

Non-banking Financial Companies (NBFCs)

3.31 NBFCs have registered significant growth in recent years both in terms of number and volume of business transactions. NBFCs are purveyors of credit to the sectors where credit gap exists. The equipment leasing and hire purchase finance companies finance productive assets. Their role in financing consumer durables and automobiles by aggressive lending is well-known. Their growth has been fuelled by policy changes in the auto and consumer durable sectors. However, the rapid growth in the business of NBFCs also brought in its wake the need for effective regulatory action to protect the interests of investors.

3.32 The Reserve Bank has started regulating the activities of NBFCs with the twin objectives of ensuring that they subserve the financial system efficiently and do not jeopardise the interest of depositors. In the backdrop of general sickness in the real estate market and some of the industrial activities coupled with steep decline in the value of some of the unquoted shares, the NPAs of NBFCs have registered an upward trend. The profitability of NBFCs has generally come under strain due to mandatory provisioning requirements against NPAs. The provisions in the RBI Act which, till recently were considered inadequate to deal with the growing number of weak and unscrupulous players, were expanded in January, 1997, vesting considerable powers with the Reserve Bank. RBI has put in place a comprehensive regulatory and supervisory framework in order to discharge the heavy statutory responsibilities cast on it with a view to providing indirect protection to the depositors' interest and strengthening the NBFC sector. Registration is being granted to NBFCs on assessment and evaluation of various factors and as per the criteria laid down in the RBI Act. The applications for registration are subjected to thorough scrutiny. RBI has issued upto November 30, 1999, approvals for registration of 641 NBFCs which are permitted to accept

public deposits and to 7322 NBFCs which are non-public deposits taking companies. RBI has rejected the applications of 1370 NBFCs for the grant of such registration. The applications of 26,744 NBFCs are, however, pending because these companies do not have the prescribed minimum net owned fund of Rs. 25 lakh. These applications were, however, subjected to thorough scrutiny. The aggregate public deposits as reported by 1724 NBFCs stood at Rs. 20,237 crore as on March 31, 1998, which constituted 3.4 percent of the aggregate deposits of commercial banks. The requirement of minimum Net Owned Fund (NOF) for any company seeking a Certificate of Registration to commence the business of an NBFC on and from April 21, 1999 has been raised from Rs. 25 lakh to Rs. 200 lakh.

3.33 RBI closely supervises those NBFCs, which accept public deposits, through a comprehensive mechanism comprising on-site examination, off-site surveillance, a sensitive market intelligence system and initiation of necessary supervisory action whenever necessary. The statutory auditors of NBFCs have been directed to report exceptions to compliance with RBI regulations to the Reserve Bank directly for punitive action. RBI has undertaken publicity campaign through print media all over the country to create awareness among the public about do's and don'ts in regard to making deposits with NBFCs. RBI has also been coordinating its efforts with State Government authorities and other enforcement bodies for checking unscrupulous activities of NBFCs and unincorporated bodies accessing public deposits illegally. At the same time, the well-run and managerially sound NBFCs are being encouraged to continue their genuine business operations. Bank credit to the NBFCs for their advances against commercial vehicles has recently been brought under the ambit of priority sector advances. The earlier ceilings on bank credit to NBFCs as a multiple of their NOF have been abolished for NBFCs registered with RBI.