Non-Banking Financial Companies (NBFCs)

3.41 The RBI Act was amended in 1997 in order to address certain disquieting developments in the NBFC sector, and to provide for a comprehensive regulatory framework for the NBFC sector. According to provisions of the amendment, no NBFC can carry on any business of a financial institution, including acceptance of public deposit, without obtaining a Certificate of Registration (CoR) from the Reserve Bank. The Reserve Bank had received applications for CoR from 36,505 NBFCs, of which only 37.8 per cent were granted CoR. Out of the 13,815 NBFCs granted CoR, only 5.6 per cent have been permitted to accept public deposits. Market intelligence and auditors' exception reports constitute the two important tools of the Reserve Bank for supervising NBFCs. Companies accepting public deposits are required to comply with all the directions on public deposits, prudential norms and liquid assets. They are also required to submit periodic returns to the Reserve Bank. The total outstanding public deposits in respect of the 1,005 reporting companies stood at Rs.19,342 crore at end-March 2000, which was equivalent to 2.2 per cent of the aggregate deposits of SCBs.

3.42 Taking into account the downward movement in interest rates, the maximum interest rates payable by NBFCs on the public deposits was reduced from 16 per cent to 14 per cent with effect from April 1, 2001. The ceiling on interest rate on the deposits accepted by the Chit Fund and Nidhi companies was also reduced from 16 per cent to 14 per cent with effect from the same date. The interest rate ceiling has been reduced again to 12.5 per cent with effect from November 1, 2001.