

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1708
ANSWERED ON:23.03.2012
FRAUDULENT FINANCIAL INSTITUTIONS
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Union Government has received reports about fraudulent financial institutions looting money from people in various States particularly Assam;
- (b) if so, the details thereof for the last three years, State-wise and steps taken / proposed to be taken to stop the functioning of such fraudulent financial institutions;
- (c) whether all States have adopted and implemented the Model Chit Fund Act formulated by the Union Government to deal with such activities; and
- (d) if so, the details thereof and details of implementation of the same during each of the last three years, State-wise alongwith the names of States who are yet to adopt the said Act?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a)&(b): Reserve Bank of India (RBI) has informed that certain instances of non-payment of deposit by some NBFCs have come to the notice of RBI. In case of non-payment of deposits by any company, the deposit holder can approach the Company Law Board (CLB) for redressal of grievance. In case of non-compliance of an order of repayment issued by the CLB, criminal complaints are filed against the company and its Directors under the provisions of the Reserve Bank of India Act, 1934. Further, RBI has also reported that whenever a company including the Chit Fund / NBFC is declared as vanished after accepting the deposits from the public, the matter is referred to the Economic Offences Wing of the concerned State Government to investigate the case and take legal action including penal action as per the Indian Penal Code / Criminal Procedure Code, as deemed appropriate. RBI has declared such companies as vanished companies and has placed the list of such companies on its website. Till August 2011, RBI declared 1,554 NBFCs as vanished. Further, In Civil Writ Petition (CWP) No. 11094/2011 and CWP No. 14795/2011 the Hon'ble High Court of Punjab and Haryana had directed freezing the accounts of some Online / (Multi level Marketing) MLM companies. The Department of Information and Technology, Government of India informed that the website of these companies have been blocked. RBI has also informed that the accounts of these companies have been frozen by the concerned Indian banks.

RBI has reported that no NBFC can commence business without obtaining a Certificate of registration (CoR) under the RBI Act, 1934. Contravention of these provisions attracts penalties. RBI has reported that it has taken appropriate action against illegal entities / companies whenever information of the same has been received by it. During the last three years (April, 2008 to July, 2011) RBI has issued CoR to 264 Non-Deposit taking NBFCs, which had already commenced Non-Banking Finance Institution (NBFI) activities without actually registering. But they have become compliant subsequently. The year-wise break-up is given below:

2008-09 112

2009-10 93

2010-11 52

April to July 2011 07

Total 264

All the above companies are non-deposit taking companies

In order to protect the interest of depositors, the steps taken by the Government/RBI include :

i) Directions have been issued by RBI to NBFCs under Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions 1998 on acceptance of deposits and prudential norms have been laid down.

ii) RBI initiates adverse action against errant NBFCs for various defaults and contraventions of provisions of Reserve Bank of India Act, 1934, such as issuing orders prohibiting them from accepting further deposits, and alienation of assets. Action taken also involves filing winding up petitions, launching criminal proceedings against such companies and their management.

iii) RBI also files complaints with the Economic Offences Wing of State Police Authorities to curb unauthorized acceptance of public deposits. In several cases, the Courts have appointed provisional liquidators and have also restrained NBFCs from disposing of their assets in any manner.

iv) Market intelligence system has been strengthened for picking early warning signals about the health of particular NBFC and to trigger supervisory action.

v) At the instance of RBI, some State Governments have enacted legislations to protect the interest of depositors` in financial establishments.

vi) The close co-ordination through institutionalized framework of State Level Co-ordination Committee (SLCC) with the State Government and other regulatory bodies has also resulted in greater/ improved monitoring and restriction of unauthorized acceptance of deposits by NBFCs and Unincorporated Bodies (UIBs).

(c)&(d): On pursuance by the RBI, 14 States and 1 Union Territory have enacted legislation on the lines of Tamil Nadu Protection of Interest of Depositors (in Financial Establishments) Act, 1997, which contains stiff penal provisions for promoters of financial establishments defaulting in repayment of deposits and interest. The close co-ordination through institutionalized framework of State Level Co-ordination Committee (SLCC) with the State Government and other Regulatory bodies have resulted in greater / improved monitoring and restriction of unauthorized acceptance of deposits by NBFCs and UIBs.