unlike other categories of firms licensed to accept foreign currency during their course of business, the cargo companies experienced

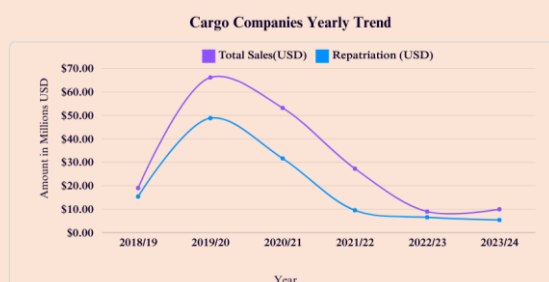


Figure 18: Yearly FCY sales and repatriation by Cargo Companies

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.

3.8 NCBL

The audited financial data of NCBL shows a rise in total funds used from Rs.63.48 billion in FY 2022/23 to Rs.64.66 billion in FY 2023/24. The deposit from customers, the largest source of fund, increased by 4.86 percent to Rs.61.08 billion. The share capital, however, decreased from Rs. 2.81 billion to Rs.2.79 billion. On the assets side, the loans and advances to cooperatives decreased by 29.73% to Rs. 22.24 billion in the FY 2023/24.

Table 9: Financials of NCBL

Particulars	FY 2023/24	FY 2022/23	Percentage
	(Rs. in billion)	(Rs. in billion)	Change
Total Assets	64.66	63.48	1.84%
Cash and Cash Equivalent	19.04	15.86	20.06%
Deposit at NRB	0.33	0.32	1.21%
Deposit at BFIs	13.37	6.58	103.27%
Loans and Advances to	22.24	31.65	-29.73%
Secured assets investment	6.30	7.39	-14.75%
Tax Assets	0.37	0.33	13.22%
Investment assets	1.11	0.14	705.60%
Property and equipment	0.58	0.63	-8.06%
Other Assets	1.31	0.59	121.72%
Total Capital and Liabilities	64.66	63.48	1.84%
Deposit from Customers	61.08	58.25	4.86%
Other Liabilities	0.51	0.40	26.75%
Share Capital	2.79	2.81	-0.67%
Retained Earnings	-3.40	-0.08	-4,048.38%
Reserves and Surplus	3.68	2.11	74.13%

Source: Annual Report 2023/24, NCBL

3.9 HIDCL

As per the audited financials of HIDCL, the company's share capital increased from Rs. 22.78 billion to Rs. 22.87 billion in FY 2023/24. The share capital is the main source of funds for the company. The loan to power projects decreased from Rs. 8.95 billion in FY 2022/23 to Rs. 6.84 billion in FY 2023/24. Term deposits increased by 11.45% to Rs. 13.78 billion in FY 2023/24. 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 billion)		Growth (Percentage)
	2023/24	2022/23	
Sources of Fund	26.83	25.42	5.55%
Share Capital (including advance)	23.13	22.82	1.36%
Reserves	2.03	0.89	128.09%
Retained Earnings	1.24	1.37	-9.49%
Current Liabilities	0.24	0.22	9.09%
Non-Current Liabilities	0.19	0.12	58.33%
Uses of Fund	26.83	25.42	5.55%
Cash and Bank Balance	1.27	0.43	195.35%
Term Deposits with Banks	13.79	12.37	11.48%
Loan to Power Projects	6.85	9.04	-24.23%
Property, Plant and Equipment	1.07	0.97	10.31%
Other Assets	3.85	2.61	47.51%

Source: Annual Report 2023/24, HIDCL

3.10 Hire Purchase Companies

According to Policy and Procedural Provisions for License Approval of Hire Purchase Companies, 2070 (fourth amendment, 2080), the minimum paid-up capital required for hire purchase companies is Rs.30 crores. As per the aggregate data obtained from combining the financials of the 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, 2024 (Rs. in billion)	Mid-July, 2023 (Rs. in billion)	Growth (Percentage)
Sources of Fund	22.42	21.25	5.48%
Share Capital	3.70	3.7	0.00%
Reserves and Surplus	2.70	2.28	18.47%
Borrowings	12.76	10.65	19.79%
Other Liabilities	3.26	4.62	-29.51%
Uses of Fund	22.42	21.25	5.48%
Cash and Bank	0.70	0.58	20.39%
Loan and Advances (Net)	19.01	18.65	1.91%
Fixed Assets	0.32	0.32	-0.56%
Other Assets	2.39	1.69	41.57%

Source: Annual Report of respective companies, 2023/24

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 are 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

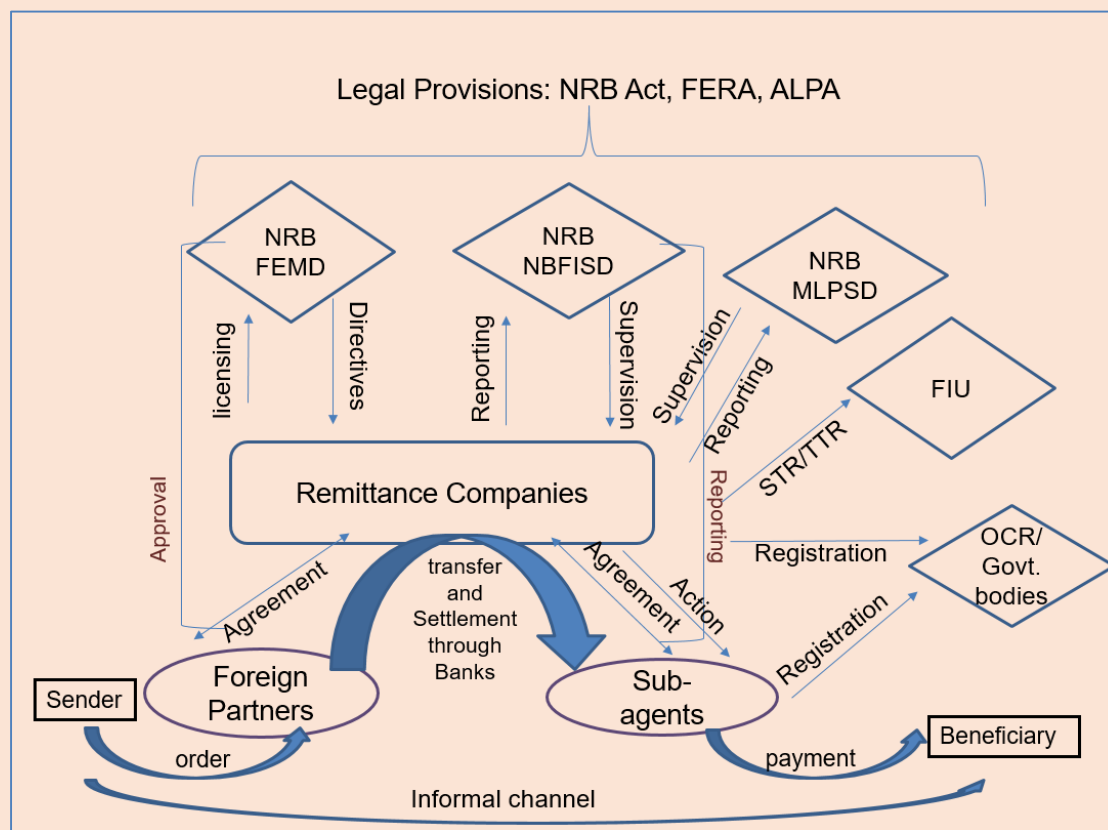


Figure 19: Remittance Ecosystem (Nepal)

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 2023/24

S.N.	Circular	Issue Date	Amended Circular No.	Amended Provision
1	09/2080-81	2080/12/02	24/2080	In addition to "Indo-Nepal Remittance Facility Scheme", Nepalese citizens can receive remittances from India via Indian bank accounts using e-banking, internet payments, mobile banking, QR code-based National Payment Switch, and directly deposits into personal accounts in Nepalese banks.
2	05/2080-81	2080/09/12	07/2079	For terminating a remittance transaction agreement, the remaining amount from the prefunded balance can be returned without the bank's approval for amounts up to USD 15,000. This requires approval of the remittance agreement, a request from the foreign party, the account's bank statement, and the SWIFT message of the received amount from the last six months.
			12/2079	Licensed institutions should take a copy of FEER while accepting Nepalese currency from foreigners.
			12/2079	If the foreigner has worked for more than 6 months in an international association organization or diplomatic mission and has stayed in Nepal, the payment of bills other

				than international flight and cargo can be taken in Nepali rupees from those foreigners.
			12/2079	Organizations such as travel agencies, trekking agencies, cargo courier agents, hotels, etc. must bring repatriation from abroad into the country within 30 days of the foreign exchange transaction. Also, the related details should be sent to Nepal Rastra Bank Foreign Exchange Management Department within 15 days after the end of every quarter.
			17/2079	Moneychangers licensed to sell foreign currency can withdraw amount in foreign currency from BFIs in condition of submitting the required details later to the BFI.
			24/2079	No licensed institutions can bring in currency from abroad for remittance or other purpose by mentioning amount in NPR only
			24/2079	Individuals/ entities/ firms can bring amount up to 20 lakhs per day for various purposes through remittance companies
			26/2079	Entities licensed to carry out foreign exchange required to issue FEER on every transactions
3	04/2080-81	2080/08/25		Revision in Foreign Exchange Transactions Licensing and Supervision Bylaws, 2077

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 preapproval from NRB before amendment of the institution's Article of Association
- 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%.
- 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 License Approval of 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.
- Not allowed to borrow more than 10 times of their net worth.
- Maintain the interest rate spread within 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%
- Maintain the loan to value (LTV) ratio of 80%
- Non-Bank Bylaws

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

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 NBFIs 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 NBFIs 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	NFRS Training	2	1
2	Risk Based Internal Audit	1	5
3	AML CFT Regime in Nepal	2	5
4	Ethics and Behavior in Organization	1	2
5	SIS Operation and Technical Matters	1	3
6	Macroeconomic Management in Nepal	1	6
7	Central Banking Training	1	6
8	Risk Based Supervision	3	6
9	Research Methodology and Report Writing	1	6
10	Central Banking Training for Officer	1	6
11	Macroeconomic Modeling & Forecasting	1	6
12	Central Bank's Law & Application in Department Level Decision Making	1	3
13	Management Development Program	2	6
14	Risk Based Supervision	2	6
15	Ethics and Behavior in organization	1	2

16	Central Banking Training	1	6
17	Planning, Budgeting and Risk Management	1	3
18	Organizational Behavior	1	4
19	Foreign Exchange Management in Nepal	1	3
20	Secretariat Training	1	3
21	Cyber Security Issues in Payment and Settlement System in Nepal	1	3
22	Protocol Management	1	2

5.2 International Training for Employees (FY 2023/24)

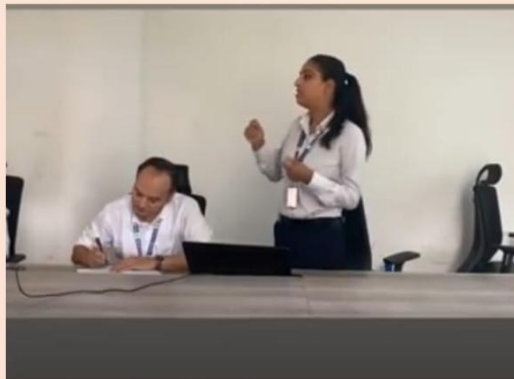
Table 14: Details of International Trainings

S.N.	Name of Training	No. of Participants from NBFISD	No. of Days	Mode of Training
1	Supervisory Assessment of Financial Risks out of Climate Change Program	1	4	In-Person
2	SEACEN-BSP-FDIC Course on Regulation and Supervision of Digital Banking	1	4	In-Person
3	Central Banking Training for NRB Employees	1	5	In-Person
4	BOK-KPP Program Interim Seminar	1	6	In-Person
5	SEACEN-CPMI Course on Cross Border Payments and Digital Currencies: The Promise of Technology	2	4	In-Person
6	Overview of functioning of Central Bank of Sri Lanka for the Officer of Nepal Rastra Bank.	1	5	In-Person
7	Business Development Plan for Primary Agricultural Cooperative Society	2	4	In-Person
8	18th EMEAP-BCBS-FSI Asia - Pacific high - level meeting on banking supervision	1	2	In-Person
9	ASEAN Core Curriculum on Climate Risk Resilience/ Sustainable Finance	1	3	In-Person
10	Nepal Rastra Bank Personnel Training Program	1	5	In-Person
11	Agri-Value Chain Financing	2	4	In-Person
12	Management Strategies to develop Consumer Cooperatives	1	4	In-Person

5.3 Knowledge Sharing Programs (FY 2023/24 - Departmental)**Table 15: Details of Knowledge Sharing Programs**

S.N.	Subject	Date (B.S.)	Resource Person
1	Money Changer related policy In SAARC Countries and Unified and Directives issued by Nepal Rastra Bank regarding Forex Exchange transactions	2080/05/13	Assistant Director Suprima Poudel
2	Discussion on FXOL System upgradation in coordination with ITD	2080/09/04	Deputy Director Ramnath Pandit
3	Discussion on Nepal Rastra Bank, Non-Bank Financial Institution Inspection and Supervision Bylaw, 2080	2080/12/20	Deputy Director Sachin Raj Piya
4	A Manual for AML\CFT Supervision of Remittance Companies, 2080	2081/02/14	Deputy Director Sachin Raj Piya

Glimpses of Knowledge Sharing



5.4 Interaction Programs with Stakeholders (FY 2023/24)

Table 16: Details of Interaction Programs

S.N.	Name	Participants	Resource Persons	Venue
1.	Interaction with senior management of remittance companies in regards to issues identified during inspection, reporting to be done, AML/CFT and other contemporary issues. (2081/03/07)	Top level executives of Remittance Companies	<i>Director Dirgha Bahadur Rawal, Deputy Director Sachin Raj Piya</i>	<i>Kathmandu</i>
2.	Interaction with employees of moneychanger companies in regards to issues identified during inspection, reporting to be done, AML/CFT and other contemporary issues. (2080/12/12)	Executives and employees of Money Changers	<i>Deputy Director Manoj Pokharel, Assistant Director Nishan Hitang</i>	<i>Pokhara</i>
3.	Interaction with employees of moneychanger companies in regards to issues identified during inspection, reporting to be done, AML/CFT and other contemporary issues. (2080/09/11)	Executives and employees of Money Changers	<i>Deputy Director Sachin Raj Piya, Assistant Director Safal Shrestha</i>	<i>Birgunj</i>
4.	Training for departmental and province office employees in regards to regulatory provisions and supervisory issues (2080/06/05)	NRB staffs	<i>Deputy Director Manoj Pokharel, Deputy Director Sachin Raj Piya</i>	<i>Kathmandu</i>
5.	Training for the employees of institutions licensed to carryout foreign exchange transactions on FXOL reporting (2080/05/08)	Employees and executives of licensed institutions	<i>Assistant Director Ram Krishna Rai, Assistant Director Nishan Hitang</i>	<i>Biratnagar</i>

Glimpses of Interaction Program



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Annexures

Annexure 1: Remittance Inflow from Remittance Companies	
(USD million)	
Year	Amount
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
2023/24	6,212.71

Annexure 2: Remittance inflow from Remittance Companies (M-o-M)		
(USD million)		
Month	2022/23	2023/24
August	402.72	458.99
September	456.79	461.31
October	344.68	541.20
November	433.93	544.42
December	501.00	558.49
January	535.20	499.49
February	461.31	478.00
March	494.24	551.99
April	473.49	512.24
May	461.75	551.82
June	476.90	498.67
July	488.85	556.09

Annexure 3: Remittance Inflow from BFIs	
(USD million)	
Year	Amount
2018/19	2,479.45
2019/20	3,368.85

2020/21	4,824.97
2021/22	4,767.69
2022/23	5,357.59
2023/24	5,435.14

Annexure 4: Remittance inflow from BFIs (M-o-M)		
(USD million)		
Month	2022/23	2023/24
August	441.52	456.96
September	463.86	442.24
October	362.52	474.20
November	486.49	463.12
December	512.81	478.73
January	418.64	447.42
February	392.44	437.03
March	455.29	460.47
April	446.79	431.81
May	458.88	453.48
June	461.20	423.89
July	457.14	465.79

Annexure 5: CFC Exchanged by Money Changer	
(USD million)	
Year	Amount
2018/19	298.10
2019/20	289.66
2020/21	89.03
2021/22	121.43
2022/23	231.69
2023/24	215.49

Annexure 6: CFC Exchanged by Money Changer (M-o-M)		
(USD million)		
Month	2022/23	2023/24
August	6.997	11.06
September	17.005	13.28
October	27.532	39.45
November	22.062	32.54
December	21.380	17.72
January	21.380	13.57
February	24.033	12.37
March	25.015	22.38
April	28.555	22.41
May	17.321	14.13
June	8.973	8.15
July	11.491	8.23

Annexure 7: CFC Received by Hotels	
(USD million)	
Year	Amount
2018/19	12.17
2019/20	23.11
2020/21	2.60
2021/22	12.17
2022/23	27.63
2023/24	40.44

Annexure 8: CFC Received by Travel Agencies	
(USD million)	
Year	Amount
2018/19	186.55
2019/20	129.18
2020/21	20.53
2021/22	32.09

2022/23	90.99
2023/24	113.45

Annexure 9: CFC Received by Travel Agencies (M-o-M)		
(USD million)		
Month	Year 2022/23	Year 2023/24
August	3.79	4.45
September	5.58	7.87
October	8.89	12.56
November	10.30	13.65
December	7.52	10.70
January	5.47	7.72
February	6.62	8.02
March	10.59	12.24
April	10.74	14.02
May	9.33	9.72
June	6.92	6.71
July	5.23	4.91

Annexure 10: CFC Received by Trekking Agencies	
(USD million)	
Year	Amount
2018/19	91.92
2019/20	59.55
2020/21	17.12
2021/22	40.25
2022/23	88.39
2023/24	97.24

Annexure 11: CFC Received by Trekking Agencies (M-o-M)		
(USD million)		
Month	Year (2022/23)	Year (2023/24)
August	5.22	5.12
September	8.91	10.38
October	10.11	13.97
November	7.60	8.19
December	4.82	4.73
January	3.88	4.98
February	5.21	6.56
March	15.51	12.83
April	11.93	13.44
May	6.50	7.15
June	5.15	4.95
July	3.36	4.61

Annexure 12: Foreign Currency Transactions of Airlines			
(USD million)			
Year	Sales		Repatriation
	Airlines	Cargo	
2018/19	234.34	2.17	21.69
2019/20	150.49	231.04	214.77
2020/21	78.08	3.59	4.16
2021/22	139.26	4.15	4.57
2022/23	168.57	2.83	6.39
2023/24	221.73	4.69	10.12

Annexure 13: Foreign Currency Transactions of Cargo		
(USD million)		
Year	Total Sales	Repatriation
2018/19	19.00	15.41
2019/20	66.20	48.85

2020/21	53.18	31.66
2021/22	27.30	9.55
2022/23	8.99	6.56
2023/24	7.15	5.41

Annexure 14: CFC Received by Other Businesses	
(USD million)	
Year	Amount
2018/19	11.28
2019/20	6.36
2020/21	4.63
2021/22	15.20
2022/23	7.08
2023/24	5.78
