Non-banking financial companies (NBFCs)

3.65 The RBI regulates NBFCs engaged in equipment leasing, hire purchase finance, loan and investment, residuary non-banking companies (RNBCs) and the deposit taking activity of miscellaneous non-banking companies (chit funds). With the amendment of the RBI Act in 1997, it is obligatory for NBFCs to apply for a certificate of registration (COR). As at the end of June, 2004, the RBI received 38,050 applications for registration. Out of these, the RBI approved 13,671 applications, including 584 applications of companies authorised to accept public deposits. The supervisory role of the RBI encompasses on-site inspection, off-site monitoring, market intelligence and exception reports of statutory auditors.

3.66 In recent years, a declining trend has been observed in the number of operating NBFCs owing to strict application of registration norms. The total number of NBFCs declined from 14,077 at end-June 2002 to 13,849 at end-June 2003, and further to 13,671 at end-June 2004. The corresponding decline in the number of deposit accepting NBFCs was from 784 to 710 and further to 584, respectively. The decline in the number of deposit accepting companies was on account of cancellation of COR and conversion of deposit taking companies into non-deposit taking companies and other reasons.

3.67 Public deposits by 875 reporting deposit accepting NBFCs amounted to Rs. 20,100 crore at end-March 2003, up 6.8 per cent from Rs. 18,822 crore (910 reporting NBFCs) at end-March 2002. Three-fourths of these deposits (Rs. 15,065 crore) were accounted for by RNBCs. The dependence of NBFCs (other than RNBCs) on public deposits has gradually declined from Rs.6,460 crore at end-March 2001 (17.2 per cent of total liabilities) to Rs.5,035 crore at end-March 2003 (13.4 per cent of total liabilities). The borrowings of NBFCs (excluding RNBCs) increased from Rs.24,000 crore at end-March, 2002 to Rs.24,480 crore at end-March, 2003. The assets of the NBFCs (excluding RNBCs) witnessed a decline from Rs. 39,833 crore to Rs. 37,709 crore between end-March 2002 and end-March 2003, a decline of 5.3 per cent. Equipment leasing and hire purchase accounted for 39.9 per cent of the total assets of NBFCs at end-March, 2003, while loan and inter-corporate deposits accounted for 35.3 per cent of their total assets. Income and expenditure of NBFCs registered a decline during 2002-03. Income witnessed a decline of 5.1 per cent to Rs. 5,084 crore. Expenditure of NBFCs declined by 15.6 per cent to Rs. 4,491 crore at end-March 2003. The NBFCs posted a net profit of 0.9 per cent of total assets in 2002-03 compared to a loss of 0.5 per cent of the total assets in the previous year.

3.68 Capital adequacy ratio of NBFCs improved marginally, with 93.7 per cent of NBFCs (out of 605 reporting) achieving more than the prescribed 12 per cent capital adequacy ratio in 2002-03 as compared to 93.5 per cent of NBFCs (out of 663 reporting) fulfilling the minimum capital adequacy norm in 2001-02. The gross and net NPAs of the reporting NBFCs have been witnessing a steady decline in recent years. The gross and net NPAs as per cent of credit exposure declined from 10.2 per cent and 7.0 per cent to 8.8 per cent and 2.7 per cent, respectively, between end-March 1999 and end-March 2003.

3.69 The maximum rate of interest that the NBFCs including nidhi and chit fund companies can pay remained unchanged at 11.0 per cent per annum (effective March 4, 2003). The minimum rate of interest payable by RNBCs also remained unchanged at 5 per cent per annum (to be compounded annually) on the amount of deposits received in lump sum or at monthly or longer intervals and at 3.5 per cent per annum (to be compounded annually) on the amount deposited under daily deposit scheme. With a view to rationalising the pattern of directed investments and addressing the systemic risk, the level of investments of RNBCs in Government securities was increased and rating and listing requirements in respect of other approved investments were made mandatory in June, 2004. RNBCs were advised to reduce their discretionary investment to 10 per cent of their deposits by April, 2005 and to completely dispense with it from April, 2006. To avoid systemic risks and for safeguarding the interest of depositors, in its mid-term review of the annual policy statement for 2004-05, the RBI proposed certain measures to improve the functioning of RNBCs. These measures include (i) transparency of operations, especially in the connected lending relationships, (ii) corporate governance standards including professionalisation of the Boards and ensuring ‘fit and proper’ criteria in consonance with the standards in banks, (iii) avoiding untenable rates of commission to agents, (iv) adherence to ‘know your customer’ rules, and (v) customer service in terms of clear indication of the identifiable contact with the field agents so that matters such as unclaimed deposits are appropriately addressed.

3.70 Internationally, acceptance of public deposits is restricted to banks alone and non-banks, including NBFCs, can raise resources from institutional sources or by accessing the capital market only. The RBI is planning to hold discussions with the NBFCs in regard to their plan of action for voluntarily phasing out acceptance of deposits, in line with the international practice.