Statement-VI

Restrictions on FDI

(i) Certain sectors such as real estate, plantation, agricultural activities and insurance are not yet open to FDI;

(ii) Based on sector-wise sensitivities, ceilings have been prescribed on the extent of foreign equity participation in certain sectors such as NBFC activities (upto 75% in operating companies), banking (upto 40% in the case of multilateral financial institutions, 20% in the case of other foreign banking companies), civil aviation (upto 40% and no direct or indirect equity by foreign Airlines), telecom services (49%), etc.;

(iii) Trading companies with foreign equity are not allowed to undertake domestic retailing.

Non-Banking Financial Companies

*86. SHRI U.V. KRISHNAMRAJU :

SHRI BHAGWAN SHANKAR RAWAT :

Will the Minister of FINANCE be pleased to state:

(a) the number of non-banking financial institutions/ private banks/plantation companies/agro-based investment companies/chit fund companies functioning in the country presently;

(b) the total amount invested by the investors in these companies during the last three years;

(c) the names of companies against whom the cases of frauds with the public have been registered during the above period;

(d) the action taken by the Government against those companies;

(e) whether the task force set up by the Government on non-banking financial companies has recommended sweeping changes in regulation and operation of these companies;

(f) if so, the details of recommendations made by the task force; and

(g) the steps being taken by the Government to implement the said recommendations and also to protect the depositors?

THE MINISTER OF STATE IN THE MINISTRY OF PERSONNEL, PUBLIC GRIEVANCE AND PENSIONS AND MINISTER OF STATE IN THE MINISTRY OF FINANCE (BANKING, REVENUE AND INSURANCE) (SHRI KADAMBUR M.R. JANARTHANAN) : (a) Pursuant to the amendment to the Reserve Bank of India Act, 1934 in January, 1997 registration of Non-Banking Financial Companies (NBFCs) was made compulsory. Subsequent thereto, 37788 NBFCs applied for registration out of which 7063 NBFCs have been issued registration certificates and 846 applications have been rejected as on 30.11.98. The total number of chit fund companies in the country during the year 1996-97 was 1376. There are 35 private sector banks as on date.

In response to the public notice issued by the Securities and Exchange Board of India (SEBI) issued on 18.12.97, 643 plantation companies have filed information with SEBI.

(b) According to RBI, the total amount invested by the investors in these companies during the last three years is given below:-

(Amount in Rs. Crore)

Year	Aggregate deposits	Public deposits
NBFCs		
1995	90092.8	13224.8
1996	108435.5	20792.1
1997	133279.9	28747.0

Private Sector Banks

1995-96	Rs.	34314.11 Crores
1996-97	Rs.	46147.75 Crores
1997-98	Rs.	62703.37 Crores

As per information furnished by the Securities and Exchange Board of India (SEBI), an amount of Rs. 2,400 crores has been mobilised by the entities which issue Agro bonds, plantation bonds etc.

(c) and (d) The list of NBFCs to whom RBI issued prohibitory orders from 1.1.97 to 31.10.98 and other action taken by RBI is given in Statement-I. As regards the complaints received by Company Law Board from the depositors of NBFCs and the action taken by them in terms of Section 45QA of the RBI Act, the details are given in the Statement-II. SEBI has initiated court proceedings, based on investor complaints against the following entitles:-

1. Golden Forests (India) Ltd.
2. Arror Global Agro Tech Ltd.
3. Libra Plantations Ltd.
4. SPG Green Gold Plantations Ltd.
5. Okara Agro Industries Ltd.

(e) to (g) A summary of recommendations is given in Statement-III. Action for implementing the recommendations of the Task Force in Consultation with Reserve Bank of India has been initiated.

Statement-I

Particular of adverse action against erring NBFCs initiated by Reserve Bank of India during the last two years

I. List of NBFCs to whom Reserve Bank of India issued Prohibitory Orders from January 1, 1997 to October 31, 1998

Sr. No.	Name of the Company
1	2
1.	Chancellor Housing Dev. & Finance & Investment Ltd. Nutan Bazar, P.O. Dhubulia, Dist. Nadia.
2.	Welfare Savings & Credit Ltd., School Bagan, Bolpur, Dist. Birbhum.
3.	Bityodaya Housing Finance (P) Ltd. Dist.Bhojpur Bihar.
4.	Research Savings & Finance (P) Ltd. Mohini Market, Exhibition Road, Patna, Bihar-800 001
5.	Manav Sansadhan Vikas Finance & Investment (I) Ltd. Shreesh Bhawan, Bailey Road, Khajpura, Patna, Bihar.
6.	CRB Capital Markets Ltd., CRB House, Punchkuyian Road, New Delhi
7.	Presitgious Finance & Investment (I) Ltd. Swayam Sidhi, Commercial Complex, Road No. 12, Exhibition Road, Patna, Bihar.
8.	Global Finance Corporation Ltd.
9.	World Link Finance Ltd. 151, Maker Chamber III, Nariman Point, Mumbai-400 021
10.	Asia Pacific Investment Trust Ltd. 60, Nagarjuna Hills, Punjgutta, Hyderabad-500 082
11.	Helios Finance & Investment Ltd Helios Bhavan, Station Road, Patna-800 001
12.	Helios Corporation Ltd. Helios Bhavan, Station Road, Patna 800 001
13.	Amnet India Credit Corporation Ltd. Nalin Apartments (Ist Floor) Andheri (West) Mumbai-400 058
1	2
14.	Gadgil Western Corporation Ltd. Western India House, B-6/6, Commercial Complex, Safdarjung Enclave, New Delhi-110 029
15.	NITL Mutual Benefit (I) Ltd. 9A, DG-1, Vikaspuri, New Delhi-110 018
16.	Prudential Capital Market Ltd. Tobacco House, 2nd Floor, 1 & 2 Old Court House, Corner, Calcutta-700 001
17.	JVG Finance Ltd. B-22, Ansal Chembers-1, Bhikaji Cama Place, New Delhi-110 066
18.	JVG Leasing Ltd. B-22, Ansal Chambers-1, Bhikaji Cama Place, New Delhi-110 066
19.	JVG Securities Ltd. B-6/7, Mohta Building, Bhikaji Cama Place New Delhi-110 066
20.	Western India Securities Ltd. B-6/7, DDA Commercial Complex, Safderjung Enclave, New Delhi-110 029
21.	Mcdowell Krest Finance Ltd. 312, Anna Salai, Chennai-600 018
22.	DSJ Finance Corporation Ltd. 105, Shreyas Building , Behind Monginis Factory, New Link Road, Andheri (West), Mumbai -400 053
23.	Standard Economy (P) Ltd. 28/2/1, Old Baligang, 2nd Lane, Caluctta-700 019
24.	Aneja Financial Services Ltd. Behind Model House, Punjagutta, Hyderabad
25.	Joydip Savings & Credit India Ltd. Dr. Ambedkar Road, Palta, P.O. Bangal Enamel, Dist. North 24-Pargana, West Bengal
26.	Bihar Capital Financiers (I) Ltd. Surya Complex, Jamal Road, Patna-800-001
27.	Rich Capital and Financial Services Ltd. 14/123 A, 5th Floor, Gopala Chembers, Parade, The Mall, Kanpur-208 001
28.	Patliputra Housing Dev. & Fin (I) Pvt. Ltd. West Boring Canal Road, Near Dwarika Mandir, Patna - 800 001
29.	Entrust Finance (P) Ltd. D 671, "Nayana", Mandipet, Davangere-577 001

1	2
30	DCM Financial Services Ltd. 75, Amrit Nagar, NDSC Part-1, New Delhi-110003
31.	Patla Savings and Investment Pvt. Ltd. Ganj No. 2, Bettiah (West Champaran), Bihar
32.	Subidpur Janakalyan Investment & Finance Co. Ltd. Ramnagar Road, Vill, Subidpur P.O. Purandarpur, Dist. 24–Parganas (North) West Bengal
33.	Rockland Leasing Ltd. 81A, Himalaya House, 23, KG Marg, New Delhi-110001
34.	Raunaq Finance Ltd. 418, 3rd Floor, Shalimar Complex, Church Road, Jaipur-302006
35.	Schematic Finance Ltd. New Delhi
36.	Samruddhi Saving & Investment (India) Ltd, Raipur
37.	Ennoble India Savings & Investments Co. Ltd., Bellary
38.	Genius Financial Services Ltd., Hyderabad
39.	Midwest Hire Purchases Ltd., Hyderabad
40.	Midwest Mutual Fund Ltd., Hyderabad
41.	Midwest India Industries, Mumbai

According to RBI they have taken action against erring NBFCs against whom a large number of complaints regarding non-payment of deposits were received and on inspection, the companies were found to be insolvent. Accordingly, RBi have filed winding up petitions in the respective High Courts in the case of CRB Capital Markets Ltd., New Delhi, JVG Group of companies, New Delhi and Asia Pacific investment Trust ltd., Hyderabad, RBI have also launched prosecution proceedings in respect of JVG Finance Limited, New Delhi, JVG Leasing Ltd., New Delhi, JVG Securities Ltd., New Delhi, Hoffland Finance Ltd., New Delhi, Asia Pacific Investment Trust Ltd., Hyderabad, NITL Mutual Benefits Ltd., New Delhi, Endowment investment (I) Ltd. Chandigarh and Rockland Leasing Ltd., New Delhi. In addition RBI have filed a police complaint for cheating the public under section 420 of IPC against Hoffland Finance Ltd., New Delhi.

RBI has been taking various steps to effictively monitor NBFCs.

In addition to the above action, several rounds of advertisement have been published by RBI to make general public aware about the framwork for deposit acceptance by NBFCs.

Statement-II

Subject : Complaints received by Company Law Board from the Depostis of NBFCs.

1.	No. of complaints received from the depositors in terms of Section 45QA(1)	13367
2.	No. of companies against whom the complaints have been received.	109
3.	No. of cases where companies have been directed to repay the principal and the interest	10589
4.	In how many cases NBFCs have honoured the directions of Company Law Board	In CLB orders passed u/s. 45QA of the RBI Act, 1934, it is indicated that in case of non-compliance, the applicant depositor may approach the concerned General Manager, RBI who will take necessary action under sec, 58B (4 (a) (a) (a) of the RBI Act. It is also stated in some cases that in case of non-compliance of CLB orders by the Company, the RBI may take necessary action (i.e. prosecution of the Company)
5.	In how many cases the defaulting companies have not honoured the directions of Company Law Board	
6.	Any other information for framing replies to supplementaries.	In some cases because of non-availability of addresses of the Directors of Companies, the service could not be effected to the companies and its Directors.

Statement-III

Summary of the Recommendations

1. Diversification of financial markets is an important component of financial sector reforms. In this environment, NBFCs have flourished and have become prominent in a wide range of activities like hire–purchase finance, housing finance, equipment leasing finance, loans and investments.

2. It is recognised that the existing legislative and regulatory framework requires further refinement and improvement becasue of the rising number of defaulting NBFCs and the need for an efficient and quick system for redressal of grievances of individual depositors. The procedure for taking over the assets and liquidation of defaulting and insolvent NBFCs remains deficient and is neither able to effectively prevent asset stripping nor does it enable quick disposal of assets for the benefit of all creditors whether secured or unsecured. There is also the preception that the regulatory regime in some respects is over restrictive and has constrained the growth of well performing healthy NBFCs.

3. The three year period for attaining minimum NOF would expire in January, 2000. Any extension granted by the RBI should be made conditional upon the concerned NBFC having taken adequate steps to increase NOF in the initial three year period and satisfactory arrangements to attain the minimum capital requirement as may be applicable at that point of the time within the extended period. Further. the present minimum capital requirement of Rs. 25 lacs itself may have to be reviewed upward keeping in view the need to impart greater financial soundness and achieve economies of scale in terms of efficiency of operations and higher managerial skills.

4. It would be necessary for the RBI to draw up a time bound programme for disposal of applications for registration as an NBFC. Given the fact that the operations of NBFCs are often concentrated in far flung areas, the RBI may apprise the State Governments of the companies which have been granted registration as well as the companies whose applications have been rejected.

5. Given the relatively higher risk involved in NBFCs operations, a higher level of CRAR compared to banks is essential. While the present stipulation of 12% of CRAR for all rated NBFCs may continue, the RBI may prescribe a higher CRAR of say 15% for those NBFCs which seek public deposit without credit rating.

6. It is also necessary that the prudential norms be reviewed by the RBI, taking into account the international norms, and the norms applicable to the commercial banks in India as also the general economic climate in the country. The RBI should prescribe ceilings for exposure to the real estate sector and also investment in capital markets specially unquoted shares. The exposurenorms for exposures to connected companies need to be tightened. These measures are essential to prevent deployment of public deposits in high risk and speculative avenues. The RBI may stipulate that the NBFCs should invest atleast 25% of their reserves in marketable securities apart from the SLR securities already held by the NBFCs.

7. The need for regulations on the deposit taking activities of NBFCs has basically arisen because of the information asymmetry that exists between an uninformed depositor and the NBFC. Further, deposits raised from the public are more likely to be of short term duration, resulting in maturity mismatches between asset and liability and the attendant risks. Linking of the quantum of public deposits with credit rating, however, presents a different set of issues. Apart from having the effect of conferring regulatory functions on the rating agencies, it also exposes the NBFCs to frequent asset liability mismatches arising out of changes in credit rating. In view of the additional level of comfort provided by a credit rating, it is appropriate for the RBI to stipulate a higher ceiling for public deposit for those companies which have obtained rating for their instruments. However, for reasons mentioned above, it may not be necessary to link the quantum of deposit to the rating per-se provided the rating is above the minimum investment grade. In summary, the proposed ceiling could be as under:

Type of Company	Limit of Public Deposits
NBFC with NOF less than Rs. 25 lacs	No access to public deposits
EL/HP company without credit rating	1.5 times NOF or Rs. 10 crores whichever is lower. (higher CRAR of 15%)
EL/HP company with investment grade credit rating or above	4 time NOF.
Loan/investment companies with investment grade credit rating or above	1.5 times NOF (higher CRAR of 15%)

8. The RBI should consider measures for easing the flow of credit from banks of NBFCs and then consider prescribing a suitable ratio as between secured and unsecured deposits for NBFCs.

9. The liquid asset ratio should be increased to 25% of public deposit from the present level in a phased manner. By a suitable statutory provision, the unsecured depositors may be given a first charge on these liquid assets so that an unsecured depositor is atleast assured of a return of one-out-of-every-four rupees deposited by him.

10. The RBI can be statutorily empowered to appoint depositors', grievance redressal authorities with specified territorial jurisdiction. The office of the Banking Ombudsman, could be a viable option for such appointments. This will also entail amendments in the RBI Act.

11. If the grievance is a one off problem, a fraction of the deposit equivalent to ratio of the liquid assets to the total public depoits may be paid to the depositor directly under the orders of the authority. As regards the balance payment, this authority may pass a suitable order.

12. To provide legal strength to the order of such authority, the order could be transmitted by this authority to the principal civil court of the District in which the registered

office of the company is situated or to such competent principal civil court as desired by the depositor and such an order would be enforceable as a decree of such principal court.

13. Till such time as the amendments for setting up depositors' grievances redressal authorities are carried out, it is essential that the CLB tightens its procedures for dealing with complaints of depositors and puts in place a mechanism for speedy disposal of these complaints. The regional office of the RBI and the regional offices of the CLB should set up a coordination mechanism to ensure that defaulting companies are speedily dealt with for violation of any regulatory/ statutory requirements.

14. State Governments may set up cells at the State and district level to help disseminate information relating to procedure for redressal of depositors' grievances.

15. The procedure for the liquidation of NBFCs should be substantially on line with those available for banks, so that these proceedings can quickly be brought to completion and the claims of various depositors and other creditors are settled as early as possible.

16. There is an imperative need for reviewing the particulars given in advertisements. Dues from the group companies, the business ventures in which the directors are interested and the amount of exposure including the non-fund based facilities provided to such entities should also be included in the advertisement.

17. There is a need for the RBI to continue to take more intensive measures for a sustained depositors, awareness campaign. These publicity campaigns should be through print and electronic media, seminars, conferences,etc. Associations of NBFCs and various investors' for a such as Consumers' Education Research Centre, Investors' Grievances Forum, Depositors' Associations, etc. should also be actively involved in these campaigns.

18. It would not be judicious to introduce a deposit insurance scheme for the depositors in NBFCs becasue of the moral hazard issues, likelihood of asset stripping and the likely negative impact on the growth of a healthy NBFC Sector.

19. A separate instrumentality for regulation and supervision of NBFCs under the aegis of the RBI should be set up. It should have representation of experts and other professionals and should help the overall supervisory policies of the RBI. Rules and regulations for the new instrumentality should provide enough flexibility for induction of specialists and experts with requisite supervisory skills. The RBI should have a separate Executive Director for this purpose, supervised by a Deputy Governor, so that there is greater focus in regulation and supervision of the NBFC sector.

20. RBI could use the services of chartered accountants with suitable experience and capabilities to carry out inspections of the smaller NBFCs.

21. The offsite surveillance mechanism should pick up any significant spurt in NPAs and any bunching of repayment deposits.

22. It is important to have a very sensitive market intelligence system which could trigger onsite inspections followed by appropriate regulatory responses.

23. The RBI should be vested with powers to direct a particular NBFC or a class of NBFCs to seek prior approval of the RBI before appointing its statutory auditors.

24. Wherever the RBI has reasons to believe that the management of an NBFC is likely to indulge in fraudulent activities to the detriment of the company or its depositors, the RBI may notify such company and on notification, the assets of the company shall stand attached and the management of the assets be vested with a custodian to be appointed by the RBI. The assets may then be disposed off under the orders or a special court or of a High Court to be notified as a special court for this purpose. Suitable amendments may be made in the RBI Act to put in place such an arrangement.

25. The amendment to the RBI Act in 1997 is a step in the right direction and allowing access to deposits from individuals to such entities exposes the depositors to grave risks. However, there is a case for allowing them to have access to loans other than public deposits. They could be permitted to access loans from bodies with a corporate identity, including NBFCs.

26. Deposit taking by unregistered NBFCs of NBFCs whose applications for certificate of registration have been rejected or whose registration has been cancelled or who have been prohibited from accepting deposits should be made a cognizable offence. State Governments should set up special investigation wings of enforcing these provisions.

27. The offence of unauthorised deposit taking by unincorporated financial intermediaries should be made cognizable. State Governments should also expeditiously consider enacting legislation on the lines of the legislation enacted by Tamilnadu Legislature on this issue.

28. There should be a ban on issue of advertisement soliciting by all unincorporated bodies.

Production of Rubber

*87. SHRI N. DENINIS :

SHRIMATI JAYANTI PATNAIK :

Will the Minister of COMMERCE be pleased to state:

(a) the States where rubber is being produced;

(b) the achievements of those States in plantation and growth of rubber during the Eighth Plan period;

(c) the assistance extended by the Union Government to those States for rubber plantation;

(d) the schemes proposed, funds earmarked for the purpose during the Ninth Plan; and

(e) the steps taken by the Government to meet the external competition in rubber production and to protect the interests of rubber producers?