

MINISTRY OF FINANCE

(DEPARTMENT OF FINANCIAL SERVICES)

**Regulatory Mechanism of Protection of Interests
of the Depositors of Non-Banking Financial
Companies (NBFC) - An Overview**

COMMITTEE ON ESTIMATES

(2014-15)

FIFTH REPORT

SIXTEENTH LOK SABHA



LOK SABHA SECRETARIAT

NEW DELHI

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Presented to Lok Sabha on 29 April, 2015



LOK SABHA SECRETARIAT
NEW DELHI

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(2014-15)

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* Elected vide Lok Sabha Bulletin Part-II No. 987 dated 03.012.2014 consequent upon vacancy caused by the appointment of Shri Hari Bhai Chaudhary, Member of Lok Sabha in the Council of Ministers w.e.f. 09.11.2014.

^ Elected vide Lok Sabha Bulletin Part-II No. 987 dated 03.012.2014 consequent upon vacancy caused by the appointment of Shri Ram Kripal Yadav, Member of Lok Sabha in the Council of Ministers w.e.f. 09.11.2014.

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------|
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| 3. | Shri Vipin Kumar | - | Director |
| 4. | Shri Srinivasulu Gunda | - | Additional Director |
| 5. | Smt. Savdha Kalia | - | Committee Officer |

INTRODUCTION

I, the Chairman of the Committee on Estimates, having been authorized by the Committee to submit the Report on their behalf, do present this Fifth Report on 'Regulatory Mechanism of Protection of Interests of the Depositors of Non-Banking Financial Companies (NBFC) - An Overview'

2. Over the years, Non Banking Financial Companies which are into the business of lending, finance leasing, hire purchase and acceptance of deposits as their principal business have played a significant role in bridging credit gaps for millions of people and entrepreneurs. Although, they are regulated and supervised by the Reserve Bank of India which has from time to time strengthened regulations in order to protect the interest of depositors, of late there have been a spate of incidents of a few NBFCs playing truant and thus severely compromising with the interests of depositors. The entire issue of regulation of NBFCs and protection of Interests of its depositors is of prime importance because while other financial institutions, such as banks are well regulated by the Reserve Bank of India, the NBFC is one area where there are some gaps in terms of dereliction of some of the responsibilities of regulators, deposit insurance, potential fraud detection, effective market intelligence mechanism etc.

3. The Committee's examination reveals that it is due to the regulators' failure to check the NBFCs effectively and lack of coordination among various financial sector regulators that illegal collection of deposits by unscrupulous entities has continued. The lack of robust market intelligence and grievance redressal mechanism along with absence of required awareness amongst depositors has further aggravated the situation. The Committee have recommended corrective measures in the Report.

4. In the above backdrop, the Committee selected this subject for indepth examination and Report.

5. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Financial Services) on 19 January, 2015 and 25 March, 2015. The Committee also heard the views of the experts/stakeholders on 31 December, 2014, 10 February, 2015, 10 March, 2015 and 25 March, 2015. Besides, the Committee also sought views and suggestions from the General Public/Organisations/Institutions and Experts by issuing a press communique in connection with examination of the subject.

6. The Committee considered and adopted this Report at their Sitting held on 24 April, 2015.

7. The Committee wish to express their thanks to the representatives of Ministry of Finance for tendering evidence before them and for furnishing requisite material in connection with the examination of the subject. The Committee also place on record their sincere thanks to the experts and stakeholders who appeared before the Committee besides furnishing written Memoranda.

8. For facility of reference and convenience, the recommendations/observations of the Committee have been printed in Bold in Part -II of the Report.

NEW DELHI;
28 April, 2015
Vaisakha 8 , 1937 (saka)

DR. MURLI MANOHAR JOSHI
Chairperson,
Committee on Estimates.

ABBREVIATIONS

AFC	-	Asset Finance Companies
ALM	-	Asset Liability Management
CoR	-	Certificate of Registration
DICGC	-	Deposit Insurance and Credit Guarantee Corporation of India
FAQs	-	Frequently Asked Questions
ICAI	-	Institute of Chartered Accountant of India
LLPs	-	Limited liability Partnerships
MFIs	-	Micro Finance Institutions
MCA	-	Ministry of Corporate Affairs
MI	-	Market Intelligence
NBFCs	-	Non Banking Financial Companies
NHB	-	National Housing Board
NOF	-	Net Owned Funds
PID	-	Interest of Depositors
PIL	-	Public Interest Litigation
PID Act	-	Protection of Interest of Depositors Act
RBI	-	Reserve Bank of India
RNBCs	-	Residuary Non- Banking Companies
SLCCs	-	State Level Coordination Committees
SEBI	-	Securities and Exchange Board of India
UIBs	-	Unincorporated Bodies
UCBs	-	Urban Cooperative Banks

REPORT

Chapter I

Introductory

The Non-Banking Finance Companies (NBFCs) in India have evolved over the last fifty years as effective financial intermediaries with inherent ability to take quicker decisions, assume greater risks, and customise their services and charges according to the needs of the clients. The NBFCs with their flexible structures provide services like banks resulting in gradual blurring of the distinction between the banks and the non banks. NBFCs in India have prominent presence in giving a wide range of services like hire-purchase finance, equipment lease finance, loans, investments, etc.

1.2 The NBFC sector has evolved considerably in terms of its size, operations, technological sophistication, and entry into newer areas of financial services and products. NBFCs play complimentary role to the banking sector in terms of mobilizing savings from the remote and far flung areas and from those sections of the population which are not serviced by commercial banks for their legitimate needs and lend to the micro, small and medium enterprises which find it very difficult to access the bank credit for legitimate purposes of production of goods and offering of services.

1.3 The Reserve Bank of India (RBI) regulates and supervises Non-Banking Financial Companies which are into the business of (i) lending (ii) acquisition of shares, stocks, bonds, etc., or (iii) financial leasing or hire purchase as their principal business. The Reserve Bank also regulates companies whose principal business is to accept deposits. Companies undertaking insurance, merchant banking, chit fund business, venture capital business, stock broking, housing finance, Nidhi business are NBFCs but are not regulated by RBI as these fall under respective regulators.

1.4 The Reserve Bank of India is entrusted with the responsibility of regulating and supervising the Non-Banking Financial Companies by virtue of powers vested in Chapter III B of the Reserve Bank of India Act, 1934. The regulatory and supervisory objective, is to ensure healthy growth of the financial companies, ensure that these companies function as a part of the financial system within the policy framework, in such a manner that their existence and functioning do not lead to systemic aberrations and that the quality of surveillance and supervision exercised by the Bank over the NBFCs is

sustained by keeping pace with the developments that take place in this sector of the financial system. In response to the perceived need for better regulation of the NBFC sector, the Reserve Bank of India (RBI) Act, 1934 was amended in 1997, providing for a comprehensive regulatory framework for NBFCs. The RBI (Amendment) Act, 1997 conferred powers on the RBI to issue directions to companies and its auditors, prohibit deposit acceptance and alienation of assets by companies and initiate action for winding up of companies. The Amendment Act provides for compulsory registration with the RBI of all NBFCs, irrespective of their holding of public deposits.

1.5 The Collection of deposits, apart from banks is regulated by various regulators including RBI, National Housing Board (NHB) and Ministry of Corporate Affairs (MCA). RBI regulates the collection of public deposit by NBFCs registered with it through the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, Chit Funds are prohibited from accepting public deposits vide RBI's Direction dated Aug 8, 2009. The Unincorporated Bodies (UIBs) are prohibited from accepting deposits through Chapter III C of the RBI Act, 1934. Acceptance of deposits by a Non-Banking Non-Financial Company is governed by the Companies Acceptance of Deposits Rules, 1975. The Registrar of Companies in the State Governments administers the schemes.

1.6 There has been a gradual, regulation induced reduction in the number of deposit taking NBFCs from nearly 1420 in March 1998 to 257 as on March 31, 2013. No company has been granted Certificate of Registration (CoR) for deposit collection since 1998 and those registered for deposit acceptance are legacy companies. The total deposits held by these companies as on December 31, 2012 was Rs. 6,630 crore which constituted only 0.1% of the total deposits of the banking sector. The Reserve Bank publishes the list of NBFCs that hold a valid CoR for accepting deposits on its website.

1.7 Despite elaborate mechanism put in place by the RBI for regulating NBFCs ensuring the protection of depositors, many of them have defaulted in repayment of matured deposits, failed to return the deposits even after many years after their maturity and despite regulators' directions to do so with in specific time limits indicating the lack of credible redressal mechanism. Further, the number of cases of illegal collection of deposits from the public by NBFCs without authorization from the regulator despite the coordination mechanism having many financial sector regulators as members and

representatives of state Governments as its members and need for improving the effectiveness of awareness programmes for educating the public to take informed decisions before depositing monies with the NBFCs. It is in this context, the Committee thought it appropriate to take up the subject for detailed examination and present the report to Parliament.

Chapter-2

Definitions

Definition of NBFCs and Concept of Principal Business

The Ministry of Finance (Department of Financial Services), furnishing the definition of NBFCs and the concept of Principal Business, in their background note on the subject, stated as under:

“Section 45-I (c) of RBI Act defines the term “financial institution” to mean any non-banking institution which carries on as its business or part of its business any of the activities specified in clauses (i) to (vi) therein. The said definition has expressly excluded institutions which carry on as their *principal business* – agricultural operations, industrial activity, purchase or sale of any goods (other than securities) or the providing of any service, or the purchase, construction or sale of immovable property, so, however, that no portion of the income of the institution is derived from the financing of purchases, constructions or sales of immovable property by other persons. It can be inferred from the above that the institutions which are carrying on the aforesaid excluded activities as their principal business and which may only have some part of their business any of the activities mentioned in clauses (i) to (vi) of Section 45-I (c) will not be a “financial institution”, and therefore, will not be an NBFC under Section 45-I (f) of RBI Act. It can also be concluded that since those institutions which have their principal activity as agriculture, industry, providing services, etc cannot be considered as ‘financial institution’.

2.2 The Ministry further clarified the meaning of financial institution:

"Only those institutions which have their principal business as any of the activities mentioned in clauses (i) to (vi) will be a “financial institution” for the purpose of Chapter III-B of the RBI Act. A financial institution which is a company will be an NBFC under clause (i) of Section 45-I(f) and such an NBFC is required to obtain certificate of registration from RBI under Section 45-IA of RBI Act to commence or carry on the business of NBFI. In case the principal business of the institutions is any of the aforesaid excluded activities, it will not be covered under the definition of “financial institution” and therefore will not be covered under

the definition of NBFC under Section 45-I (f) (i) of RBI Act and is not required to obtain CoR under Section 45-IA of RBI Act."

2.3 On the meaning and definition of 'principal business', the Ministry stated:

"The term "principal business" has not been defined under the RBI Act. A lot of deliberations have gone into the issue as to what should constitute "principal business". The issue was dealt with in the Report of Vasudev Committee (set up by Government of India), wherein it was observed that the area requires serious scrutiny. The matter was also elaborately discussed in the meeting of the Sub-Committee of the Central Board of the Reserve Bank, taking into consideration the intentions of the provisions of Chapter III-B of the RBI Act, 1934 and the consequence of not demarcating the financial sector from the other sectors like service sector, agricultural sector, etc. The need for defining the term "principal business" was also felt having regard to the provisions of Section 45-IA of RBI Act, which stipulates that no non-banking financial company shall commence or carry on the business of a non-banking financial institution without, inter alia, obtaining a CoR issued under Chapter III-B. After extended deliberations in the Sub-Committee of the Central Board of the RBI Act 1934, it was decided to prescribe that a company will be treated as NBFC if its financial assets are more than 50 per cent of the total assets and income from financial assets is more than 50 per cent of gross income. ... In the absence of a statutory definition of the expression "principal business" and in order to ensure objectivity and transparency, the commonly accepted connotation of the word "principal" (most importantly, predominant, main) has been applied, in the most conservative and reasonable manner. This decision was made known to the public through a Press Release issued on April 8 1999 and RBI has since been taking a consistent stand on the issue. The above classification is eminently reasonable and captures the spirit of the statutory provisions. This definition has neither been contested in a Court of Law nor was objected to by any authority, including Government of India, since then. It has thus stood the test of time so far."

2.4 Ministry of Finance (Department of Financial Services) have stated that the expression "Principal Business" has no statutory definition. The issue was dealt with in the Report of Vasudev Committee (set up by the Government of India), wherein it was observed that the area requires serious scrutiny. In response to queries as to (i) the action taken on the observations made in the Report of Vasudev Committee to define "Principal Business and (ii) how do the Ministry legally demarcate between financial sector from other sectors like service or agriculture in the absence of a statutory

definition of "Principal Business", the Ministry of Finance (Department of Financial Services) stated as follows:

“ Vasudev Committee had observed that many NBFCs have diversified into non-financial activities although their principal activity remains that of a financial institution. Experience shows that such a diversification is not for enhancing the profitability of the company but to popularise the name of the company's flagship or the group. Many of such activities are stated to be incurring losses and are a drag on the financial viability of the NBFCs thus jeopardising the interest of depositors. This is an area which requires close scrutiny by the RBI, and appropriate corrective actions in the light of the powers available to it under the amended Act. Subsequently, a lot of deliberations have gone into the issue as to what should constitute “principal business”. The matter was elaborately discussed in the meeting of the Sub-Committee of the Central Board of the Reserve Bank, taking into consideration the intentions of the provisions of Chapter III-B of the RBI Act, 1934 and the consequence of not demarcating the financial sector from the other sectors like service sector, agricultural sector, etc. The need for defining the term “principal business” was also felt having regard to the provisions of Section 45-IA of RBI Act, which stipulates that no non-banking financial company shall commence or carry on the business of a non-banking financial institution without, inter alia, obtaining a CoR issued under Chapter III-B. After extended deliberations in various committees and the Sub-Committee of the Central Board of the RBI, it was decided to prescribe that a company will be treated as NBFC if its financial assets are more than 50 per cent of the total assets and income from financial assets is more than 50 per cent of gross income.

2.5 The Ministry of Finance explained the Committee of 'principal business':

"the term “principal business” has not been defined under the RBI Act. In the absence of a statutory definition of the expression “principal business” and in order to ensure objectivity and transparency, the commonly accepted connotation of the word “principal” (most importantly, predominant, main) has been applied, in the most conservative and reasonable manner. This decision was made known to the public through a Press Release issued on April 8, 1999 (copy enclosed) and RBI has since been taking a consistent stand on the issue. The above classification is eminently reasonable and captures the spirit of the statutory provisions. This definition has neither been contested in a Court of Law nor was objected to by any authority, including Government of India, since then. It has thus stood the test of time so far."

2.6 The issue of principal business was again taken up and discussed in detail by the Usha Thorat Committee on Issues and Concerns in the NBFC Sector in 2010. The Committee deliberated at length on the concept. The Usha Thorat Committee noted that:

“the extant definition allows companies to carry out a multiplicity of activities including non-financial activities that are not regulated by the Reserve Bank. This may include real estate development, construction, manufacturing and trading activities which could pose risk to its financial activity. Registration with the RBI provides the NBFC with opportunities to raise leverage to levels not normally available to non-financial companies. High leverage can in turn lead to investments in unregulated risky ventures, impact their balance sheets, and contribute to systemic risk. The RBI also faces operational issues in monitoring such entities, both off-site and on-site and any adverse development could result in reputational risk to the RBI. The Working Group is of the view that the ‘part’ of the business (referred to in Section 45I(c) of the RBI Act) of a company which has to be financial in nature in order for the company to be treated as a financial institution should necessarily be a significant part of the overall business of the company. The intent of the statute that RBI should not get involved in regulating non-financial business is clearly spelt out in the relevant clauses of Section 45I(c) which exclude from the definition of financial institution entities whose principal business is agriculture, industrial activity, trading or construction. If a material part of the business of a company is agriculture, industrial activity, trading or purchase, sale or construction, the Working Group is of the view that RBI should not be required to regulate such companies.

The Working Group examined, (a) whether there is a need to have a twin criteria of financial assets and financial income for defining ‘principal business’, and b) whether or not the threshold percentage of a company’s assets and the income accruing from those assets should be raised to a level above the current 50 percent. The members were of the view that financial assets alone would be an insufficient indicator of the principal business of a company. There could, for instance, be smaller professional service enterprises that might need to deploy the bulk of their surplus funds into financial assets – it would be inappropriate to capture such companies into the NBFC regulatory fold. Unless the income criterion is applied, such professional service companies will also be brought into the NBFC regulatory fold. The income of such companies from their professional service will be much more than the income from their financial assets. They will not come under the NBFC regulatory fold if the twin criteria of assets and income are applied. As such, the Working Group is satisfied that it is appropriate to continue to have the twin criteria of financial assets and financial income for

determining the ‘principal business’ of a company for bringing it into the NBFC regulatory fold.

In general, the Working Group is of the view that financial activity is a specialized one and should not be combined with non-financial activity. At the same time it is acknowledged that it is not legally possible to prohibit any entity from combining the two activities. Hence the attempt should be to encourage companies classified as NBFCs to move gradually towards undertaking essentially only financial activities and other such activities that are allied with or incidental to the principal activity of lending and investing. While the members are of the view that the extant practice of using both the financial asset and the income criteria to identify a company as an NBFC is appropriate and should be retained, for the purpose of defining a company’s principal business it is felt that the minimum share of financial assets, and the income deriving there from, be increased to 75 per cent from the current level of 50 percent so that the primary content of business reflects financial activity as defined in the RBI Act. The increase in the threshold percentage level should ensure that a financial company focuses primarily on financial business.

The Working Group after a lot of deliberations has recommended retention of the twin criteria of assets and income for determining the principal business of a company and an increase in the minimum percentage threshold of assets and income to 75 per cent instead of 50 percent within 3 year transition period. *However in the backdrop of the Saradha Scam it was internally decided to not enhance the present threshold of 50:50 in the interest of the public at large.”*

2.7 A company/corporate will be treated as NBFC if its financial assets are more than 50 per cent of the total assets and income from financial assets is more than 50 per cent of gross income. In written reply to a query as to whether RBI has any mechanism to verify that companies are not under reporting financial assets and income from financial assets to avoid regulatory ambit of RBI and if so the details thereof , Ministry of Finance (Department of Financial Services) stated *inter alia* as follows:

“In terms of NBFCs Auditors Report (Reserve Bank) Directions, 2008 it is an obligation of Statutory Auditors to submit to the Bank exception reports in the event of non-compliance by companies to the provisions of the Chapter III B of the RBI Act, 1934 and directions issued by the Bank regarding deposit acceptance and prudential norms, or under reporting of financial assets/income. Besides, information on recalcitrant companies are received through Market Intelligence, and complaints received from other financial sector regulators, general public and the industry itself.”

2.8 Valuation of financial assets and income from financial assets is not static and is liable to change from year to year. In written reply to a query as to whether RBI review the Certificate of Registration on yearly basis according to the changing valuation of financial assets and income there from, RBI stated as follows:

“Every registered NBFC is required to submit a Certificate from its Statutory Auditors that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act. A certificate from the Statutory Auditors in this regard with reference to the position of the company as at end of the financial year ended March 31 is to be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered, [“within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year”.] Such certificate shall also indicate the asset / income pattern of the non-banking financial company for making it eligible for classification as Asset Finance Company, Investment Company or Loan Company. In case an NBFC does not fulfill the Principal Business criteria in a particular year, discussions are held to ascertain whether the same is on account of temporary reasons viz. business cycles etc. If so, a roadmap is taken for compliance to the principal business. If the reason for non-compliance to the principal business is not temporary and the company intends to migrate into non-financial activities, the company is asked to liquidate its financial assets to below 50% threshold and advised to surrender the CoR after due process.”

2.9 Apprising the Committee of the RBI’s intention of incorporating the definition of the term ‘Principal Business’ in the Act itself, a representative of RBI, appearing before the Committee on 19 January, 2015, deposed, inter alia, as under:

“The principal business is collecting deposits. The issue of principal business has become an issue with regard to how you define principal business. We define principal business where a company is doing financial activity to the extent of 50 per cent and income from that financial activity is 50 per cent. Why we came out with this is because a lot of committees have gone into it starting from Vasudevan Committee to our own internal Central Board which decided what is predominant, what is the major activity, that should be defining what is principal business and 50 per cent was considered a reasonable threshold. We also looked at anything below that. Very recently after the Sharda scam broke out, we had a re-look at the 50-50 criteria and Usha Thorat Committee looked into it and very recently an internal committee looked at it and they felt that if we bring this threshold down from 50 to 40, we will have entities which are primarily into

manufacturing, into trading falling within the RBI definition. This is because investment activity is such an activity that all companies do. So, an investment activity being one of the activities of non-banking finance activity, the tendency is that if you are doing any amount of investment activity, then you feel under RBI regulations which we do not think to be quite reflecting the financial activity business. The Usha Thorat Committee felt that financial business is serious business and it is very important for financial entities to do primarily financial activity and not do half trading, half manufacturing because by virtue of the fact that there are financial entities, they have an advantage of borrowing, they can leverage from the banking sector, and because they can leverage from the banking sector, it is possible if you are doing half trading and half manufacturing, that money which is being received from the banking sector might be used for riskier activities. Therefore, the Committees which have gone into it have more or less recommended a higher threshold. But we have left it at 50:50 because we do not want that any entity which is doing or the aim of which is financial activity should be left out of regulation. The problem here was that the Act does not define what principal business is. So this time round, we have made a suggestion to the Government to include principal business in the Act itself so that there is a statutory backing for this and also give the powers to the Reserve Bank to redefine principal business depending on the situation. That is one of the ticklish issues which has been our focus of discussion.”

Non coverage of Limited liability Partnerships (LLPs) under the definition of NBFCs

2.10 In response to a question regarding coverage of Limited Liability Partnerships (LLPs) under chapter III B (Provisions relating to Non banking institutions receiving Deposits and Financial Institutions & Chapter III C (Prohibition of acceptance of deposits by unincorporated bodies) of RBI Act, 1934 and the provision of section 2 (ie) of the Limited liability partnership act, 2008 which enables LLPs to engage in sale and purchase of securities but not covered under the RBI Act the RBI replied as follows:

“Limited Liability Partnerships are governed under the limited Liability Act. The Reserve Bank is empowered to register and regulate NBFCs which are companies under the RBI Act, 1934. NBFC is defined under Section 45-I (f) of the RBI Act which means a financial institution, which is a company; a non-banking institution which is a company and which has as its principal business the receiving of deposits under any scheme, etc; such other non-banking institution or class of such institutions, which the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify. The term ‘non-banking institution’ is defined in RBI Act [Section 45-I(e)], which means a company, corporation or co-

operative society. Therefore, as per extant provisions of Chapter III-B of RBI Act, LLPs, being neither companies corporations or co-operative societies are not covered under Chapter III B of the RBI Act, 1934.

Chapter III-C deals with prohibition of acceptance of deposits by unincorporated bodies i.e. individuals, firms or association of individuals. Here too LLPs are not included. However, RBI has proposed to the Government that the RBI Act be suitably amended to include LLPs as “unincorporated body” for the purpose of the prohibition from acceptance of deposits under Chap III C of the RBI Act 1934.”

Definition of ‘Deposit’

2.11 The expression “deposit” has been defined in section 45I (bb) of RBI Act, 1934. The amounts,

- (a) raised by way of share capital,
- (b) contributed as capital by partners of a firm,
- (c) received from banks, state financial corporations, financial institutions, money lenders, chit contributions,
- (d) received as security deposit, dealership deposit, earnest money and advance against orders for goods, properties or services

are not regarded as deposits for the purposes of RBI Act. All other amounts received as loan or in any form are treated as deposits.

2.12 Ministry of Finance (Department of Financial Services) RBI in their background note on the subject to the definition of ‘deposit’ stated as follows:

“The definition of deposit under the RBI Act ... is for the purpose of identifying the activity which should be brought within the regulation of RBI. The intention is that the business of acceptance of deposits by NBFCs is regulated by RBI. The definition of deposit under RBI Act is almost at par with the definition in the rule 2 (b) of Companies (acceptance of Deposits) Rules, 1975. The same definition has been adopted in section 28 of National Housing Bank Act. The expression 'Deposit' has been defined in each of the Depositors 'Protection Act, enacted by State Governments. The definition of 'deposit' under these acts is much wider than the definition of Deposit under the RBI Act. Under the State acts, irrespective of whether money or a commodity is/are received, it can be a deposit. Further, the promised return may be in cash or kind or services”.

2.13 In view of the definition of the term 'deposit' as contained in the above Para , Ministry of Finance (Department of Financial Services) was requested to state whether the definition of 'Deposit' as defined in the RBI Act, 1934 is lenient and hence requires to be strengthened by making it comprehensive. Ministry of Finance (Department of Financial Services) , in a written reply, stated as under:

"In view of the concern expressed on the rampant instances of acceptance of deposits by unscrupulous entities, from gullible public in camouflaged manner as advance for goods or services, etc., so as not to be covered under the ambit of 'deposit' and escape the law, Reserve Bank is contemplating to expand the definition of 'deposit' by proposing amendment to the RBI Act as follows:

- Acceptance of money as advance for goods or services without having the necessary arrangement for providing the same amounts to acceptance of deposits.
- Acceptance of deposits from members who do not have full voting powers in the meetings of the entity shall be regarded as acceptance of deposits from the public.
- Prohibition of entities other than entities regulated by Reserve Bank from accepting deposits from the public. The only exception proposed is acceptance of deposits as per the Acceptance of Deposits Rules framed under Companies Act and acceptance of deposits by Corporations established by any law in accordance with such law.

RBI has added that the provisions of RBI Act do not empower RBI to take steps to immediately address the grievances of depositors by making arrangements for repayment of the deposit amount in case of default or fraud by the NBFCs. It is also relevant to point out that the RBI does not have the necessary wherewithal or expertise for the same. Therefore, keeping in view the redress of grievances of the depositors specially repayment of deposit amount, RBI has been pursuing the State Governments to enact the Protection of Interest of Depositors Act and exercise the powers under the legislation to address the grievance of the depositors. However, RBI hasten to add that the regulation and supervision of NBFCs are exclusively within the domain of RBI and the State Authorities step in only when the entities, including the NBFCs, default in repayment of the deposit amount or when the State Authorities believe that a particular scheme floated by the financial establishment is fraudulent in nature.

Further, there is also a proposal for amending the RBI Act to make certain offences pertaining to acceptance of deposits without permission from the Reserve Bank, non-compliance with orders passed by the Company Law Board for repayment of deposits, acceptance of deposits from public by unincorporated bodies etc., to be made cognizable so that the police authorities can take cognizance of those cases and initiate appropriate action under the law and even arrest the offenders without a warrant”.

This will ensure that there will be no conflict between the RBI Act on the one hand and the company law and the deposit acceptance rules framed under that law on the other. Further, Reserve Bank will have the power to lay down the terms and conditions subject to which entities regulated by it may accept deposits “

2.14 In written reply to a query as to whether the narrow definition of the term ‘deposit’ under RBI Act, 1934 is resulting in acceptance of deposits and promising of return on such deposits in forms other than cash, and if so, whether there is any proposal to make the definition of deposits more comprehensive and inclusive, Ministry of Finance (Department of Financial services) stated as under:

“Yes. An Internal Working Group has been constituted by the Bank to look into the legislative changes required for entities regulated by the RBI. Various provisions of RBI Act, including Chapter III-B which contains the definition of “deposit” is also being reviewed.”

2.15 Elaborating on the need for amending the extant definition of the term ‘Deposit’ contained in the RBI Act, 1934 to make it comprehensive , a representative of the RBI appearing before the Committee on 19 January, 2015, submitted as follows:

“As regards definition of deposits, you had said that it is very restrictive in the RBI Act. Yes, it is true. After the Saradha scam took place, we have sat down and we have seen what other changes are required in the legislations to make the Act more comprehensive to be able to catch great number of people.

There are a number of recommendations that we have made. There was an Internal Working Group that went into this whole thing. The recommendations have now been forwarded to the Government. One of the recommendations is the definition of deposits. In that we have said that the definition of deposit should be expanded. The definition of depositor is wider in The Protection of Interest of Depositors Act. In the same manner what we intend introducing here is that people are giving hybrid products. What they do is that they will say that

this is advance against goods and services. Now, advances against goods and services cannot be defined as deposits, but we are now going to expand the definition of deposits to say that anybody who takes money as advance for goods and services and does not have the wherewithal to provide that service, then RBI will have the power to determine it as deposits. This is one thing that we are going to do.”

CHAPTER 3

Mobilization of Public Deposits by NBFCs – D and RNBCs

Data on public Deposits raised by NBFCs –D and RNBCs

The data on Non-Banking Finance Companies (NBFCs) and Residuary Non- Banking Companies (RNBCs) authorized to accept deposits from the public, the amount of deposits collected from the public by these NBFCs and RNBCs for the last 10 years (year wise), as furnished by Ministry of Finance (Department of Financial Services) is as under:

Table 3.1 Public deposits of NBFCs & RNBCs

Period (end March)	Deposit Accepting NBFCs		RNBCs	
	No. of Registered NBFCs	Public Deposits (Rs. Billion)	No. of Registered RNBCs	Public Deposits (Rs. Billion)
2005	700	39.26	3	166
2006	428	24.48	3	201.75
2007	401	20.77	3	226.22
2008	364	20.42	2	223.58
2009	336	19.71	2	195.95
2010	308	28.31	2	145.21
2011	297	40.98	2	79.02
2012	271	57.35	2	42.65
2013	254	70.85	2	38.17
2014	240	105.16	2	35.82
Source: Department of Non-Banking Supervision, Reserve Bank of India				

3.2 The data on public deposits held by NBFCs authorized to accept the public deposits (NBFCs -D) and Residuary Non- Banking Companies (RNBCs) by deposit ranges (up to Rs. 5 million, more than Rs.5 million - up to 20 million, more than Rs.20 million - up to 100 million, more than Rs.100 million - up to 200 million, more than Rs.200 million - 500 million and Rs. 500 Million and above) for the last 10years (year wise) as given by RBI is as follows:

Table 3.2 : Public deposits held by NBFCs by deposit ranges

(Rs.Billion)

Year (End-March)	Up to Rs.5 mn	Rs.5mn - Rs. 20 mn	Rs.20 mn Rs. 100 mn	Rs.100 mn - Rs. 200 mn	Rs.200 mn - Rs. 500 mn	above Rs. 500 mn	Total Deposits
2005	0.43	1.95	3.75	2.65	6.01	190.47	205.26
2006	0.39	1.00	1.82	2.11	1.02	219.88	226.22
2007	0.31	0.86	1.61	0.93	1.77	241.51	246.99
2008	0.28	0.82	1.86	0.61	0.56	239.87	244.00
2009	0.23	0.55	1.33	0.76	1.42	211.38	215.67
2010	0.21	0.64	1.28	0.69	1.33	169.37	173.52
2011	0.19	0.44	1.29	1.08	0.81	115.83	119.64
2012	0.19	0.49	1.13	1.09	1.20	95.60	99.69
2013	0.16	0.41	1.20	0.93	0.48	105.85	109.02
2014	0.11	0.37	1.45	0.43	1.15	137.47	140.98

Source: Department of Non- Banking Supervision, RBI.

3. 3 The data on region-wise public deposits held by NBFCs-D and also RNBCs for the last 10 years (year wise) as provided by RBI is as follows:

Table 3.3 : Region-wise public deposits held by NBFCs-D

(Rs. Billion)

Year (End-March)	North Zone	South Zone	East Zone	West Zone	All Zones
2005	54.21	30.24	117.08	3.72	205.25
2006	49.47	19.17	156.20	1.38	226.22
2007	48.04	16.47	181.36	1.13	247.00
2008	45.87	16.31	180.74	1.09	244.01
2009	42.19	15.03	156.81	1.64	215.67
2010	36.20	18.76	112.44	6.12	173.51
2011	54.88	29.42	26.04	9.29	119.62
2012	23.30	40.20	21.38	14.81	99.69
2013	20.13	44.22	19.92	24.75	109.02
2014	18.03	65.77	16.63	40.55	140.98

Source: Department of Non- Banking Supervision, RBI
Note: North zone includes regions namely Delhi, Chandigarh, Jammu, Lucknow;
South zone includes Bangalore, Chennai, Hyderabad, Thiruvananthapuram;
East zone includes Bhubaneswar, Patna, Kolkata; and
West zone include Ahmedabad, Bhopal, Jaipur, Mumbai

Sources of funding for NBFCs

3.4 With regard to the funding pattern of NBFCs , a representative of RBI appearing before the Committee on 19 January, 2015 stated as follows:

“Over a period of time, if you see, the funding pattern of the non-banking finance sector, as NBFCs are consolidated, they are actually moving out of deposit acceptance because it is an expensive preposition for them. Currently the funding pattern is, capital market is the main source of funding, next is bank borrowings...

... their funding source is primarily through the capital market and the deposits comprise only 0.1 per cent of the total deposits of the banking sector.”

Restriction on registering New NBFCs-D – Impact on economic development.

3.5 The RBI has not granted Certificate of Registration (CoR) to any NBFC for collecting deposits from the public since 1998. The total deposits held by NBFCs as on December, 2012 were Rs. 6630 crores which constituted only 0.1 per cent of the total deposits of the banking sector. When the Committee sought justification for such regulation which has resulted in considerable reduction of deposits taking NBFCs and hence leading to reduction in the economic activities with negative impact on the economic growth of the country, MoF (DFS) in a written note submitted as follows:

“The restriction placed on registering new deposit taking NBFCs since 1998, has not hampered the growth of the sector; In fact, in absolute amount, the deposits collected by the regulated NBFC-Ds have shown increasing trend in the past five years. For example, such deposits which were Rs 19.71 billion in 2010 have increased to Rs 105.17 billion in 2014. The main sources of funding of the deposit taking NBFCs is either through bank borrowings and/ or public funds. For example, the data with regard to the liabilities of NBFCs-D for the year ending 2013 shows those public deposits constitute only 5.7% of their total liabilities, whereas the major source of funds for the NBFCs sector is bank borrowing (i.e. 27.5%), debentures (25.4%) and Owned Funds constitute 17.6% of the total liabilities.

It has been the established stance of the Bank as announced in the Annual Monetary Policy in 2004-2005 that deposit acceptance should be in the realm of banks alone as they are more stringently regulated and also can avail of deposit insurance to repay depositors. “

3.6. Reiterating their stance that RBI was in favour of limiting the deposit acceptance only to banks, a representative of the RBI testified before the Committee as under

“A question was raised with regard to acceptance of deposits by the NBFCs. Banks are also accepting deposits and lending money. The very definition of banking is acceptance of deposit for the purpose of lending. As far as that is concerned, some of the NBFCs accept deposits, not all of them. Those that accept deposits are legacy institutions. We have specified in many fora since 2004-05 that we are really not in favour of any deposit acceptance by any entity other than the banks. That is the medium term and long goal of the RBI. It does not mean that it would shut shop of those of NBFCs which are accepting deposits.”

3.7 Responding on the rationale for RBI's above mentioned stated position, the representative of RBI further deposed:

“Yes, Sir. The rationale is that we have had NBFCs, which have been accepting deposits and violating not repaying. So, there is a history of non-repayment earlier on during the 1960s, 1970s, and 1980, and 1990s.”

3.8. Responding to a further query as to whether the default in repayment of deposits by NBFCs during 1960s to 1990s is due to failure of the regulation or due to bad intention on the part of the companies that defaulted, the representative of RBI submitted as under:

“It was because of lack of regulation on the NBFCs. Second reason why we are not in favour of NBFCs accepting deposits because there is no deposit insurance as in the case of banks should there be a problem in the banks when the deposits is insured to a certain extent.”

3.9. Deputy Governor, RBI appearing before the Committee on 25 March, 2015, reiterating the RBI's stated position in this regard stated that :

“We brought in higher level of discipline and consistently it is our approach that primarily the deposit taking will have to be a responsibility of the banking system because it has its own credentials and the regulatory mechanism to ensure the safety of the public funds in the hands of the banks and it is primarily channelized for appropriate development of the Country's economic growth.”

3.10 Acknowledging the contribution of NBFCs in delivery of credit in remote and far flung areas not serviced by commercial banks, a representative of RBI appearing before the Committee on 19 January, 2015 deposed as follows:

“...When you were saying why we should have NBFCs, the Reserve Bank is not at all in favour of the NBFC’s moving out of financial sector. We feel that in a country like India there is space for every type of financial entities and we are very appreciative of what the role the NBFCs have. Unlike in the case of banks, NBFCs have been able to reach credit to the lowest common denominator because they have presence in those places and because also they are able to customise their products suitably”

3.11. The Secretary, Ministry of Finance (Department of Financial Services) on the measures taken to provide institutional avenues for mobilising deposits from savers/ depositors in rural / far flung areas of the country , appearing before the Committee on 19 January, 2015 testifies as follows:

“We need to garner more amounts of savings from the people; more amount of deposits so that that money which is otherwise unaccounted or lying outside the banking system comes into the banking system. For that, RBI has already issued a guideline for small bank and payment bank. Now, the payment banks will not be accepting deposits but the small banks would be accepting deposits up to Rs. 25 lakh. That is a solution to that. Those small banks will be very well monitored by RBI and they are likely to succeed, most probably. “

3.12 Ministry of Finance (Department of Financial Services) furnishing the objectives of the Payment Banks and ‘ Small Finance Banks ‘ in a post evidence reply submitted inter alia as follows:

“...These banks are “niche” or “differentiated” banks, with the common objective of furthering financial inclusion. RBI received 72 and 41 applications for small finance banks and payments banks respectively as on February 02, 2015, the last date for receipt of applications. The applications are under process. The salient features in respect of Small Finance Banks /Payments Banks are furnished below.

Small Finance Banks:

- The objectives of setting up of small finance banks will be for furthering financial inclusion by (i) provision of savings vehicles primarily to unserved and underserved sections of the population, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.
- Resident individuals/professionals with 10 years of experience in banking and finance; and Companies and Societies owned and controlled by residents will be eligible as promoters to set up small finance banks. Existing

Non-Banking Finance Companies (NBFCs), Micro Finance Institutions (MFIs), and LABs that are owned and controlled by residents can also opt for conversion into small finance banks

- The minimum paid up voting equity capital for small banks shall be Rs. 100 crore.
- The small finance bank shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities. It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own fund, such as distribution of mutual fund units, insurance products, pension products etc. with the prior approval of the RBI.
- The maximum loan size and investment limit exposure to a single and group obligor would be restricted to 10 per cent and 15 per cent of its capital funds, respectively. Further, in order to ensure that the bank extends loans primarily to small borrowers, at least 50 per cent of its loan portfolio should constitute loans and advances of upto Rs. 25 lakhs."

3.13 Explaining the objectives of the Payments Banks, the Ministry submitted:

- The primary objective of setting up of payments banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments / remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment.
- The existing non-bank Pre-paid Payment Instrument (PPI) issuers authorised under the Payment and Settlement Systems Act, 2007 (PSS Act); and other entities such as individuals; Non-Banking Finance Companies (NBFCs), corporate BCs, mobile telephone companies, super-market chains, companies, real sector cooperatives; that are owned and controlled by residents; and public sector entities are eligible to set up payments banks.
- The minimum paid up voting equity capital of the Payments Bank shall be Rs. 100 crore.
- Existing PPI licence holders could opt for conversion into payments banks. A promoter / promoter group can have a Joint Venture with an existing scheduled commercial bank to set up a payments bank.
- The Payments Bank would be permitted to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949, viz.

Acceptance of demand deposits, i.e., current deposits, and savings bank deposits, (initially restricted to holding a maximum balance of Rs. 100,000 per customer), issuance of ATM and debit cards, Payments and remittance services through various channels (including branches, BCs and mobile banking), Issuance of PPIs, Internet banking (transacting primarily using the Internet) and Functioning as Business Correspondent (BC) of other banks. Payments banks can undertake other non-risk sharing simple financial services activities, not requiring any commitment of their own funds, such as distribution of mutual fund units, insurance products, pension products, etc. with the prior approval of the RBI and after complying with the requirements of the sectoral regulator for such products.

- Apart from amounts maintained as Cash Reserve Ratio (CRR) with RBI on its outside demand and time liabilities, it will be required to invest minimum 75 per cent of its "demand deposit balances" in SLR eligible Government securities/Treasury Bills with maturity up to one year and hold maximum 25 per cent in current and time / fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

3.14 Expressing his views on the role played by NBFCs in the development of financial sector before the Committee on 10 March, 2015, Chairman and MD of L&T Finance Holding, submitted as under:

“...They play a very complimentary role to banks. They bring diversity to financial sector and they have the last mile connectivity because of which they have a much wider reach. They go to smallest customer who needs financial services. They have contributed tremendously in the financial services sector ...”

3.15 Elaborating further, Chairman and MD of L&T Finance Holding, stated as follows:

“The other important point which I wanted to mention about the NBFCs is the reach we have. They are very nimble. So, we do not necessarily need to have very elaborate branch structure today. so we can go from door to door to the customer and serve the last mile customer. This is very important thing and the NBFCs are a cross sector. they are doing work in affordable housing , they are doing in micro finance , infrastructure, and as I mentioned , in commercial vehicles and construction equipment ,etc.... Also caters to small and medium enterprises which are very vital sector of the economy. For growth in manufacturing or for the corporate to grow, there is a huge supply chain of small and medium enterprises, be it in automobile sector, be it defence, any sector. There the NBFCs have a major role to play in reaching out. In this regard consider the example of loans upto Rs. 25 lakh, or 50 lakh , Rs. 1 crore or small and micro enterprises loans. This

is also a very important sector where NBFCs play a very meaningful role and this is being done for many years.

3.16 Explaining the inability of the banks to reach the nook and corner of the country to finance small traders and entrepreneurs and the need for not only allowing the NBFCs to collect public deposits but also making flexible regulations in this regard to the Committee on 10 February, 2015, representatives of Shriram Transport Finance Co. Ltd, deposed as follows:

“Banks cannot reach every nook and corner. They cannot supply money to every small trader or transporter who wants to purchase one truck or tempo or something like that. Banks generally do not listen to them. They listen to somebody who is manufacturing trucks or aeroplanes but they will not easily listen to these demands.”

3.17 Elaborating further, the representative of the STFC Ltd. submitted as under:

“Our business started in 1979. We have built it up over a period. The first twenty years of our service in our company’s operation, almost 95 per cent came only from deposit raising because we were allowed to raise deposits up to ten times of our equity net worth. Banks were not willing to refinance to us because their perception was that financing a second vehicle and low end of the customers is a risky business. Even today, that is the case. Banks have a discomfort in financing used vehicles or people who do not have a track record and buying for the first time. After being there for 20 years and seeing our experience and seeing that people are equally good as the normal customers, slowly banks have started lending to us. In fact, the first big support came from Citi Bank first through securitisation and through capital infusion in equity. Then, all other banks followed.”

We also have some relationship with banks where we do portfolio management where we raise resources. Assets were created in the name of the bank and we manage them. After seeing that, the banks built a comfort. Even then, whatever portfolio we do, we maintained were only new vehicles. They were not comfortable with refinancing used vehicles at any point of time. After the last ten years, banks have some comfort in our portfolio and we are also able to securitize our portfolio with the banks. Securitisation is normally done after six months of seasoning and they do some cherry picking and that is purchased by a bank. Mostly, this is purchased by the bank for the priority sector lending because most of the banks have difficulty in reaching priority sector targets, especially the private sector banks who do not have small and rural customers.

Our 95 per cent customers are priority sector customers. We finance to the same customers we have been lending 35 years back. We have not changed our business model. We have been very conscious even though we have gone up in the ladder and we are able to raise resources. We have resisted the temptation of moving away from our basic vision of financing fleet operators or companies. We have hardly two per cent of portfolio with big fleet operators. All of them are individuals making a livelihood out of the vehicle. So, our business is basically financing the livelihood of an individual who drives his vehicle and earns out of it. Seventy-five per cent of our customers who own their vehicles still do not have a driver. Many of them have become multi-vehicle owners and many of them have become big fleet operators and moved to banks after building a track record over ten or twenty years."

The witness also clarified the credit reach of NBFCs and private money lenders in extending credit to first time businessman and SMEs:

"We have another sister company Shriram Setting and Finance. They are lending to SME, mostly the small businessmen and traders they have been funding and also two wheelers and cars. Around 70 per cent of their portfolio is used towards the small businessmen. There also, we find that the deposits form most important resources for us because when you lend to an upcoming customer or a first-time businessman he does not have a track record and he will not be able to get money from anywhere else. If anyone has to come up in his life, then he has to borrow from the friends, relatives and the NBFCs. Even the recent Report of the World Bank says that only 26 per cent of the SME is being funded by the bank and 74 per cent is by either NBFCs or private money lenders, the relatives and friends."

3.18 Asked about the dichotomy in non-banking entities doing banking business , Secretary, Ministry of Corporate Affairs, deposed, *inter alia*, as under:

"... we are one of the few countries in the world where the public companies are allowed to collect deposits. Now it is not there in most other jurisdictions. So we have been in continuum with some of the older practices".

Chapter-4

Default in Refund of Matured Deposits by NBFCs-D

Data on Default in repayment of matured Deposits

The data on default in repayment of matured public deposits by NBFCs-D whose Public deposit base is above Rs. 50 crore, Rs. 10-50 crore and Rs. 1-9 crore as furnished by RBI is as under:

- i) Default in repayment of matured public deposits by NBFCs-D whose Public deposit base is above Rs. 50 crore is to the tune of Rs.113.02 crores.
- ii) Default in repayment of matured public deposits by NBFCs-D whose Public deposit base is Rs.10-50 crore is to the tune of Rs.38.10crores.
- iii) Default in repayment of matured public deposits by NBFCs-D whose Public deposit base is Rs.1-9 crore is Rs.8.76 crores.

Cancellation of Certificate of Registration (CoR)

4.2 The data on NBFCs-D who's CoR have been cancelled during the last 10 years (year wise)

Table 4.2 : NBFCs-D who's CoR have been cancelled during the last 10 years

Name	No. of NBFCs
Mumbai	16
Patna	Nil
Bhubaneswar	Nil
Kolkata	4
sJaipur	Nil
Bhopal	Nil
Ahmedabad	Nil
Jammu	3
Kanpur	1
Chennai	16
New Delhi	1
Trivandrum	3
Guwahati	Nil
Hyderabad	15

Chandigarh	1
Bangalore	6

4.3 The details such as names of NBFCs, the status of action taken, etc. , as provided by RBI may be seen at **Appendix 1**.

4.4 RBI has stated that NBFCs whose Certificates of Registration (CoR) have been rejected or have been cancelled have to continue repaying the deposits on due dates and dispose of their financial assets within three years from the date of rejection of application or cancellation of certificate or convert themselves into non- banking financial companies within the same period.

4.5 The details such as names of the firms , the amount involved therein and the status of action taken , etc., as furnished by RBI may be seen at **Appendix 2**.

Role of RBI in ensuring repayment of matured deposits

4.6 In response to a query as to whether the Ministry of Finance (Department of Financial Services), in view of the growing number of cases of default by NBFCs feel that some changes in the role of RBI in ensuring the repayment of matured Deposits as also generally ensuring the depositors interest are essential, Ministry of Finance (Department of Financial services) in a written reply stated as follows:

“There is no growing trend in default cases with respect to NBFCs. The cases of default in repayment of deposits essentially pertained to some companies which were accepting deposits prior to the amendment to the RBI Act in 1997. These entities are those against which the RBI has filed criminal / liquidation cases in the court. The total deposits yet to be repaid by such companies is approximately Rs. 901 crore as on September 30, 2014. The more recent cases are of entities, which are not NBFCs, raising money unauthorisedly.”

4.7 In written reply to a query about role of RBI in ensuring the repayment of deposits in case of defaulting NBFCs, Ministry of Finance (Department of Financial services) in their post evidence reply stated as under:

“The action against NBFCs which default in repayment of deposits are taken as per provisions of RBI Act, 1934 which is a civil Act. If an NBFC-D violates RBI directions, the company is first prohibited under section 45MB (1) of the Act

from accepting any further deposit by way of fresh acceptance or by renewal. The company may also be directed in exercise of the powers of the RBI under Section 45MB (2) of the Act that it shall not sell, transfer, create charge or mortgage or deal in any manner with its property and assets without prior written permission of the RBI until further orders, except for the purpose of repaying deposits as and when they mature or prematurely if so demanded by the concerned depositor along with interest.

The RBI on being satisfied that a NBFC-D is unable to pay its debt or where the company has been prohibited from receiving deposits and such order has been in force for a period not less than three months may file an application for winding up of the company under provisions of the Companies Act.

The Certificate of Registration (CoR) issued to the company is cancelled in terms of sub-Section (6) of Section 45-IA of Reserve Bank of India Act, 1934 with a condition that the company will, however, continue to be governed by the relevant provisions of the RBI Act, 1934, till the company repays all the outstanding public deposits. The company is directed to submit the quarterly reports and monthly return showing the details of repayment of deposit amount.”

4.8 The Ministry of Finance (Department of Financial Services) has stated that 418 complaints of default in payment of matured deposits have been received by RBI in last 10 years. In written reply to a query the course of action to be initiated in such cases, replied as under :

“The RBI takes the following action in case the complaints are received regarding default in payment of matured deposits.

- i. In case a complaint is received against an entity registered with the RBI, the matter is taken up with the company to ensure that the money is returned to the depositor. In case of complaints against other companies not registered with the RBI, action as contemplated under section 58 B of the RBI Act is initiated.
- ii. In case of the instances, wherever CLB order has been passed/ Official Liquidator has been appointed/ any specific committee has been appointed, the complainant is advised to approach the committee/CLB (since the matter is outside the RBI’s purview).
- iii. In cases where RBI has filed cases (criminal case or winding up petition) against the company which are sub-judice, the same is conveyed to the complainant

In case of complaints related to Rejected /Cancelled companies the same is now also directed to State Governments to take up specifically under the mandate given under the PID Act (wherever PID has been enacted) besides referring to EOW/ Police authorities and the Registrar of Companies”

4.9 The data on number of complaints received by RBI regarding default in payment of matured deposits and the status of these complaints (whether the matured deposits were returned to the depositors after the intervention of RBI or not) during the last 10 years (year wise) furnished by RBI is as under:

“As per the information available with RBI, total number of complaints received during the last 10 years- **418**. Towards this; the RBI has been providing all necessary information and support to the State Authorities with respect to analyzing the financials of the entities. Therefore, more than the RBI, it is felt that the State Authorities, which are well equipped with the investigatory expertise, and with its reach even in remote areas, can deal with such situations much more expeditiously. And it is for this reason that RBI has been referring such cases to the police authorities. “

4.10 The frequently Asked Questions (FAQs) on NBFCs given in RBI’s website states that If an NBFC registered with the RBI fails to return the depositor’s money, the depositor can complain against the NBFC to the nearest Regional office of the Reserve Bank. Depositors can also approach the Company Law Board constituted under the Companies Act, 1956 or a Civil Court or Consumer Redressal Forum for recovery of their money. Affected persons can also complain to state police authorities / Economic Offences Wing of state Police as well. Some states have passed the protection of Interests of depositors (in Financial Establishments) Act, which empowers the states to attach the assets of such entities and distribute proceeds thereof to the depositors.

4.11 In view of their being the sole regulator of NBFCs-D, it is imperative that RBI should be made solely responsible for dealing with default in payment of matured deposits, instead of multiple authorities, as is the case with many other regulators in financial sector such as SEBI, IRDA, PFRDA, etc. which deal with violations by the entities falling under their regulatory ambit of the provisions of the respective laws governed by them, RBI in a written reply stated as under :

“Primarily, complaints regarding non-repayment of deposits by registered NBFCs are dealt with by RBI as per the provisions of RBI Act, 1934. The RBI is empowered to file winding up petitions before the Company Courts against the NBFCs which are unable to pay its debts. RBI is also empowered to initiate criminal action against NBFCs for non-compliance with the orders passed by CLB for repayment of deposit amount. However, RBI Act does not have provisions for repayment of deposit amount to depositors, or attaching the properties of the NBFCs and its directors, etc. RBI, in its regulatory role is not equipped for the same which can best be executed by the State Machineries. It is for this reason that the RBI has been pursuing with the State Authorities for enacting the State Protection of Interest of Depositors Act wherever it has not been passed. In states, where it is in existence, the Reserve Bank refers such cases of default and fraud to the respective State Authorities so that the State Authorities can take immediate action for attachment of properties and consequent steps for making arrangement for repayment to the depositors through the specially designated Courts under the Act.

In view of such an enactment and machinery in place, it would be better if the said machineries are more empowered and well equipped to tackle situations of fraudulent acceptance of deposits and default committed by financial establishments to repay the depositors.”

Deposit Insurance

4.12 In the light of default in repayment of Deposits by NBFCs, MoF (DFS) was requested to furnish proposal to introduce deposit insurance in respect of public deposits held by NBFCs on the lines of deposit insurance available to bank deposit holders and if so the details thereof and if not, the reasons therefor, MoF (DFS) in a written reply stated as follows:

“Under the existing legislative framework in India, DICGC extends deposit insurance cover to banks, including urban cooperative banks (UCBs) and cannot extend deposit insurance to any other entities.

RBI has examined the issue of deposit insurance for NBFCs in the past by setting up various committees / working groups. Over all the working groups /various committees agreed on the following:

- (i) That the problem of moral hazard is more pronounced in the case of NBFCs because of its inherent weakness and that provision of deposit insurance cover may hinder growth of market discipline, which is very essential for the long term stabilization of the sector.
- (ii) The sector's inherent risks do not provide regulatory comfort so as to extend deposit insurance cover to the sector. It was recommended that the deposit insurance to NBFC either through DICGC or outside of DICGC should not be extended, as it is neither a desirable nor a feasible proposition. Availability of such insurance at reasonable cost may in fact encourage weaker NBFCs to take even greater risks and increase their non-performing loans.

However, if any private insurance company is interested in providing insurance cover they may do so without any intervention from DICGC or RBI.”

4.13 In reply to a query as to whether HDFC were in favour of introducing deposit insurance for the deposits of public in NBFCs on the lines of deposit insurance available to bank deposit holders HDFC LTD stated as follows:

“While Deposit insurance is welcome measure, its effectiveness needs to be analyzed in detail like claims ratio, reserves, solvency ratio, etc. If major portion of the insurance premium goes in administration costs, there is no point in creating this administrative overload unnecessarily. If the premium collected from strong and complaint players is used to settle the claims made through defaulting companies , it's not a healthy sign nor is this insurance in its true sense . Insurance is a tool to mitigate risk and premium should be commensurate with the relative risks. Insurance payable by all players should not be at a flat rate; instead the relative risk must be factored while computing the insurance premium. They may not be a requirement to make strong players pay insurance premium as these entities are well regulated and supervised closely”

4.14 Asked whether L&T Finance Ltd were in favour of introducing deposit insurance for the deposits of public in NBFCs on the lines of deposit insurance available to bank deposit holders, the Company stated as follows:

“Yes. Deposit insurance from Deposit Insurance and Credit Guarantee Corporation of India (DICGC) would be welcome. This would go a long way in protecting the interests of small depositors who infuse their small time

savings into NBFCs. Deposit insurance up to the extent of Rs. 1 lakh taking into consideration the interests of such depositors can be actively considered. The only negative that would arise is the increase in cost of raising money for NBFCs to the extent of insurance premium that has to be borne by them.”

4.15 In response to a query as to whether Deposit Insurance and Credit Guarantee Corporation (DICGC) extends insurance cover to the deposits of NBFCs also, a representative of RBI appearing before the Committee on 25 March, 2015 stated as follows:

“... currently the position is that the DICGC has membership of commercial banks, urban cooperative banks and rural cooperative banks. Unfortunately, it is the urban cooperative banks and rural cooperative banks which are garnering much of the work, which the DICGC does by way of giving redressal to depositor’s claims. Infact, the public sector banks are paying premium and the depositors, investors of the urban cooperative banks are getting the benefits. So as it is, there is a dichotomy in the DICGC right now. We would not be favouring by bringing in NBFC category into that. Instead what we are recommending is to have a separate insurance guarantee corporation for the NBFC category”

CHAPTER 5

Collection of Public Deposits by unauthorized NBFCs

Requirement of Registration of NBFCs

5.1 In terms of RBI Act, 1934, registration of NBFCs with the RBI is mandatory irrespective of whether they hold public deposits or not. In response to a specific query as to whether there is any mechanism available with RBI to detect/find out the NBFCs which are operating without registering with the regulator and the details thereof, in a written reply RBI stated as follows:

“To ensure that no company carries out NBFI activity in violation of Sec 45 I A of the RBI Act, Auditors of companies, under Auditors Directions issued by the Bank are required to provide Exception Reports to the Bank of any unauthorized NBFI activity. The Reserve Bank also has a Market Intelligence (MI) mechanism across all the ROs. MI officers have been designated to carry out MI visit to the entities against which report of any unauthorized NBFI activity comes to their notice. Instances brought to the notice of the Bank by the State Level Coordination Committees (SLCCs) members are taken up for further examination. Other sources include complaints received by the Department, reports in newspapers, information received from other regulators viz. MCA, SEBI etc. Action is taken against the entities found violating the RBI provisions.”

Unauthorized collection of Public Deposits – Refund on the Direction of Regulators

5.2. With regard to number of cases of directing NBFCs operating without registration or violating relevant provisions of the RBI Act, 1934 or the directions issued there under, to refund the deposits collected from the public during the last five years, in a written reply, RBI furnished the following:

Table 5.2 : Number of cases of NBFCs operating without registration or violating relevant provisions of the RBI Act, 1934

Mumbai	1
Patna	Nil
Bhubaneswar	1

Kolkata	Nil
Jaipur	Nil
Bhopal	Nil
Ahmedabad	1
Jammu	Nil
Kanpur	3
Chennai	3
New Delhi	30
Trivandrum	Nil
Guwahati	1
Hyderabad	Nil
Chandigarh	7
Bangalore	3

5.3 The number of such cases and names of the NBFCS-D which were directed to refund deposits collected from the public either due to operating without mandatory registration or for violation of relevant provisions of the RBI Act, 1934 or the directions issued there under (specifics of the violations may be mentioned) for the last 10 years (year-wise), as furnished by RBI may be seen at **Appendix-3**.

5.4 *The data on amount of Public deposits involved in such cases and the details of the repayment schedules as furnished by RBI is given below:*

Table 5.4 : Number and repayment schedule of NBFCS-D directed to refund deposits

Mumbai	--
Patna	Nil
Bhubaneswar	1
Kolkata	Nil
Jaipur	Nil
Bhopal	Nil
Ahmedabad	Amount not quantified by the police.
Jammu	Nil
Kanpur	As per available records total amount involved as on 31.03.2014 was Rs 4.493 lakh (Rs. 1.86+0.153+2.48 respectively). Repayment schedule not available.
Chennai	1) 34.21 crore as on January 31, 2014 and 2) ₹ 15.23 crore on the basis of complaints received by EOW against the

	company.
New Delhi	As per Appendix 5
Trivandrum	Nil
Guwahati	The outstanding balance of deposit as per the audited balance sheet as on March 31, 2014 is Rs. 1611.71 lakh.
Hyderabad	--
Chandigarh	As per Appendix 7
Bangalore	1) Manipal Finance Corp. Rs.129.69 lakhs;2)Mukunda Industrial and Finance Ltd Rs.227 lakhsand 3) Achal Finance Ltd.

5.5 In written reply to a query as to whether the entire amount of public deposits has been returned to the depositors within the given schedules by the regulator and if so the details thereof , RBI submitted the details as given in **Appendices- 4-7**

Unauthorized NBFCs identified

5.6 The Government of India, Ministry of Corporate Affairs (MCA) had forwarded in Dec, 2012 a list of 34,754 companies which are registered under Companies Act, 1956 and classified / categorized under ‘Financial Intermediation, except Insurance and Pension Funding’ and ‘Activities auxiliary to Financial intermediation’. MCA had advised that many of these companies may be carrying on NBFI activities without mandatory registration as required under Section 45IA of RBI Act, 1934, as only 12,375 companies were registered with the Reserve Bank as Non-Banking Financial Companies (as on February 2013). MCA had requested the Bank to initiate action against such companies.

5.7 In response to a query as to whether RBI has received a request from Ministry of Finance to examine the issues raised in the said letter received from the then Minister in charge of MCA and the details thereof including the action taken thereon , RBI in a written reply submitted as under :

“On receiving the communication an exercise to figure out the common companies between the list given by MCA and the list of registered companies available with the Reserve Bank was carried out. It was observed that the two lists had only 4583 common companies. A large number of companies registered as NBFC were not

figuring in the MCA list. Such large deviations were further investigated to find out the possible reason(s). During the course of our analysis two main reasons were observed, which are;

- a. Static nature of CIN (Company Identification Number) granted by MCA: The CIN once allotted to a company continues even after its activity undergoes a change. In other words, a company incorporated with an enabling provision of undertaking *NBFC* activity may change its Article and work as a *Non - Banking Non Finance Company* while continuing to have the same CIN. Similarly, a company incorporated as a *Non - Banking Non Finance Company* may convert into an *NBFC* and continue with the same CIN.
- b. Definition of Finance Companies: The definition adopted by MCA is broader and it includes companies providing entire gamut of financial services. However, not all of these companies are regulated by RBI. Section 45 I (A) of the RBI Act provides for specific exemption from registration with RBI to certain categories of companies like Merchant Banking Companies, Housing Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, and Insurance Companies etc. Reserve Bank follows the criterion of “principal business” for identifying a company as *NBFC* for the purpose of registration with the Bank. The principal business criteria (PBC) has been elaborated through a press release on April 8, 1999 (copy enclosed), which requires that for a company, to be eligible for registration as *NBFC* with the Bank under section 45IA of the RBI Act, 1934, the financial assets should be at least 50 percent of the total assets excluding intangibles and income from financial assets should be at least 50 percent of the total income. Both these tests are required to be satisfied. Consequently, a company, which does not meet the PBC, may have enabling clause to function as *NBFC* but may be neither eligible nor required to be registered with RBI.

5.8 The Ministry further added : In the second stage of their verification, RBI focused on the 30171 residual companies in the MCA list (the number given by MCA i.e. 34754 minus the common companies i.e. 4583). The focus of exercise was to find out companies which are carrying out *NBFI* activity violating 45 IA of the RBI Act, 1934. For this purpose, financials (balance sheet and P & L account) of these companies as available on MCA website were used. The following information was collated on the basis of preliminary exercise:

Table 5.8 : Categorization of 30171 companies by MCA during investigation

Sr. No	Category	No. of companies
1	Companies, meeting PBC criteria, suspected of having deposits on their Balance Sheets	104
2	Rejected/cancelled companies continuing to carry on NBFI activities	579
3	Other Non - deposit taking companies carrying on NBFI activity	4577
4	Companies not doing NBFI activity (i.e. not meeting PBC criteria)	16158
5	Companies which are under liquidation/ strike off as companies	4220
6	Companies whose Balance Sheet was not available in the MCA website	4457
7	Companies whose status as NBFC is under examination by the Bank	76
	Total	30171

3. As is clear from above, there are 5260 companies prima facie observed to be carrying out NBFI activity. Since the conclusions were arrived at on the basis of information available on MCA website, RBI has issued a 'letter of explanation' to the companies providing them an opportunity to clarify their position, before initiating action for violation of the RBI Act.

4. RBI has also started carrying out scrutiny/ visits of the companies to ascertain/ establish whether the companies are carrying on their activities in violation of the RBI Act. RBI has made its action plan giving priorities to certain categories of companies, e.g. the companies suspected of accepting deposits, Rejected/ Cancelled companies, large Non- deposit taking companies etc. As on date, there is significant progress on this front. However, so far, RBI has not come across case of any company having accepted any public deposits."

5.9. Elaborating further on the issue, a representative of RBI appearing before the Committee on 19 January, 2015 stated as follows:

"Out of 34,754 companies that have been forwarded by the MCA to us last year, we have identified some 5500 companies – it is a rough figure – on which we

have to work. The preliminary scrutiny showed that out of 5500 companies only 103 companies are accepting deposits. We have a strategy and an action plan with regard to this. We are taking criminal action one by one against those entities, which were rejected and cancelled but still continued, in courts of law as they have violated our regulation.

As far as deposit acceptance is concerned, we are going on site and 103 companies have been identified. In case of 60 entities, their books of accounts have already been scrutinised. I am very happy to say that as a preliminary scrutiny it came out that they were taking debentures, which do not tantamount to acceptance of deposits. Out of 103, some 60 companies have been scrutinised and inspected and none of them has been accepting deposits. What they are accepting is debentures, which do not come under the definition of public deposits.

The third action that we are taking is this. There are 2000 companies which are doing NBFR activities today and have never sought our registration. We see them as to what extent they do it. There is a strategy and action plan where we go and ask them to go out of NBFR business or amalgamate or consolidate or split their activities and merge their financial activities within an existing NBFC. “

5.10 The representative of RBI further submitted as follows:

“The problem with the sector, as you are very much aware, is that the unauthorized acceptance of deposit. I would like to divide it in two parts, unauthorized acceptance by companies and unauthorized acceptance by unincorporated bodies.

As far as companies are concerned, it is the mandate of the Reserve Bank to take action against companies, if they are unauthorisedly accepting deposit. You can levy criminal proceedings against them. As far as unincorporated bodies are concerned, the Act provides both the Reserve Bank of India and the State Government concurrent parts. It has been the practice with the Reserve Bank of India that because we do not have the reach, the wherewithal and the enforcement part, we immediately contact the State Government to take action. But there is a problem that State Governments have been hesitant in taking action because the Act does not make the crime of unincorporated bodies accepting deposit a cognizable offence. As a result, the State Governments are saying: “What should we do about it? It is not cognizable, we cannot take any action.” There is an issue in that area. But apart from that we have been working with the State Governments to locate vanishing companies or take action against companies which are unauthorisedly accepting deposits. In this connection, we

have been working with the State Governments to pass the Protection of Interest of Depositors Act. That is a very powerful act because it gives the necessary teeth to the State Government. The State Government, without the intervention of the court, can actually freeze, sell or distribute the assets to the depositors. This Act makes this offence as a cognizable offence. Twenty-two States have already passed this Act. We are working with the other States. We are coming out with a model of Protection of Interest of Depositors Act, giving the good features of all the State acts. We are also in the process of putting up a portal where the customers can access.

5.11. Adding further, the representative of RBI stated *inter alia* as under:

“The other legislative change that we are going to bring about is that unauthorized acceptance of deposits in the RBI Act we are going to make it cognizable so that Police can take immediate action. We are also strengthening the NBFCs themselves; their capital structure; and their ability to handle such issues so that their capital structure will be enhanced. We will have the powers that if they are not acting in public interest, then we should have the powers to remove their Directors and put a new Board there so that if they are not repaying their deposits and if they are not acting in public interest, then action can be taken by the regulator. This is another thing that we are seeking to introduce.”
(p.34)

CHAPTER 6

Collection of deposits from public by Unincorporated Bodies (UIBs)

Unincorporated Bodies (UIBs) are prohibited from accepting deposits under Chapter III C of RBI Act, 1934. However, the enforcement of the same is vested in the State Governments. In written reply to a query as to the rationale for empowering the State Governments with the task of enforcing the provisions of RBI Act, 1934 (Chapter III C) for ensuring that UIBs do not collect the public deposits, RBI stated as follows:

“Acceptance of deposits by UIBs is prohibited under Section 45-S of RBI Act and is an offence under Section 58-B (5-A) of RBI Act. Under the RBI Act, either the State Authorities or the RBI is empowered to approach the Court of jurisdiction and obtain a search warrant (Section 45-T) and either the State Authorities or the RBI can file criminal complaint under Section 58-E of RBI Act. Such activities are mostly prevalent in the remote areas of the country and in many cases result in law and order situations. Since the Reserve Bank does not have any investigative expertise and reach in the remote corners of the country, RBI has been seeking the support of the EOWs/ State Police/CVC/Cyber Crime cells /State Government for initiating necessary action against the perpetrators.

Towards this, the RBI has been providing all necessary information and support to the State Authorities with respect to analyzing the financials of the entities. Therefore, more than the RBI, it is felt that the State Authorities, which are well equipped with the investigatory expertise, and with its reach even in remote areas, can deal with such situations much more expeditiously. And it is for this reason that RBI has been referring such cases to the police authorities.’

6.2 At present, unauthorised acceptance of deposits by unincorporated bodies, although prohibited under Chapter III C, it is not a cognisable offence under the RBI Act. As such the RBI has proposed to the Government that such offences be made cognisable so that state government will have the required power to deal with such offences, both for investigation and prosecution. It is proposed to empower Reserve Bank to require the Police authorities to investigate such complaints by treating such acceptance of money as an offence. This will be useful for quicker action against recalcitrant entities especially in States where Protection of Interest of Depositors Act has not been passed.

6.3 With regard to the problem of unauthorised collection of deposits from public and the measures to effectively tackle the same, Deputy Governor, RBI, appearing before the Committee on 25 March, 2015, stated as under:

“One is that the current provisions and legal provisions prohibit them from accepting public deposits. If anybody is found to be taking public deposits, then appropriate penal actions will have to be taken against them. How do we do that? Since these unincorporated bodies are numerous in number and small in character and spread out throughout the country, we as the Reserve bank of India found it very difficult to control that. We do not have the necessary wherewithal in terms of expertise and reach to identify them and to go after them and to investigate their affairs and come to the conclusion that they are violating the rules and proceed against them. That requires a separate set of skills and arrangement. So far our approach has been that since it has to be done at the grass root level and nook and corner of the country, the best mechanism will be the state authorities because the state law and order mechanism have the necessary wherewithal in terms of presence and in terms of necessary powers. That is why we have been encouraging them. We have been in discussion with the state governments along with the Central government to bring in state specific Depositor protection Act. One of our committees had prepared that framework. That has been recommended to all the state governments to adopt it by customising it to ones’ own individual requirements. That way, we have been pursuing with the respective State governments to have such an Act in position. This kind of Act at the state level give the power for state authorities on the basis of a complaint received or on the basis of an investigation done by any one of the authorities. They will be able to proceed against the parties, seize their assets and accounts, properties, and proceed against them in case they have been found to be accepting deposits unauthorisedly and not dealing with the funds entrusted to them by public in a proper manner. So, that is our approach so far we have been taking. The idea is that as Reserve bank our primarily role is regulation. It would mean that the entities which are registered with us and not behaving properly. That is one part of it and the people who are not registered with us and not behaving properly for them to be preceded against current structure, the required expertise, required skills are not with us. They are available with State authorities”

6.4 In response to a query as to how do RBI know that the states have wherewithal / skill sets in locating identifying the collection of deposits by UIBs, Deputy Governor, RBI, stated inter alia as follows:

“Sir, that is why, we have taken various steps. We have also understood this gap. The State authorities can also start initiating action only if something is brought to their notice. Before that, something else have to be done. For that only, we have created this Coordination Forum in which the regulators, namely, the Reserve Bank of India, SEBI, RCS, Chit Fund Commissioner along with the State authorities from the Home Department also, all of us sit together. It is because during our course of our own functioning, we do get information about somebody accepting the deposits either by way of complaints from the public or by because of our market intelligence, we get this information which we process within the bank and in the coordination committee. Then, we may be able to form an opinion whether the parties which are accepting the private deposits are doing something wrong or they are doing it properly. In that case, it can be assigned to the Police Authorities for further investigation and action against them under Depositor Interest Protection Act.”

Awareness Generation

6.5 In reply to a query as to whether the lack of awareness among the people about the risks involved in depositing monies in unscrupulous NBFCs and the steps taken to create awareness to ensure that investors take informed decisions before investing their hard earned money, Ministry of finance (Department of Financial Services) stated as under:

“RBI is aware of the dangers posed by the unscrupulous entities taking advantage of the public through fictitious claims and misrepresentation of information. RBI has been proactively carrying out various investor awareness programmes across the country. A set of Frequently Asked Questions (FAQs) on NBFCs have been issued by RBI which are hosted in the RBI website.

All India Campaign warning the public against fraudsters has been conducted by RBI in the past. An advertisement was issued on September 03, 2013 and in early 2014 cautioning general public to beware of the unauthorised companies accepting public deposits and check the authenticity of the company before placing the deposits with them. Further, it has been decided to conduct joint campaigns along with co-regulators/ government and IBA, including MCA.

The Regional Offices (ROs) of RBI have been participating in various fairs, seminars etc. across the country and spreading awareness among the people through videos, pamphlets etc. They have also been imparting education to the Police officials, Chartered Accountants and other Government officials regarding the regulations applicable to NBFCs. They have resorted to various ways viz. radio, banners, public transport to communicate to the public about such fraudsters.

RBI would also be commencing a pan India mass media advertisement programme soon to beware the investors about the nefarious entities.”

6.6 Submitting further RBI stated *inter alia* as under:

“With a view to clearly educate the public on the legality or otherwise of acceptance of deposits by various entities, the Reserve Bank has issued a detailed set of FAQs (which is available on the Bank’s website at www.rbi.org.in), clearly specifying that deposits accepted by NBFCs are neither insured nor does RBI guarantees repayment of deposit. The list of NBFCs registered by RBI is also available in the Bank’s website. Besides, RBI has been conducting public awareness programs, besides conducting outreach programmes to make the depositors aware of this besides warning them against fraudsters and fly by night operators.”

6.7 RBI further added as under:

“...What is of greater concern is unauthorized money collection by unregulated companies and unincorporated entities RBI has been carrying out Investor Awareness Programmes across the country through Newspapers, Radio, fairs/meals, etc. Regulators like SEBI, IRDA also conduct Investor Education activities through various channels. Keeping this in focus the Bank is trying to take other agencies along thereby carrying out the awareness programmes on a sustained and holistic basis.”

6.8 Suggesting widespread campaigning for creating awareness among the people about investing in NBFCs , Vice Chairman and CEO of HDFC Ltd, to the Committee on 10.03.2015 , stated as under :

“... today if there is unpaid dividend it goes into Investor Protection Fund. Now, from that Investor Protection fund , if there is a widespread campaigning which is done on a continuous basis which guides the common man to the effect that “please be careful where your money is being invested

; please do not be lured by people who pay high interest rates ; deposit your money with regulated entities, that could perhaps be one way.”

6.9 Managing Director, HDFC LTD, apprising the Committee of the need for funding sufficiently the awareness programmes on 10 March, 2015 stated that awareness generation among the masses may be included as an activity under Corporate Social Responsibility (CSR) Programme.

6.10 Stating that awareness generation should not merely be limiting to circulation of pamphlets, Chairman & MD, L&T Finance Holding, 10 march, 2015 submitted follows:

“This needs to be escalated. This needs to be done in mass scale. It is not just circulating some bulletins. That is not the way. I think people need to go from town to town and talk to people....In a very small way we have made a beginning for our mutual fund and we have started going to smaller places and we are conducting programmes actually for all types of people , for women, old people, salaried class , pensioners, etc...”.

Grievance Redressal Mechanism

6.11 With regard to the extant Grievance redressal mechanism available for depositors of NBFCs-D and whether such mechanism is meeting the objectives for which it has been set up and the corrective action needed in this regard , RBI in a written reply submitted as under :

“The existing grievance redress mechanism for customer complaints is given under the Guidelines on Fair Practices Code for NBFCs issued by the Bank vide Circular DNBS.CC.PD.No.266/03.10.01/2011-12 dated March 26, 2012, as summarized below:

- Board of Directors of NBFCs should lay down appropriate grievance redress mechanism within the organization to resolve disputes between the company and its customers and the mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level.

If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI, under whose jurisdiction the registered office of the NBFC is located.

Public notice should be displayed at business premises of NBFCs to highlight to the customers, the grievance redress mechanism followed by the company, together with details of the grievance redress officer and of the Regional Office of the RBI.

Further, in case of non-repayment of the deposit or part thereof as per the terms and conditions of such deposit, the depositor may approach the respective Bench of Company Law Board. The depositor may also approach the National Consumers Disputes Redressal Forum, the State Level Consumers Disputes Redressal Forum or the District Level Consumers Disputes Redressal Forum for relief.”

6.12 The data on the number of complaints disposed of by the competent grievance redressal body/ authority for the last five years (year wise) as submitted by RBI may be seen at **Appendix - 8**

6.13 In written reply to a query as to the steps taken or proposed to be taken to strengthen grievance redressal mechanism, RBI submitted as under: (pt. 30)

“Primarily, complaints regarding non-repayment of deposits by registered NBFCs are dealt with by RBI as per the provisions of RBI Act, 1934. The RBI is empowered to file winding up petitions before the Company Courts against the NBFCs which are unable to pay its debts. RBI is also empowered to initiate criminal action against NBFCs for non-compliance with the orders passed by CLB for repayment of deposit amount. However, RBI Act does not have provisions for repayment of deposit amount to depositors, or attaching the properties of the NBFCs and its directors, etc. RBI, in its regulatory role is not equipped for the same which can best be executed by the State Machineries. It is for this reason that the RBI has been pursuing with the State Authorities for enacting the State Protection of Interest of Depositors Act wherever it has not been passed. In states, where it is in existence, the Reserve Bank refers such cases of default and fraud to the respective State Authorities so that the State Authorities can take immediate action for attachment of properties and consequent steps for making arrangement for repayment to the depositors through the specially designated Courts under the Act.

In view of such an enactment and machinery in place, it would be better if the said machineries are more empowered and well equipped to tackle situations of fraudulent acceptance of deposits and default committed by financial establishments to repay the depositors. “

6.14 In written reply to a further query as to whether the grievance redressal mechanism available for depositors of NBFC-D is effective enough to meet the objective of protection of interests of depositors and If not, the corrective action can be taken/proposed for making it more effective and depositor friendly, Ministry of Finance (Department of Financial Services) stated that:

“As part of Grievance Redressal Mechanism mandated by RBI, all NBFCs have to display the following information prominently, for the benefit of their customers, at their branches / places where business is transacted:

(a) the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company.

(b) If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the NBFC falls.

Further for grievance redressal, depositors can approach Company Law Board (CLB) under section 45 QA of RBI Act and other consumer’s forum.

In order to strengthen the existing framework, RBI should be empowered to direct Police to investigate in cases when complaints are received from Depositors.”

6.15 L&T Finance Holdings , stating that the present mechanism for grievance redressal of the depositors is time consuming and do not guarantee timely settlement suggested as under :

“Currently, the law states that if an NBFC defaults in repayment of deposit, the depositor can approach Company Law Board or Consumer Forum or file a civil suit in a court of law to recover the deposits.

The Company Law Board (CLB) either on its own motion or on an application from the depositor, directs by order the Non-Banking Financial Company to make

repayment of such deposit or part thereof forthwith or within such time and subject to such conditions as may be specified in the order. After making the payment, the company will need to file the compliance with the local office of the Reserve Bank of India.

Additionally, the affected depositors can approach the nearest Regional Office of the Reserve Bank and can complain to the State Police authorities/Economic Offences Wing of the State Police as well.

Some States have passed the Protection of Interest of Depositors (in Financial Establishments) Act, which empowers the States to attach the assets of such entities and distribute the proceeds thereof to the depositors.

However, the above mechanisms are time consuming and do not guarantee timely settlement and redressal of depositor grievances.

Therefore, there is a need for a uniform time bound grievance redressal mechanism to address the complaints of depositors.

A grievance redressal mechanism on the lines of the Sebi Complaints Redressal System (SCORES) of SEBI, for dealing with depositor grievances is suggested. The process should be through call centres / websites so that depositors are able to lodge complaints in a timely manner. “

6.16 HDFC Ltd, while maintaining that the extant grievance redressal mechanism is robust and fairly effective, suggested the following changes:

“Centralized toll-free call centre :

Writing a complaint letter and reaching out to National/State Grievance Redressal machinery is not easy for an average person. As such, RBI may consider setting up a centralized call centre (toll – free) in major languages so that any depositor who has a grievance can lodge a complaint by simply making a call in 2 minutes. This number may be widely publicized and every entity accepting public deposit must promptly display the RBI call centre number prominently in their offices and in the application form and advertisements seeking deposits. This process can be best managed by outsourcing to 2 or 3 Grade I outsourcing vendors. These vendors must systematically report to RBI on a daily/weekly/monthly basis.”

6.17 The Committee have received suggestion from the experts for setting up of fast track courts for speedy disposal of cases With a view to ensuring speedy disposal of cases against NBFCs and other deposit accepting entities it has been that suggested that fast track courts ought to be set up. Besides expeditious disposal of cases in fast track

courts, these matters can also be referred to Lok Adalats. The Ministry of Finance (Department of Financial Services) furnished their views on the suggestions as given below:

"RBI is in agreement with the above suggestion. However it may be pointed out that fast track courts and Lok Adalat may resolve disputes but may not be able to redistribute or repay deposits. The Reserve Bank is engaged with Government of India, Ministry of Finance to amend the RBI Act to make certain offences pertaining to acceptance of deposits without permission from the Reserve Bank, non-compliance with orders passed by the Company Law Board for repayment of deposits, acceptance of deposits from public by unincorporated bodies etc., cognizable so that the police authorities can take cognizance of those cases and initiate appropriate action under the law and even arrest the offenders without a warrant."

6.18 The Ministry further elaborated on the statutory framework for protection of interest of depositors as under:

"Further, as stated earlier, the State Protection of Interest of Depositors Act is also embedded with speedy redress of the grievances of the depositors. It has provisions enabling the State Authorities to attach the moneys and properties of not only the defaulting financial establishment, its directors, officials, etc. but also the moneys and properties believed to have been acquired by the financial establishment either in its own name or in the name of any other person from out of the deposit collected by the company. Further, if such property or money is not available for attachment or if the property attached is not sufficient to repay the depositors, the State Authorities can even attach such other properties of the financial establishment or the promoter, director, partner, manager or member of the financial establishment as deemed fit. This can be done not only when the default is committed by the financial establishment, but even when the Government has reason to believe that any financial establishment is acting in a manner detrimental to the interest of the depositors with an intention to defraud the depositors. Offences under the Act are cognizable. Designated courts are set up to try offences under the Act and to pass orders confirming attachments made by the State Govt, to distribute the sale proceeds, etc. Some of the Acts have provisions prohibiting grant of anticipatory bails to the offenders and for compounding of offences. We suggest that since provisions are already in place for speedy redressal of the grievances of depositors who are deprived of their money by fraudulent

entities, the Authorities under the State Acts should be provided with all necessary wherewithal to speed up the recovery process so that the depositors' grievance is redressed expeditiously.

RBI hasten to add that they are in favor of any step which can be taken up for expeditious disposal of cases against NBFCs and other deposit accepting entities."

CHAPTER 7

Protection of Depositors' Interests - Need for Empowerment of RBI

As stated elsewhere in the report though the RBI Act have provisions to file criminal complaints against the NBFCs for non-compliance of the orders of the Company Law Board for non-repayment of deposit amounts to the depositors, to punish them it does not have any provisions for repayment of the depositors or for redressal of the grievances of the depositors'

7.2 In response to a query as to whether there is any proposal to empower RBI with sufficient powers for protecting the interests of depositors Ministry of Finance (Department of Financial Services) in a written reply submitted *inter alia* as under :

“As per the provisions of the RBI Act, the powers of RBI with respect to NBFC-D are (i) issue prohibitory orders under Section 45-MB, (ii) file criminal complaint for non-compliance of CLB order or for accepting deposit in contravention of any direction given by RBI, (iii) filing of winding up petition,& (iv) imposing penalty on the NBFC. Except for the winding up of the NBFC, the aforesaid courses of action do not redress the grievance of depositors or help the depositors get the repayment of deposit amount.

7.3 In view of the large scale nature of these fraudulent companies and the magnitude of financial assets involved, is there any proposal to shift the investigation responsibilities to a more stringent authority such as the CBI, Ministry of Finance (Department of Financial Services) in a written reply stated as under:

“Depending upon the gravity of offence, cases of financial frauds have been transferred to CBI, often by the Judiciary, through Public Interest Litigation (PIL) for which RBI has never raised any objections. The enactment of Protection of Interest of Depositors (PID) Act in the States and its effective enforcement will help create a stronger legal environment to deter unscrupulous and dubious operators.

RBI feel that the powers available with the Bank in Chapter III B of the RBI Act are not effective deterrents. The amount of penalty which can be imposed on the companies not following directions is quite meager, and does not serve the purpose. An example in case is the Section 45 N of the RBI Act under which RBI is empowered to carry out Inspection of any Non-Banking institution. However, if any entity does not furnish the requisite information, a paltry one time fine

extending up-toRs. 2000/- and thereafter further fine extending to Rs.100/- everyday if the entity refuses to cooperate. At present, for violation of Directions/regulatory guidelines, a maximum monetary penalty of Rs. 5.00 lakh can be imposed.”

7.4 In written reply to another question of the Committee whether empowering the RBI with suitable powers will remedy the situation, Ministry of Finance (Department of Financial Services) in their post evidence reply stated as under:

“.....RBI has the power to file criminal complaints against NBFCs which have failed to repay the deposits in terms of the orders passed under Section 45QA of RBI Act by the Company Law Board. Conferring additional power on RBI for securing repayment of deposits to the depositors may not yield the desired results.

....RBI has been pursuing with the State Authorities, who have the necessary reach and wherewithal even in the remote corners of the State, to enact the Protection of Interest of Depositors Act which has provisions enabling the State Authorities to attach the moneys and properties of not only the defaulting financial establishment, its directors, officials, etc. but also the moneys and properties believed to have been acquired by the financial establishment either in its own name or in the name of any other person, attach properties of the financial establishment or the promoter, director, partner, manager or member of the financial establishment as deemed fit. This can be done not only when the default is committed by the financial establishment, but even when the Government has reason to believe that any financial establishment is acting in a manner detrimental to the interest of the depositors with an intention to defraud the depositors. NBFCs are also covered under these Legislations since they are ‘financial establishments’ for the purpose of the Acts. The Hon’ble Supreme Court has upheld the Constitutional validity of such State enactments.

A few States like UP, Kerala and West Bengal are yet to enact such State laws. Till such time as all the States enact such laws, it would be useful to expedite the process of winding up. As of now, RBI is empowered to file winding up petition against NBFCs but such winding up petitions are governed by the normal winding up procedure under the Companies Act. This causes avoidable delay in securing repayment to depositors. Winding up petitions filed by RBI against NBFCs need to be fast-tracked in public interest by appropriate amendments to the law which may even confer priority to the claims of depositors over other unsecured creditors.

7.5 With regard to the efficacy or otherwise of the efficacy or otherwise of the legal, framework governing, the extant regulatory mechanism for protection of interest of depositors of NBFCs Ministry of Finance (Department of Financial Services) in a reply submitted as follows:

“Primarily, complaints regarding non-repayment of deposits by registered NBFCs are dealt with by Reserve Bank of India (RBI) as per the provisions of RBI Act, 1934. The RBI is empowered to file winding up petitions before the Company Courts against the NBFCs which are unable to pay its debts. RBI is also empowered to initiate criminal action against NBFCs for non-compliance with the orders passed by CLB for repayment of deposit amount. Besides with a view to strengthening the regulatory mechanism for the protection of depositors the RBI has also taken up with the Government the proposal for various amendments to the RBI Act which will clearly bring out more clarity in the definitions of the ‘deposit’ and the ‘financial institutions’. The deposits collected from members having no voting rights would be treated as public deposits. Adequate powers to be conferred on RBI to specify minimum net owned fund from time to time. With regard to governance of NBFCs, RBI should be vested with powers to remove or appoint additional directors and if required supersede the board to enforce the corporate governance principles. Suggestions for an effective resolution mechanism for all NBFCs to be put in place in lines of that proposed for the banks have been given.”

7.6 In reply to a specific query as to the need or otherwise for amending / modifying the extant legal framework for ensuring more teeth to the regulatory mechanism , Ministry of Finance (Department of Financial Services) in a post evidence reply stated as under :

“RBI has sufficient powers under the RBI Act to issue directions to NBFCs in matters relating to prudential norms (Section 45JA), deposit acceptance (Section 45K) and the conduct of business by NBFCs (Section 45L). The directions issued by RBI in exercise of the powers under these sections are binding on NBFCs. Legal framework in this regard is adequate.

However, RBI has no power to appoint additional directors or observers on the Boards of erring NBFCs or for removal of managerial personnel who are responsible for the mal functioning of NBFCs. RBI has power to impose fines on NBFCs but not on the erring managerial personnel. There are no provisions for resolution for failing NBFCs.

To ensure more teeth to the regular mechanism, RBI Act may be amended suitably to empower RBI to -

- (a) To appoint additional directors or observers on the Boards of erring NBFCs which are accepting deposits or systemically important NBFCs (SI NBFCs)
- (b) Remove erring managerial personnel of deposit accepting NBFCs and SI NBFCs
- (c) Impose fine on the erring managerial personnel of NBFCs
- (d) Frame schemes for resolution of NBFCs under which remuneration of managerial personnel can be reduced, assets may be sold, viable portion of the business may be separated and loss may be allocated among different shareholders.”

7.7. L&T Finance Holdings in written reply to a query as to extent of empowerment of RBI for protecting the interests of depositors in case of default, stated as under:

“The RBI Act should be amended to give the following powers to RBI:

- a) Endowing RBI to impose penalties and / or directing refund of deposits in case of non-repayment on the due date.
- b) In order to recover the penalties and secure repayment of deposits, RBI should be able to attach and sell the movable and immovable assets of the defaulters.
- c) RBI should be also allowed to conduct searches, both within and outside the country, in respect of defaulting entities.”

7.8. L&T Finance Holdings further submitted as under:

“RBI should act as an enforcing agency and facilitator to help it recover penalties and investors’ money from defaulters in a timely manner.

The regulator (RBI) should empanel third-party agencies to work as receivers for management and sale of assets attached through its regulatory orders.

The scope of work should include possession and control of the assets as directed and monitored by RBI and preparation of inventory of the assets, managing the assets attached by the regulator till its disposal and maintaining records of accounts of all transactions.”

7.9 HDFC Ltd suggested that RBI may be empowered to freeze assets / bank accounts, use SLR securities and take appropriate action against Directors and key management personnels for protecting the interests of the depositors in case of default.

CHAPTER 8

Unclaimed Deposits with NBFCs-D

8.1 With regard to the data on the amount of unclaimed deposits lying with NBFCs–D and the details of the NBFCs-D with which the deposits are lying unclaimed during the last 10 years RBI stated that there are 24 NBFCs-D which have reported unclaimed deposits with them. Year wise details are furnished in **Appendix- 9**.

8.2 In terms of Non-Banking Financial Companies Acceptance of Public (Reserve Bank) Directions 1998, the NBFCs –D are required to intimate the details of the maturity of the deposit to the depositor at least two months before the date of maturity of the deposit. The NBFCs have also reported to have contacted the introducers to verify the whereabouts and correct addresses of depositors.

8.3 In written reply to a query as to whether NBFCs-D have taken all the required steps in returning the matured proceeds of their deposit holders and if so the details thereof and if not, whether the NBFCs –D can use them for their own business operations without paying interest beyond the periods for which these were deposited, RBI submitted as under:

“No violations of the RBI’s guidelines have been observed. On the use of unclaimed deposits by NBFCs for their own business without paying interest, there is no specific direction/ guideline issued by RBI in this regard.”

8.4 In case the deposit amounts are lying unclaimed even after expiry of 7 years, the same needs to be kept in Investor Education and Protection Fund (IEPF) in terms section 205 C of the Companies Act.

8.5 In written reply to a specific query on the amount of unclaimed deposits lying with NBFCs –D and the amounts kept in Investor Education and Protection Fund (IEPF) as at the end of March, 2014, RBI submitted as under:

“Yes, in case the amount is lying unclaimed after expiry of 7 years, the same needs to be transferred to Investor Education and Protection Fund in terms of

section 205 C of the Companies Act. Data regarding the unclaimed deposits is furnished in Annex- I. RBI has not given any instructions regarding the transfer of unclaimed deposits to IEPF and does not monitor the same.”

8.6 The Ministry of Finance (Department of Financial Services) stated that 24 deposit taking NBFCs have reported unclaimed deposits of Rs. 556 crore approx to the RBI. In response to a query as to whether such deposits can't be treated on par with the unclaimed deposits of banks, unclaimed dividends of companies, Mutual funds, etc. and if so, the details thereof, Ministry of Finance (Department of Financial Services) stated as under:

“In terms of Non-Banking Financial Companies Acceptance of Public (Reserve Bank) Directions 1998, in every report of the Board of Directors laid before the company in a general meeting, the information about the total number of accounts of public deposit of the company which have not been claimed by the depositors or not paid by the company after the date on which the deposit became due for repayment; and the total amounts due under such accounts remaining unclaimed or unpaid beyond the dates should be disclosed. These particulars or information shall be furnished with reference to the position as on the last day of the financial year to which the report relates and if the amounts remaining unclaimed or undisbursed exceed in the aggregate a sum of rupees five lakhs, there shall also be included in the report a statement on the steps taken or proposed to be taken by the Board of Directors for the repayment of the amounts due to the depositors remaining unclaimed or undisbursed. In case the amount is lying unclaimed after expiry of 7 years, the same needs to be transferred to Investor Education and Protection Fund in terms of section 205 C of the Companies Act, 1956 or Section 125 of Companies Act, 2013.”

CHAPTER 9

Supervision and monitoring mechanism of RBI

The supervisory framework for NBFCs at present has a four pillar approach, consisting of **On-site supervision, Off-site monitoring, Market Intelligence and exception reports from auditors**. Initially, as the objective of regulation was protection of depositors' interest, supervision both on-site and off-site, was only restricted to deposit taking NBFCs, with only minimal regulation applicable for non-deposit taking NBFCs. However, as the systemic significance of non-deposit taking NBFCs was recognized with non-deposit taking NBFCs with assets of ` 100 crore and above being classified as systemically important (NBFCs-ND-SI), a regulatory and supervisory framework was put in place for them. The mechanism of Market Intelligence and periodic Structured Meetings with the NBFCs are also used to gather information. There have been instances where special scrutiny is conducted with regard to specific business areas say gold loan business, etc.

9.2 As on date, all deposit accepting companies are required to submit several Quarterly Returns which include all essential balance sheet parameters, adherence to prudential norms including NOF, Capital adequacy, adherence to exposure limits, exposure to sensitive sectors, capital market exposures, exposure to immovable property, deposit levels, statutory liquidity ratio, asset-liability management and disclosure requirements. In addition monthly return on deposits accepted and SLR maintained is also obtained. Onsite inspection is done every year or every alternate year depending on the information analysed from the off-site Returns, complaints or any other information received from Market Intelligence or newspaper reports. Snap scrutinies are also conducted if there are concerns on any aspect between two inspections. Similar arrangement is in place for RNBCs.

9.3. Offsite Returns are obtained from NBFCs with asset size above Rs. 50 crore as given in the para above, with a simplified return for those with assets between Rs. 50-100 crore. Those above Rs. 100 crore in asset have to submit the same Return on a monthly basis. Onsite Inspections are conducted for non-deposit accepting NBFCs above Rs. 2000 crore in assets or for those below where there are supervisory concerns observed from the off-site Returns or from other sources.

9. 4. The inspection process is based on CAMELS approach where the parameters of capital adequacy, asset quality, management, earnings, liquidity and systems and

control of the NBFC are assessed and rated, to a large extent, with reference to the audited balance sheet dates.

9.5 Extant periodicity of annual financial inspections for NBFCs is given below:

Table 9.5 : Periodicity of annual financial inspections for NBFCs

NBFCs-D	To be inspected
Public deposits of 50 crore and above	Every year
Public deposits of ` 1 crore and above but less than ` 50 crore	Those scoring 60 marks for two consecutive years in the matrix will be inspected once in two years
	Those scoring below 60 marks in the matrix will be inspected every year
Public deposits less than ` 1 crore	Will be considered for inspection as per supervisory concern identified on the basis of questionnaire as per Annex B to Roc No. 16 dated January 1, 2005.
NBFCs-ND-SI	
With asset size of ` 2000 crore	Every year
With asset-size between ` 1000 and ` 2000 crore	Once in two years
Others	On need basis

9.6. In response to a query as to whether there is any proposal to devise a plan to make this system more thorough by adopting a method of conducting periodic reviews of every registered NBFC across the country, Ministry of Finance (Department of Financial Services) OF in a written reply stated as follows:

“Supervisory framework of the RBI stipulates periodic inspection of registered entities which are systemically important (offsite and onsite). In terms of NBFCs Auditors Report (Reserve Bank) Directions, 2008 it is an obligation of Statutory Auditors to submit to RBI exception reports in the event of non-compliance by NBFCs to the provisions of the Chapter III B of the RBI Act, 1934 and directions issued by RBI regarding deposit acceptance and prudential norms.

Regulated and registered NBFCs do not normally undertake unauthorized deposit taking and those with the authorization have been found to have met their obligations to depositors in time.

At the behest of Financial Stability and Development Council –Sub Committee (FSDC-SC), the SLCCs were reconstituted in May, 2014. The SLCCs are now being chaired by the Chief Secretaries/Administrators of the States/UTs, and all the relevant financial sector regulators and enforcement agencies are participants in the SLCC forum. SLCCs will play an effective role in early detection and prompt action against fraudulent Ponzi schemes through information sharing among the participants.

Moving forward, a dedicated website for SLCC is being designed which will contain consolidated information on activities of all the SLCCs in a single on-line platform, and would also facilitate easy & quick sharing of information amongst the participants. The SLCC website will host all NBFCs related information and it will also have a module for the members of public to file complaints, ask questions and post any information on suspected unauthorized financial activities, including deposit collection by unauthorized entities”

9.7 Asked whether the existing supervisory framework for regulating NBFCs –D is serving the desired purpose of protection of depositors and the corrective action, if any, needs to be taken in this regard , Ministry of Finance (Department of Financial Services) in their reply stated as under:

“The existing supervisory framework for NBFC-D is robust and the provisions of Chapter III B of RBI Act, 1934 for inspection and calling for information are considered adequate for supervision. The framework for NBFC-D, at present, has a four pillar approach, consisting of on-site supervision, off-site monitoring, market intelligence and exception reports from auditors. In general, the regulated NBFC sector is largely without any untoward incidents like large scale default or scam. It is the illegal deposit acceptance schemes by unauthorized entities that pose a challenge.”

9.8 With regard to the sufficiency or otherwise of the extant supervisory mechanism for the protection of interests of the depositors , L&T Finance in a written reply submitted as under:

“Yes, the existing supervision mechanism is adequate. NBFCs are governed from the prudential norms front as stipulated by RBI and Acceptance of Deposit Rules jointly formulated by the Reserve Bank of India and Ministry of Corporate Affairs.

Corrective action is required only on the enforcement front, in case of non-repayment of deposits.”

9.9. HDFC Ltd., in a written reply to a query on the sufficiency or otherwise of the extant supervisory mechanism submitted as under:

“Currently, the supervising mechanism involves reporting of public deposits to several regulators – RBI, NHB, MCA/ROC, NABARD, etc. Also there are a large number of companies (with very small deposit base) accepting public deposits, which is supervised by various regulators. In view of the multiple supervisory mechanism which requires a lot of co-ordination, some entities tend to perpetrate fraud through the public deposits route. Reducing the number of players and restricting acceptance of public deposits to only a few serious players would significantly strengthen and streamline the supervisory mechanism.”

Early Warning signals.

9.10. In written reply to a specific query as to whether four pillar approach to supervision of NBFCs –D enables RBI to devise early warning signals of the impending default by the said NBFCs-D so that depositors’ interests are secured, RBI stated *inter alia* stated as under:

“The supervisory framework for NBFCs, at present, has a four pillar approach, consisting of on-site supervision, off-site monitoring, market intelligence and exception reports from auditors.

For NBFCs registered with the Bank, a whole range of prudential norms are made applicable. Adherence to them is ensured through both onsite and offsite surveillance. In addition, reports from statutory auditors supplement the mechanism. RBI also has a mechanism of periodic structured meetings with the Managements of these NBFCs. There have been instances where special scrutiny is conducted with regard to specific business areas say gold loan schemes.

Among the NBFCs registered with RBI, only a few are permitted to accept deposits. As on date, all deposit accepting companies are required to submit several Quarterly Returns which include all essential balance sheet parameters, adherence to prudential norms including NOF, Capital adequacy, adherence to exposure limits, exposure to sensitive sectors, capital market exposures, exposure to immovable property, deposit levels, statutory liquidity ratio, asset-liability management and disclosure requirements. In addition monthly return on deposits accepted and SLR maintained is also obtained. Onsite inspection is conducted based on the information analysed from the off-site Returns, complaints and any other relevant information received from Market Intelligence or newspaper reports. Snap scrutinies are also conducted if there are concerns on any aspect.

The inspection process is based on CAMELS approach where the parameters of Capital adequacy, Asset quality, Management, Earnings, Liquidity and Systems and control of the NBFC are assessed and rated, to a large extent, with reference to the audited balance sheet dates. “

The Market Intelligence framework of the Bank particularly keeps a tab on the activities of financial entities in the unregulated space. Complaints from public, Newspaper reports, Incognito Visits are some of the sources of Market Intelligence.

RBI has put in place a robust supervisory regime that keeps a watch on the NBFCs in regulated space while giving room for their growth. Thus in general, the regulated NBFC sector is largely without any untoward incidents like large scale default or scam. It is the unauthorised and illegal deposit acceptance schemes by unauthorised financial entities that pose a menace to the financial sector. The last two pillars of Market Intelligence and Exception reports from Auditors particularly address this issue.”

Market Intelligence

9.11 In the light of collection of deposits from the public by unauthorised NBFCs despite the existence of market intelligence mechanism of RBI, the latter were requested to furnish as to whether there is any proposal to strengthen and to impart professionalism to gather intelligence from the market , RBI submitted inter alia as follows:

“The Market Intelligence (MI) officers gather intelligence from various sources (such as complaints, newspapers and general public), scrutinize the cases, and

conducts MI visits to the entities when any unauthorized financial activity comes to their notice. They coordinate with other departments within RBI and also with other regulators through mechanisms like State Level Consultative Committees (SLCC), etc. While such officers are designated for the purpose of intelligence gathering, they are not necessarily skilled in that job which is very much specialized in nature. To address this skill gap, RBI is trying to arrange for training programs by inviting specialists from agencies such as other regulators, intelligence agencies, etc.”

9.12 Further, RBI, in a written reply stated as follows:

.... Market Intelligence (MI) which is one of the four most important supervisory pillars (others being on-site inspection, off-site surveillance and statutory audit) is also being strengthened as it has assumed greater importance in recent times in view of increasing activities of unauthorized deposit collection activities by fly-by-night operators and others which can have serious social, political and economic implications. A robust MI system has been put in place both in the Regional Offices of the Reserve Bank and in the Central Office. RBI has also placed a framework for Market Intelligence which includes incognito visits on receipt of information on unauthorized financial activities.

9.13 With regard to the steps needed to improve the intelligence gathering and evaluation mechanism, Ministry of Finance (Department of Financial Services) in a post evidence reply stated as follows:

“Intelligence gathering is a skilled function requiring awareness, aptitude and presence. It can best be addressed by the law enforcement agencies like the State Police, who are present across the state provided they are aware of the elements of financial crimes and empowered to take action. The SLCC forum has a fairly wide participant list to address the issue of reach. It involves all relevant agencies with the objective of creating the necessary response function at the field/operating level over time. On the other hand, the regulatory agencies like the RBI are involved in expanding financial literacy amongst the public, providing training on financial crimes to the law enforcement agencies, sensitizing their own officers who make field visits in market intelligence as also having designated officers who keep a tab on information as available from sources such as complaints, RTI queries, newspapers and general public). Wherever warranted, RBI officers also scrutinize the cases, and conducts MI visits to the entities when any

unauthorized financial activity comes to their notice. Since the work is specialised in nature, the Bank is trying to arrange for training programs by inviting specialists from agencies such as other regulators, intelligence agencies, etc.

Going ahead, a feedback loop from the ground level to the SLCC will have to be built with the active cooperation of the State administration and police. Similarly, the managers of bank branches, especially in semi-urban and rural centres, can be tapped for providing information in this regard to the RBI in a structured manner. The public also needs to be made more aware in the short term and financially literate over time to protect himself from unscrupulous operators. The proposed SLCC portal envisages a window for him to file his query or complaint so that action from the concerned regulator/agency can follow faster than before. “

Exception Reports from auditors

9.14 In terms of NBFCs Auditors Report (Reserve Bank) Directions, 2008, it is an obligation of Statutory Auditors to submit to the Bank exception reports in the event of non-compliance by NBFCs to the provisions of the Chapter III B of the RBI Act, 1934 and directions issued by the Bank regarding deposit acceptance and prudential norms.

9.15 . NBFCs have to reiterate in their letter of appointment to statutory auditors their statutory responsibility to report directly to the RBI the violations, if any, of the provisions of the RBI Act, or directions issued there under, noticed by them in the course of their audit. The data and details on the number and nature of violations of the provisions of the RBI Act, 1934 or the directions issued there under by the NBFCs as reported by auditors to RBI directly may be seen at **Appendices - 10 & 11** .

9.16 In written reply to a query as to whether there are any cases where the default in repayment of matured deposits and /or other violations by NBFCs of extant rules and regulations was reported by individuals but the same are not mentioned by statutory auditors through exception reports and if so, the details thereof including the action taken or proposed to be taken against such auditors for the last 10 years (year wise) RBI have replied that no such No such case has been brought to the notice of RBI.

9.17 As stated elsewhere in the report out of the list of 31,754 firms provided by Ministry of Corporate Affairs (MoCA), RBI during preliminary examination found that 64

were accepting deposits unauthorisedly. RBI have stated that detailed examination is in progress so that action viz. referring deposit accepting companies to state Governments for action under protection of Interests of Depositors Act/ criminal complaint against rejected companies, deprecating / registering others, etc. can be initiated.

9.18 In response to a query whether RBI have received exception reports under NBFCs Auditor's Report (Reserve Bank) Directions, 2008 from the auditors of above mentioned 64 NBFCs found to be accepting deposits unauthorisedly and if so, the details thereof and if not, the action taken or proposed to be taken against the auditors for not submitting the exception reports pointing out the unauthorized acceptance of deposits by the said NBFCs, stated as under:

"The information furnished earlier regarding the companies holding public deposits was based on the preliminary examination of the financial statements downloaded from the MCA website. These companies (meeting the PBC criteria), whose number had subsequently increased to 104, were suspected to have deposits on their Balance Sheets. The detailed investigation process is on –and so far no incident has come to our attention where any company is holding any public deposit. Further, no Exception Report has been received from the Statutory Auditors of any of these companies. RBI is in the process of verifying whether these companies have violated the RBI guidelines through letters of explanation, scrutiny/ visits of these companies, meeting with companies/ its auditors etc. Once it is established that a company has unauthorizedly accepted deposits, action against the Auditors would be initiated."

9.19 RBI has stated that out of 104 companies suspected of fraud/collection of deposits illegally from the list of companies forwarded by MCA to them, no exception report was received from any of the statutory auditors of these companies. In response to a query as to whether RBI feel that ICAI which is represented on the SLCC be tasked with ensuring that their members send exception reports to RBI regarding flouting of regulations by NBFCs audited by them, Ministry of Finance (Department of Financial Services) in a post evidence reply stated as follows:

"In terms of NBFCs Auditors Report (Reserve Bank) Directions, 2008, it is an obligation on the part of Statutory Auditors to submit to the Bank exception reports in the event of non-compliance by NBFCs to the provisions of the

Chapter III B of the RBI Act, 1934 and directions issued by the Bank regarding deposit acceptance and prudential norms.

The RBI takes up the matter regarding non-submission of exception reports by the Statutory Auditors of the NBFCs in the SLCC meetings with the representative of ICAI. Further, the RBI organises seminars, workshops and training programmes for the Auditors which are aimed at sensitising them about the requirement of submitting Exception Reports to the RBI in case they observe the company is not adhering to the RBI's Directions.

It may be noted that on the basis of the preliminary examination of the Balance Sheets downloaded from the MCA website, 104 companies were prima facie suspected to be accepting public deposits and meeting PBC. However, when the scrutiny of these companies were conducted and detailed examination of their financial statements done (totalling 83), none of the companies has been found to be accepting deposits. The scrutiny and examination of the financial statements of the remaining 21 companies is in process. This process is expected to be completed in the next 1 month. If it is found that any of the company was indeed accepting deposits unauthorizedly and the exception report was not submitted by the Statutory Auditor, the matter would be taken up with the concerned Auditor and ICAI."

9.20 With regard to the action taken or proposed to be taken against the said 64 firms for accepting deposits unauthorized, RBI in a written reply have stated as follows:

"RBI has written Letters of Explanation to all the companies suspected to be holding public deposits as per their Balance Sheet. Thereafter, the Bank has initiated scrutiny/visits of these companies to verify whether these companies are indeed unauthorizedly holding public deposits. As on date, there is significant progress on this front. However, so far, the Bank has not come across case of any company having accepted any public deposits."

9.21 RBI have furnished 50 cases of directing NBFCs-D operating without registration or violating relevant provisions of the RBI Act, 1934 or the directions issued there under, to refund the deposits collected from the Public. In written reply to a queries as to whether (i) the firms involved in all the above 50 cases are audited by the auditors, (ii) If so, whether the auditors have pointed out the said violations in all the 50 cases in their

exception reports to RBI; and, (ii) RBI have taken up the matter with Institute of Chartered Accountant of India (ICAI) in this regard, RBI submitted as follows:

“Out of the 50 cases reported earlier, 25 cases were pertained prior to 2010. The number of such cases, during the last 5 years, stands at 25. All these companies have been audited by auditors. However, exception reports to the Bank have not been submitted by the Auditors. The Bank has not taken up the matter with ICAI.”

9.22 In response to a further query as to how many of the above 50 cases were detected by RBI due to their own market intelligence mechanism, Onsite inspection, off site monitoring, inputs provided by State Level Coordination Committees (SLCCs),etc, RBI stated that :

“All the cases were detected by RBI largely through complaints, its own market intelligence mechanism, on-site inspection and off-site monitoring.”

Prudential norms

9.23 Prudential norms covering inter alia income recognition, asset classification, accounting standards, provisioning norms, capital adequacy, exposure norms, disclosure in balance sheets applicable to NBFCs-D as furnished by RBI is as follows:

“RBI’s Master Circular on “Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007” contains the prudential norms for deposit accepting NBFCs. These directions cover inter alia norms for income recognition for NBFCs D, All income is classified as current and long term and for each of these categories, manner of recognizing income has been specified. Inter class changes can only take place once every six months as per the method of valuation, specified. Asset classification norms give details on how and when the assets can be classified as standard, substandard doubtful and loss and the provisioning required for each of these categories. Recently the norm for classifying an NPA has changed to a shorter 90 day overdue norms. Standard asset provisioning norms have also been enhanced to 0.4 % in place of 0.25. In addition, all deposit accepting NBFCs have to maintain a capital adequacy of 15 % of Risk

Weighted Assets with Tier I capital at 10%. For all these changes, a roadmap and ample time has been provided to make the changes least disruptive.

Besides the above, deposit accepting companies are also subjected to credit concentration norms and cannot invest in land and buildings, other than for own use, higher than 10% of the NOF. Deposit accepting NBFCs are also expected to follow accounting standards specified by the RBI and that of the ICAI where they are not in conflict with RBI guidelines. They have to submit Returns to the Reserve Bank. The disclosures to be made by deposit taking NBFCs (irrespective of size) are on par with those for systemically important NBFCs that don't accept deposits."

9.24 Comprehensive deposit acceptance and asset side regulations issued by RBI are as under:

"RBI has issued detailed guidelines on deposit acceptance in the form of *Non-Banking Financial Companies Acceptance of Deposits (Reserve Bank) Directions 1998* as amended from time to time. The Directions give definition of deposits, minimum credit rating required for acceptance of deposits, the minimum and maximum tenure of deposits, ceiling on the quantum of deposits for different types of NBFCs guidelines on renewal of deposits, premature repayments, the maximum interest that can be offered, the content and manner in which the advertisement have to be issued for soliciting deposits, manner of repayment including issuances of notices prior to maturity, manner of maintaining deposit registers, regulations on branch opening and closing, appointment of agents and the amount of brokerage payable, SLR to be maintained in which forms and the custody of such securities, auditors certification on the returns submitted to the Bank and manner, type and periodicity of Returns, besides others. In addition, deposit accepting companies are also subjected to Prudential Norms. These include regulations on income recognition, asset classification, accounting standards, provisioning norms, capital adequacy and exposure norms, disclosures in balance sheet, besides others. They are also subjected to corporate governance guidelines and guidelines on Fair practices in lending.

Systemically Important Non-Deposit Accepting Companies are subjected to Prudential Norms. The Directions include regulations on income recognition, asset classification, accounting standards, provisioning norms, capital adequacy and exposure norms, disclosures in balance sheet, besides others. They are also subjected to corporate governance guidelines and guidelines on Fair practices in lending.

All the aforesaid directions are statutory directions issued under the provisions of RBI Act, 1934 and are binding on the NBFCs.”

9.25 HDFC in a written reply on the efficacy or otherwise of the legal, framework governing, the extant regulatory mechanism for protection of interest of depositors of HDFC in a written reply submitted as follows:

“At the outset we would like to comment that the RBI/NHB framework for regulations is robust and over the last 2-3 years, RBI has systematically streamlined the regulatory framework for protection of interest of depositors of NBFCs. The important changes are highlighted below for quick reference:

- Deposit acceptance is restricted to only few NBFCs complying to prudential norms. Currently, there are only 241 deposit-taking NBFCs out of over 12000 NBFCs.
- The limit on acceptance of public deposit has been systematically reduced from 4 to 1.5 times of Net Owned Funds (NOF).
- Minimum NOF has been raised to Rs. 2 crores.
- NBFCs promoted by the same group of promoters will be viewed on a consolidated basis and not on a stand-alone basis.
- Enhanced prudential norms have been prescribed for NBFCs accepting public deposits (NBFC-D). These are:
 - Capital adequacy ratio (CAR) – Tier I capital requirement has been increased from 7.5% to 10%
 - NPA classification brought in line with banks (i.e. reduced to 90 days).
 - Provision for standard assets increased from 0.25% of the outstanding to 0.40%.
 - NBFCs to constitute Audit Committee, Nomination Committee and Risk Management Committee and is advised to rotate the partners of the audit firm auditing the company every 3 years.
 - “Fit and proper” criteria has been prescribed for Directors.
 - Additional disclosures in the Annual Financial Statements
 - Registration from regulator
 - Ratings assigned by credit rating agencies and changes in ratings during the year.
 - Penalties, if any levied by any regulator
 - Information regarding area/country of operation, joint venture partners, overseas subsidiaries
 - Exposure to Real Estate and Capital Market.

- Asset Liability profile, financing of parent company products, Non performing assets (NPAs), and movement of NPAs, details of off-balance sheet exposures, structured products issued, securitization, assignment transactions and other disclosures.
- Asset Liability Management (ALM) – There should not be any liquidity gap in the 1-30 day bucket.

As a result, the number of NBFCs which can accept public deposit (as per the RBI directions) has been substantially reduced. Also the overall deposit base of the NBFCs has fallen over the last few years. Total public deposits of NBFC sector is only Rs. 20,558 cr (as on March 14) which constitutes a mere 1.43% of the total assets (Rs. 14,41,422 cr as of Mar 14) in the NBFC sector.

While the current legal framework governing the regulatory mechanism for protection of interest of depositors of NBFCs is quite stringent, a few more reforms, especially restricting the number of NBFCs by increasing the NOF (Net Owned Fund) threshold limit and imposing heavy penalties for non-compliance would further help in protecting the interest of the depositors. This has been covered in detail in other paragraphs.”

9.26. L&T Finance Holdings furnished the following suggestions for improving regulatory framework:

“The Reserve Bank of India has a detailed regulatory framework in place to protect the interest of depositors of NBFCs. Prudential norms and Acceptance of Deposit Rules stipulate the following regulations for NBFCs who are deposit taking:

- a) Should have a Minimum Investment grade Credit Rating from approved Credit Rating Agencies
- b) Should have a minimum Capital to Risk Assets Ratio (CRAR) requirement of 15%
- c) Ceiling on acceptance of Deposits not to exceed 1.5 times the Net Owned Funds.
- d) Liquid assets to be maintained by NBFCs at a minimum of 15% of public deposits outstanding as on the last working day of the second preceding quarter invested in government approved securities
- e) Stringent provisioning for Standard Assets and
- f) Converging regulation of Non-Performing Assets in line with Banks

Additional safeguards include:

NBFCs to constitute Audit Committee, Nomination Committee and Risk Management Committee and is advised to rotate the partners of the audit firm auditing the company every 3 years.

☐ “Fit and proper” criteria prescribed for Directors.

Apart from the above stringent regulations, The Reserve Bank of India Act, 1934, confers various powers to RBI on matters relating to acceptance of deposits. However, it does not confer enforcement rights to RBI in case of default by NBFC in repayment of deposits. In the same vein, even though the Company Law Board passes orders; it also does not have powers of enforcement. Enabling regulations in this regard would be welcome."

9.27. L&T Finance Holdings have further suggested the following for strengthening the regulatory framework:

1. Minimum Credit Rating :

Current regulations permit NBFCs to accept public deposits only if it has obtained minimum “*investment grade*” rating.

Suggestion :

In order to ensure that only stronger NBFCs are allowed to accept public deposits, the minimum Credit Rating criteria may be upgraded (to say “AA” and above). This step would help in significantly protecting the interest of depositors.

2. Share Capital /Net Owned Funds:

Currently, NBFCs with a minimum capital of Rs. 2 crore can accept public deposits subject to compliance of Prudential Norms, Minimum Credit Ratings, etc.

Suggestion:

In order to ensure that only those NBFCs which are financially sound are permitted to accept public deposits, the minimum threshold requirement of net worth / Net Owned Funds (NOF) criteria may be increased to say Rs.100 crores.

3. Shareholding Pattern:

It is suggested that only widely held NBFCs be permitted to access public deposits. This would ensure that companies that are significantly owned and controlled by individuals/ families are not allowed to access public deposits. For determining the term “widely-held”, the NBFC’s Holding company shareholding pattern should also be considered.”

9.28 HDFC has suggested the following for strengthening the regulatory framework :

1. Minimum Credit Rating :

Current regulations permit NBFCs to accept public deposits only if it has obtained minimum “*investment grade*” rating.

Suggestion :

In order to ensure that only stronger NBFCs are allowed to accept public deposits, the minimum Credit Rating criteria may be upgraded (to say “AA” and above). This step would help in significantly protecting the interest of depositors.

2. Share Capital /Net Owned Funds :

Currently, NBFCs with a minimum capital of Rs. 2 crore can accept public deposits subject to compliance of Prudential Norms, Minimum Credit Ratings, etc.

Suggestion :

In order to ensure that only those NBFCs which are financially sound are permitted to accept public deposits, the minimum threshold requirement of networth / Net Owned Funds (NOF) criteria may be increased to say Rs.1,000 crores.

3. Shareholding Pattern :

Currently there is no specific requirement for shareholding pattern of NBFCs. It is suggested that only widely held NBFCs (preferably listed) are permitted to access public deposits, so that companies which are significantly owned and controlled by families are not allowed to access public deposits.

4. Ceiling on Interest and Commission :

Currently, NBFCs can offer a maximum interest rate of 12.5% on public deposits and commission (including expense reimbursement) of up to 2.5% of

the deposit amount. It is suggested that these stipulations may be revised as under :

Suggestions :

Maximum Rate of Interest : Rather than specify a fixed rate, the maximum Rate of interest (ROI) may be linked to RBI's Bank Rate (which is currently at 8.5%). NBFCs may be permitted to offer a maximum ROI of say 3 percentage points above the bank rate. Temporary adjustments may be made for any unusual movement in rates (like in 2008).

Maximum Commission (including expense reimbursement):

Current regulations stipulates a ceiling of 2.5% irrespective of the period of deposit, which means NBFCs can even offer 2.5% for a 12 month deposit. The overall ceiling may be reduced to 2% and commission cost per annum should be restricted to say 50 basis points.

If we analyse the past cases where NBFCs have defaulted in repayment of public deposits, one common feature amongst them is that they were offering very high interest rates and commission to agents.

5. Administrative Expense Ratio :

In order to ensure that NBFCs accessing public deposits operates efficiently, there could be an additional criteria that Administrative Expenses of NBFCs cannot exceed 2.5% of the Total Assets.

6. Deposit acceptance by other companies (Other than NBFCs and HFCs) :

Companies Act , 2013 and Companies (Acceptance of Deposit) Rules 2014, permits companies (other than Banks, NBFCs and HFCs) to accept deposits from public subject to certain stipulations, which are more or less similar to the RBI directions to NBFCs with some minor changes.

Currently there are very few companies who have accepted deposits in excess of Rs. 100 crores. These companies are not engaged in the business of financing/lending. Major companies in this segment are engaged in manufacturing, trading, logistics, construction, etc. Until so far, these companies were not required to do KYC, obtain Credit Ratings, etc. and Fair Practice Code is also not applicable to them.

In view of the fact that these companies are not financial intermediaries and purely engaged in other business activities, these entities should not be permitted to accept public deposits. In fact, any leading commercial bank would be willing to lend to them at rates that they can borrow through the public deposits route provided these companies were financially sound and were able to get the required credit rating. Secondly, the amount of public deposits raised by such entities is insignificant and it is unnecessarily a regulatory and administrative overload for all (including statutory auditors). Thirdly, it would also be simpler for the RBI to educate the public about who can accept deposits and who cannot; and also for the public it would be easier to know that deposits can be placed only with financial intermediaries like banks and certain NBFCs/HFCs.

If the above reforms are carried out, there would be only a handful of NBFCs & HFCs who can accept public deposits. The list of such entities (which would be less than 50) can then be made available in public domain. It would also become easier for the regulators to regulate, monitor and protect the interest of depositors, besides reducing the number of complaints about the erring NBFCs.

7. More stringent penalties for defaulting NBFCs & its Directors

If an entity (which is not permitted by RBI to accept public deposits) accepts public deposits or if RBI observes any major contravention of the regulations, RBI must swiftly act on such cases. RBI should take swift action to:

- Freeze the assets/bank accounts.
- Take strict action on Directors and key management personnel. If it is proved that they or their relatives have personally benefitted, attach their personal assets to that extent.

A special vigilance cell could be established within RBI.

CHAPTER 10

Coordination and Exchange of information among regulators of the Financial sector

There are various types of Non Banking Financial Companies (NBFCs) governed by the Central Acts and state Acts also wherever applicable. In this regard, the RBI submitted as follows:

"Various types of NBFCs under the regulatory purview of RBI are given below along with their principal business required for purposes of registration. NBFCs regulated by the Reserve Bank are also subject to regulations under the Reserve Bank of India Act, 1934, Companies Act 2013, SEBI Listing Agreement and PSS Act 2007, if they are into offering payment products. Large sized NBFCs and those which have concerns are subject to supervision by the Reserve Bank.

NBFCs registered with RBI	Principal Business Criteria
Loan/ Investment Companies (LC/IC)	50:50 (predominantly into lending/investment)
Asset Finance Companies (AFC)	60:60 (predominantly into lending against productive assets like tractors)
Micro Finance Institutions (MFIs)	having qualifying assets ¹ of minimum 85%
NBFC-Factors(They are additionally subject to Factoring Regulation Act, 2011)	75:75
Infrastructure Debt Funds (IDF-NBFCs)	Details as at footnote 2 ²
Infrastructure Finance Companies (IFCs)	A minimum of 75 per cent of the total assets should be deployed in infrastructure loans.

Core Investment Companies CIC-ND-SIs	Holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies; its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets.
Mortgage Guarantee Companies (MGC)	At least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business.

lifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria :

- i. The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/-.
- ii. Loan does not exceed Rs.35,000/- in the first cycle and Rs.50,000/- in the subsequent cycles
- iii. Total indebtedness of the borrower does not exceed Rs.50,000/-.
- iv. Tenure of loan is not less than 24 months when loan amount exceeds Rs.15,000/- with right to borrower of prepayment without penalty.
- v. The loan is without collateral.
- vi. Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

¹invests only in Public Private Partnerships (PPP) and post commencement operations date (COD) infrastructure projects which have completed at least one year of satisfactory commercial operation and becomes a party to a Tripartite Agreement with the Concessionaire (a party which has entered into an agreement called 'Concession Agreement' with a Project Authority, for developing infrastructure) and the project authority for ensuring a compulsory buyout with termination payment in the event of default in repayment.

Other types of NBFCs are Housing Finance Companies regulated by National Housing Bank under the National Housing Bank Act 1987; Stock brokers, Mutual Funds, Merchant banking companies, Private Equity, Alternate Investment Funds regulated by SEBI; Nidhis and Mutual Benefit Companies by Ministry of Corporate Affairs; Chit Fund Companies by State Governments under Chit Fund Act 1982 and Insurance Companies by IRDA under Insurance Regulatory and Development Act 1999. "

10.2 Apprising of the Committee of the dire need for greater coordination amongst the regulators, a representative of RBI appearing before the Committee on 19.01.2015 stated as follows:

"The financial sector regulators have been given mandates. Each financial sector regulator has been given mandates. But the beauty about these people is that

they come out with hybrid instruments, hybrid kind of products which fall between two stools. One regulator says that this does come under him and the other regulator also speaks the same thing. There is no denying about the fact that if there was coordination among regulators from a long period of time, these hybrid products which fall under no man's land would have been addressed. We have realised that. We cannot deny the fact that even though it does not fall under our regulations, we do not have a responsibility. Not only we as Reserve Bank but all the financial sector regulators have a responsibility in this regard."

10.3 About the Saradha case, the representative of RBI deposed:

"Coming specifically to the Saradha case, what we did was that we have a State Level Coordination Committee meeting in all the regional offices. The SEBI, State Government entities and other financial regulators are also part of this meeting. We were not aware as to what was happening in Saradha till such time we started receiving complaints. Collective investment scheme is a regulated activity and comes under SEBI. It would not have been right for us to actually step into SEBI shoes to regulate it. But when the complaints started coming, when the intimation came to us, we took it up immediately in the SLCC meeting and the Reserve Bank forwarded it to the State Economic Offences Wing and to the State police."

10.4 Asked about the need for coordination amongst State Government regulators, the witness conceded that:

".....there is no denying about the fact that there is today a dire need for a greater coordination amongst State Government regulators. To that extent and in recognition of that we have greatly strengthened the State Level Coordination Committee. It was – let me be honest – a very shadow of an entity but today it is a very, very active entity. One most important thing which we have done is that the State Chief Secretary is now chairing the SLCC. We have asked them to hold it in a greater periodicity. Earlier, it was a half-yearly meeting and was a very mechanical exercise. Today it is held on a quarterly basis and all the financial regulators participate in it. There are also sub-committees under it. Our regional office in Kolkata has come out as a good model which other State Governments are also adopting. Within that, sub-committees are formed of financial sector regulators and State Government so that if an issue comes up, they can immediately address it and not wait for the SLCC to meet."

10.5 In written reply to a query as to whether SLCC mechanism is serving the desired purpose and if so the details thereof and, if not, the action taken or proposed to be

taken to make it effective in serving the desired purpose, Ministry of Finance In a post evidence reply stated as follows:

“At the behest of FSDC-SC, the State Level Coordination Committees (SLCCs) were reconstituted in May, 2014. The SLCC is now being chaired by the Chief Secretary/Administrators of the States/UTs and the frequency of the meetings have been increased to quarterly as opposed to half yearly earlier. As all the relevant financial sector regulators and enforcement agencies participate in the SLCC, it should be possible to quickly share the information and agree on an effective course of action to be taken against entities indulging in unauthorized and suspect businesses involving funds mobilization from public.

SLCC strives to overcome the legal gaps or violation of regulations through market intelligence and coordinated timely action. Considering the number, spread and innovative methods adopted by various entities from time to time, the SLCC can provide an effective solution by quick information sharing and co-ordination at the State level. However, the reconstituted SLCC is not the end of the process. The challenge going ahead is to ensure that market intelligence gets ingrained at the operating levels in the regulators and the law enforcement agencies; action against the fraudsters culminate in swift and severe action that deters others from indulging in the same and public is made alert to possible financial frauds/scams, through various channels in the shortest possible time.

As the secretariat to the SLCC, the RBI is providing the necessary support to the reconstituted SLCC. For achieving the desired results, role of the concerned state governments regard will be critical.

Going ahead, a dedicated website for SLCC is being designed which will contain information on registered entities of the SLCC participants, activities of various SLCCs, besides other information. The participants would be able to share information among each other on real time basis, as also have facility to start and contribute to discussion threads (blogs). A module for public in the SLCC portal to post information on suspected unauthorized financial activities, as also for registering their complaints against any regulated/unregulated entity directly or assisted through the Administrator is envisaged. This should help in taking action against such entities in an expeditious manner through information sharing among the Regulators and Enforcement agencies.

One of the main dangers is in respect of entities which are structured to avoid falling directly under any regulatory authority, but engage in mobilization of

funds from public promising high returns (essentially 'Ponzi' schemes). In this context, we would like to highlight Section 3 of the Model PID Act (which has been prepared by RBI for reference of all the State Govts.), which gives wide powers to the State Government to attach property of a financial establishment on the basis of complaints received against the company or incase the Govt. believes that any financial establishment is acting in a calculated manner with an intention to defraud the depositors. Availability and enforcement of such tough provisions should act as effective deterrent against potentially unscrupulous entities – and all States may consider incorporating similar provisions in their respective Acts.

It has also been observed that many a times the fraudulent activities of such entities are not limited to the boundaries of a particular State but spread across various States. In such a case, the Police Authorities of the States should have mechanism to share such information amongst concerned States expeditiously and initiate effective action in minimum possible time to restrict the potential further damage.”

10.6 In written reply to a query as to the effectiveness or otherwise of SLCC in ter alia in exchange of information regarding collection of deposits illegally from the public by various entities and other financial frauds by the firms , SEBI , in a written reply stated as under:

“It may be noted that since January, 2014 to July 31 , 2014 only 13 meetings of state Level coordination (SLCC) have been held across India. After changes in the constitution of SLCC (Chief Secretary of state is the convener of SLCC) 53 meetings took place during August 01, 2014 to februaray,28, 2015 across 29 states and 2 Uts . SEBI regularly participates in such meetings and shares information with other agencies. SEBI has suggested that Income Tax authorities and enforcement Directorate could also be part of SLCC.”

Overlapping of regulatory functions

10.7 With regard to the number and names of the regulators involved in regulating the functioning of NBFCs-D along with the specific role of each of these regulators, RBI submittes as under :

Deposit taking NBFCs registered with the Bank are regulated by RBI alone. However ... In addition they are required to comply with Companies Act, 2013 and other regulations issued by various regulators depending upon their activity and whether listed or not viz., IRDA, SEBI etc.

10.8 In response to a query as to whether there is any overlapping of regulatory functions of these regulators and if so the details thereof and the corrective action taken or proposed to be taken to rectify such overlapping, RBI in a written reply submitted that there is no overlapping of regulatory function of these regulators.

10.9 In reply to a query as to the corrective action required, if any, needed to your view what corrective action can be taken to rectify/avoid overlapping of regulatory functions of the regulators? Also what formal mechanism can be adopted for coordination among regulators responsible for supervising/regulating the NBFCs-D, L&T Finance Holdings Ltd stated as under:

“Currently, the deposit taking activity of NBFCs-D is regulated by the Ministry of Corporate Affairs and RBI. RBI should be the sole regulator for NBFCs-D, in respect of their deposit taking activity, and National Housing Bank for Housing Finance Companies.”

10.10 In reply to a query as to whether there is any regulatory overlap with regard to regulating NBFCs and of so the details thereof, SEBI in a post evidence replies stated as under:

“Acceptance of deposit by manufacturing company and others is covered under section 73 to 76 of Companies act, 2013 and acceptance of Deposit (rules), 2014 . Acceptance of Deposits by banking Companies and NBFCs falls within the regulatory purview of RBI by virtue of power vested in chapter IIIB of RBI Act, 1934. However, as per definition whether an entity is an NBFC or not, the determining factor is whether principal business is of receiving deposit, besides engaging in the business of loan & advances. In our opinion an entire sector should have single regulator if regulatory gaps are to be avoided.”

10.11 L&T Finance Holdings, suggested the following to make SLCC effective in fulfilling its mandate :

“RBI has put in place an institutional mechanism at all its Regional Offices to coordinate between the financial sectors regulators in the form of State Level Coordination Committee (SLCC). The members of SLCC include State Government officials from the Home and Law Departments, Registrar of Companies, Regional Directorate of Ministry of Corporate Affairs, National

Housing Bank, SEBI, Registrar of Chits, and ICAI. The SLCC meets every half year to exchange information on such unauthorized activities of financial entities.

However, this is self-limiting as the duration of meetings is spread across six months. Instead, an online compulsory up-dation mechanism of key developments on a fortnightly basis maybe prescribed for better co-ordination between all the departments. This could lead to sustained information exchange leading to pro-active decision making.”

10.12 In response to a query as to whether the Ministry of Finance (Department of Financial Services) / RBI are in favour of establishment of an information repository jointly maintained by all involved regulators covering all types of deposit accepting entities to avoid regulatory arbitrage and remoteness/ absence of regulatory coverage , in a written reply stated as under:

“The Reserve Bank is in agreement with the suggestion that there should be closer coordination between the various financial sector regulators and an information repository should be in place. In the 27th State Finance Secretary Conference held in Aug 25, 2014 the Governor RBI announced that the RBI would facilitate in providing a dedicated portal for the State level Coordination Committee which will be a repository of information on all financial entities authorized by the financial sector regulators to accept deposits, and the regulations pertaining to them. The portal will also have the facility of posting market information on any unauthorized activity in any state, posting of grievances by the public, sharing of information by various financial sector regulators, to facilitate coordinated action. This is currently work in progress.

RBI like other financial sector regulators has a differential regulatory framework for NBFCs vis a vis other financial sector entities. Hence the Returns received are also specific to the requirement under regulation. There is a formal reporting system for all deposit accepting companies and systemically important NBFCs. The Reserve Bank now is in the process of having a reporting requirement for all other registered NBFCs. The degree of reporting varies depending on the size, and interconnectedness of the NBFC. Based on the information received through Returns, regulatory action is initiated. It will hence be prudent to retain the Returns reporting to the sectoral regulator rather than have a repository of Returns submitted by different financial sector entities into a common pool. Besides, the Returns

are received by the regulator in a fiduciary capacity and hence privy only to the regulator. “

10.13 In the light of reported instances of NBFCs cheating the public in one State, shutting shop after collecting funds, and relocating to another State under a new name Ministry of Finance (Department of Financial Services), were ascertained as to whether there is any proposal for establishing / creating pan India regulatory mechanism wherein an NBFC registered in one State will be constantly monitored to ensure that it has not shut shop and relocated to its next ‘target’ spot , RBI in a written reply stated inter alia as under :

“The instances of entities cheating public in one state and relocating to another state are happening in the unauthorized sector. RBI has registered and authorised only 221 NBFCs for collecting deposits from the public. The due diligence process for registration of NBFCs will not permit such cases. Moreover, RBI has stopped registering NBFCs with authorisation to accept deposits.

Among the various measures for curbing the deposit acceptance activities of the unauthorized entities RBI has put in place the State Level Coordination Committee (SLCC), a platform for greater coordination between the Bank and the other regulatory and enforcement agencies. The SLCC although convened by RBI is now chaired by the Chief Secretary of the States. The frequency of such meetings has been increased from six monthly to quarterly and sub-committees have been formed under the SLCC to address specific issues that crop up in the respective States. Besides, separate SLCC meetings are now being held in cities where the RBI has sub-offices and Union Territories. Moving forward, a dedicated website for SLCC is being designed which will contain information on registered entities of the SLCC participants, activities of various SLCC besides other information. It is also proposed to have a module for customers to post information on unauthorized financial activities, including deposit collection by unauthorized entities. To protect depositors’ interest, the Protection of Interest of Depositors Act (PID Act) has been passed by 21 states and the remaining states are in the process of enacting the legislation. The PID Acts in various states are sought to be strengthened. To this extent, the model PID Act is being drafted to be placed on the proposed SLCC website...”

CHAPTER 11

Separate legislation and entity for regulating NBFCs

The Committee have received written suggestion from experts for creating separate authority and also separate legislation on the lines of Banking Regulation Act, 1934 combining the provisions of all enactments relating to deposit taking activities of various types of entities like NBFCs MNBCs, Nidhis, Chit Funds, NBNFCs, etc. In written response to a query as to whether the Ministry of Finance / RBI agree with the above mentioned suggestion and if so the details thereof the reasons and if not state the reasons there for., stated as under:

“If RBI see the category of companies mentioned in the query by the Committee, all of them in fact, are covered under the provisions of Chapter III-B of RBI Act. NBFCs – Covered under Chapter III-B of RBI Act

MNBCs - Includes prize chits and chit funds, which are financial institutions under Section 45-I (c) of RBI Act. However, prize chits being a prohibited activity, and covered under the Banning Act, regulation of the same is not required. Chit fund are regulated by respective State Authorities, though they are financial institutions and therefore exempted from certain provisions of RBI Act (details given below separately):

Nidhis – Their activity being that of a financial institution, such companies are also covered under Chapter III-B of RBI Act. However, RBI has exempted them from the applicability of the provisions of Sections 45-IA, 45-IB & 45-IC of RBI Act and from the provisions of the NBFC Acceptance of Deposits Directions, 1998. The question of ‘potential nidhis’ will no longer arise in view of the provisions of Section 406 of Companies Act, 2013, which defines “nidhi” as a company incorporated as a Nidhi with the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only for their mutual benefit. If RBI removes the exemptions given to the companies, under the existing provisions of Chapter III-B, nidhis can be brought under the regulation of RBI. However, it being currently under the regulation of MCA, it has to be discussed with MCA.

Chit Funds – The activity of chit funds is also covered under the definition of financial institution under Section 45-I(c) of RBI Act. However, in view of a separate legislation on the chit fund business, where the State Authorities have been bestowed with the registration, regulation etc of chit fund business, RBI has

exempted chit fund companies from the applicability of the provisions of Sections 45-IA, 45-IB & 45-IC of RBI Act. Further, any amount received by way of subscriptions in respect of a chit is excluded from the term “deposit” under Section 45-I (bb) of RBI Act. RBI has also issued directions, prohibiting chit fund companies from accepting deposits from the public.

NBNFCs – Acceptance of deposits by NBNFCs are covered under Section 73 and 76 of the Companies Act, 2013 and the same fall under the regulation of MCA. However, it can be considered whether such companies can also be covered under the provisions of Chapter III-B of RBI Act, after discussion with the MCA, which may require certain amendments in the RBI Act. Since these are companies, they are covered under the definition of “non-banking institution” and all powers with respect to NBI vested with RBI under Chapter III-B can be made applicable to such companies.

To sum up, Chapter III-B already has provisions to cover all these categories of companies accepting deposits. Therefore, there is no requirement of a separate legislation for the same. However, final take on all the above companies accepting deposits to be brought under the regulation of RBI needs detailed discussion with MCA, especially regarding Nidhis and NBNFCs.”

11.2 The Ministry of Finance (Department of Financial Services) furnishing the rationale for lack of requirement of separate legislation for regulating NBFCs in a post evidence written reply stated as under :

“The RBI’s Master Circular on “Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007” contains the prudential norms for deposit accepting NBFCs. These directions cover inter alia norms for income recognition for NBFCs- D. All income is classified as current and long term and for each of these categories, manner of recognizing income has been specified. Inter class changes can only take place once every six months as per the method of valuation, specified. Asset classification norms give details on how and when the assets can be classified as standard, substandard doubtful and loss and the provisioning required for each of these categories. Recently the norm for classifying an NPA has been changed to a shorter 90 day overdue norms. Standard asset provisioning norms have also been enhanced to 0.4 % in place of 0.25. In addition, all deposit accepting NBFCs have to maintain a capital adequacy of 15 % of Risk Weighted Assets with Tier I capital at 10%. For all these changes, a roadmap and ample time has been provided to make the changes least disruptive. Besides the above, deposit accepting companies are also

subjected to credit concentration norms and cannot invest in land and buildings, other than for own use, higher than 10% of the Net Owned Fund(NOF). Deposit accepting NBFCs are also expected to follow accounting standards specified by the RBI and that of the ICAI where they are not in conflict with RBI guidelines. They have to submit Returns to the RBI. The disclosures to be made by deposit taking NBFCs (irrespective of size) are on par with those for systemically important NBFCs that do not accept deposits.

The RBI conducts regular on-site inspection of all deposit accepting NBFCs and large sized non- deposit taking NBFCs. Besides, detailed quarterly returns are obtained from systemically important NBFCs. Should there be any areas of concern emanating from the off-site returns, the RBI can and has conducted onsite inspections on such entities. Besides this, there is an active Market Intelligence and any adverse development thrown up results in an on-site inspection or scrutiny, irrespective of the size of the NBFC. The RBI has also been empowered through statute to direct an inspection, including a forensic inspection by appointing auditors and such a power has been utilized by the RBI in the past.

Besides the above, the Statutory Auditors of the NBFCs have been directed under the Act to provide Exception Reports to the RBI for any violations to regulations observed by them. Hence there is a well-rounded mechanism of detecting aberrations/violations to regulations. It may also be added that the RBI is in the process of putting in place a reporting pattern for all NBFCs irrespective of size for effectively monitoring the entire sector.

The instances of defrauding of public by NBFCs do not relate to NBFCs authorized to accept deposits by the RBI. These are cases of unauthorized entities raising funds promising high returns, and fall under the category of Ponzi schemes which are banned or promising to give assets like land, gold etc.”

11.3 Asked about the need or otherwise for a separate legislation including separate regulatory authority for regulating all types of deposit taking entities, HDFC Ltd., submitted as under:

“For well supervised entities (like banks, NBFCs, HFCs etc) the current regulatory framework is fairly robust. Various government constituted committees like FSLRC's recommendation are currently being evaluated by the government. However a complete change in legal set up like introduction of Indian Financial Code will take a long time to implement.”

11.4 L&T Finance Holdings in a written reply stated that there is no need for separate legislation on the lines of Banking Regulation Act, 1934 for all deposit taking companies including NBFCs. L&T Finance further stated that giving RBI more teeth to act against defaulting NBFCs would be a quicker solution.

11.5 Emphasizing the need for having a principal regulator for regulating all deposit taking entities ,a representative of Securities and Exchange Board of India (SEBI) appearing before the Committee on 25.03. 2015 stated as follows:

“Basically, we see that legitimate money comes and it is channelised, it is invested which leads to the development of the economy. For that purpose, we have come out with many regulations which seek to channelise all these in legitimate means – be it municipal bonds or other things that we have come out with. In the case of these activities where money is collected, actually money is mainly collected from the rural areas. All the money is collected through various agents and by entities which show that some activity is being undertaken. But, in fact, no activity is undertaken. This type of money channelising from the rural areas can be effectively tackled at the local level only. For that purpose, SEBI has given suggestions that there should be a principal regulator for this purpose. Basically, it should be good in enforcement where they should have police and other powers.”

11.6 Securities and Exchange Board of India (SEBI) , in support of creation of separate legislation regulatory authority for regulating all deposit taking entities, in a post evidence reply stated as under :

“It has been observed that the schemes for collection of money or deposits are camouflaged under certain economic activity such as land allotment or real estate development schemes , time share , livestock farming ,tec., However, in substance , the schemes are in the nature of deposit assuring affixed interest / return. Such unauthorized money mobilization which is mainly collected from rural and small towns can be effectively tackled through local enforcement machinery. SEBI has therefore suggested that all such unauthorized money/ deposit collection from public should be brought under the ambit of one principal regulator with appropriate powers and resources. It is also pertinent to mention that all unauthorized / illegal money/ deposit mobilization have

criminal enforcement angles and hence a suitable Agency with appropriate infrastructure be nominated as central agency . Such regulator/ Central agency should have the following characteristics:

- a. The regulator should be independent.
- b. It should neither be the Securities market regulator nor the banking regulator
- c. The regulator would be authorized by law for monitoring all such unauthorized money collection A new law may be created for this purpose.
- d. The regulator will have legal authority to take action even in those cases where the state Government is authorized to act the principal regulator may act as a coordinator in such cases with the state Government, but with overarching powers over activities which State governments also regulate.
- e. The regulator would also have its own staff and offices in the districts of India.

Incidentally , department of Financial Services , *vide* letter dated December, 30,2014 has communicated to SEBI that it has set up an Inter Ministerial Group for identifying gaps in the existing regulatory framework for deposit taking activities and to suggest administrative / legislative measures including formulation of a new law to cover all relevant aspects of 'deposit taking''

PART - II

OBSERVATIONS/RECOMMENDATIONS

1. Definition of NBFC and the concept of Principal Business : The Committee note that Section 45-I (c) of RBI Act, 1934 defines the term “financial institution” to mean any non-banking institution which carries on its business or part of its business, any of the activities specified in clauses (i) to (vi) namely (i) the financing, whether by way of making loans or advances or otherwise, of any activity other than its own; (ii) the acquisition of shares, stock, bonds, debentures or securities issued by a Government or local authority or other marketable securities of a like nature; (iii) letting or delivering of any goods to a hirer under a hire-purchase agreement as defined in clause (c) of section 2 of the Hire-Purchase Act, 1972; (iv) the carrying on of any class of insurance business; (v) managing, conducting or supervising, as foreman, agent or in any other capacity, of chits or kuries as defined in any law which is for the time being in force in any State, or any business, which is similar thereto; (vi) collecting, for any purpose or under any scheme or arrangement by whatever name called, monies in lumpsum or otherwise, by way of subscriptions or by sale of units, or other instruments or in any other manner and awarding prizes or gifts, whether in cash or kind, or disbursing monies in any other way, to persons from whom monies are collected or to any other person. Notably, the definition expressly excludes the institutions carrying out their ‘principal business’ namely, agricultural operations and industrial activity. The term ‘Principal Business’ has however, not been defined in the RBI Act, 1934. They also note that the need for defining the term “principal business” arose due to

Section 45-IA of RBI Act,1934 stipulates that no non-banking financial company shall commence or carry on the business of a non-banking financial institution without, *inter alia*, obtaining a Certificate of Registration (CoR) issued under Chapter III-B. Despite, the need for statutory definition of the term 'Principal businesses', RBI has been following a non statutory definition of the term. As per the extant definition of 'Principal Business' a company is considered as NBFC if its financial assets are more than 50 per cent of the total assets and income from financial assets is more than 50 per cent. The RBI also testified the Committee that the definition has neither been contested in court of law since it was made known to the public in 1999 nor was objected to by any other authority. With a view to ensuring that no entity engaged in the business of finance is left out of the regulations, the Committee recommend that the term 'Principal Business' be defined in the Act itself giving much needed statutory clarity so as to remove ambivalence/misgivings.

2. Inclusion of LLPs under the definition of NBFCs : The Committee note that as per section 45 1 (e) of RBI Act, 1934, Non Banking Finance Institution means a Company, Corporation or Cooperative Society. The Limited Liability Partnerships (LLPs), being neither companies, corporations nor cooperative societies, are not covered under the said definition contained in Chapter III B of the RBI Act. Further, Chapter III C of the RBI Act dealing with prohibition of acceptance of deposits by unincorporated bodies *i.e* individuals, firms , or association of individuals also does not cover LLPs as LLPs are neither companies, corporations or cooperative societies under Chapter III B of the RBI Act.. The Committee regret to note that LLPs which came into existence in 2008 and are empowered to engage *inter alia* in the

business of sale and purchase of securities, have been left out of the definition of NBFC or unincorporated body as contained in the RBI Act, 1934 and remain outside the regulatory ambit of the RBI. On the queries of the Committee, the RBI submitted that they have proposed to the Government to suitably amend the RBI Act to address the matter. The Committee, therefore, recommend that the necessary amendment may be carried out at the earliest to include LLPs as "unincorporated bodies" for the purpose of the prohibition from acceptance of deposits under Chapter III C of RBI Act, 1934 and the Committee be apprised.

3. Definition of deposit : The Committee are surprised to note that there is no uniformity in the definition of the expression "Deposit" in the RBI Act and the State Acts enacted for protecting the interest of the Depositors. Notably, the definition of "deposit" under the State Acts is much wider, irrespective of whether money is received or a commodity is received, it can still be a deposit. Further, the promised return may be in the form of cash, kind or services. Keeping in view the rather narrow definition of the term "deposit" in the RBI Act, the imperative need for recurring the deposits, the Ministry of Finance (Department of Financial Services) submitted that an Internal Working Group has been constituted by the RBI to look into the legislative changes required for the entities regulated by the RBI including the need for widening the definition of "deposit". The Committee were informed that efforts were being undertaken by proposing necessary amendments. Taking cognizance of rampant acceptance of deposits by unscrupulous entities from the gullible public in camouflaged manner as advance for goods or services, the Committee

recommend that the RBI Act be amended expeditiously to cover such deposits within the ambit of "deposit".

4. Need for continuance of NBFCs-D : The Committee note that even after more than four decades of nationalization, banks are highly concentrated in urban and semi urban areas. Substantial number of villages / hamlets are either uncovered or under covered requiring foot prints of the banks. This lack of reach of the banks is compelling the people throughout the nook and corner of the country to approach Non Banking Finance Companies (NBFCs) for saving their hard earned money in the form of deposits and to avail credit facilities for their consumption and productive purposes. The ease at which NBFCs can be approached for availing deposit and credit facilities *vis-à-vis* formal commercial banks, convenience of door step services and customizing of the product to suit their needs are driving many savers to deposit their money in these firms and avail credit from them.

Many experts deposed before the Committee about the reluctance of the banks to extend credit facilities for low end customers like for buying small equipment, one or two vehicles, etc for eking out their livelihood. This is despite the fact that the rate of repayment of the loans is more than 90 % as informed by the experts, and is far better than the rate of repayment of the loans availed by big customers. Banks are also hesitant to extend credit to first time borrowers due to lack of track record and credit history. It was also intimated that even today substantial credit needs of small, micro and medium enterprises are met by relatives, friends and NBFCs thereby underscoring the

need for not only continuing the deposit taking NBFCs, but also for expanding them due to their reach to the lowest common denominator. Even the regulator of NBFCs viz. RBI has acknowledged the contribution of the NBFCs in providing last mile connectively for development of financial sector as they play a complimentary role to banks in providing financial services to the people. The RBI apprised the Committee that one of the reasons for stopping the new registrations for deposit taking NBFCs since 1998, is the failure of some NBFCs in repayment of the matured deposits during 1960s to 1990s. However, RBI categorically stated that default in repayment of deposits committed by NBFCs is due to the lack of Regulation. Another reason for not registering deposit taking NBFCs is the absence of insurance cover for deposits of NBFCs.

Taking note of the testimony of the experts and the RBI, the Committee conclude that it is the Regulators' failure to control the NBFCs effectively and / or reluctance on their part for regulation of deposit taking NBFCs-D effectively and lack of insurance cover to these deposits that primarily drove them to stop fresh registrations for deposit taking NBFCs and limiting deposit acceptance only to commercial banks. As a result, many NBFCs have to depend upon the loans/ deposits from the banking sector to lend to the retail customers throughout the country. However, the Committee observe that there is no guarantee that banks extend credit facilities to these NBFCs all the time crippling the activities of these NBFCs due to absence of acceptance of retail deposits. The Committee are of the considered view that the role of NBFCs in providing financial services to the lowest common denominator at competitive rates is not likely to diminish even with the introduction of the proposed Small banks and Payment banks in terms of cost and reach. The Committee

accordingly recommend that the RBI in consultation with the Ministry of Finance, explore the possibility of allowing registrations of deposit taking NBFCs with stringent Regulations so that the needy persons in far flung areas across the country can avail safely the services of the NBFCs.

5. Deposit Insurance : The Committee note that it has been the outlined Monetary Policy of the RBI that deposit acceptance should be in the realm of banks alone as they are more stringently regulated who can also avail deposit insurance to repay the depositors. Under the existing legislative framework, the Deposit Insurance and Credit Guarantee Corporation (DICGC) can extend deposit insurance cover to banks, including urban co-operative banks (UCBs). It is for this reason that the RBI discontinued issue of fresh Certificate of Registration (CoR) since 1998 for deposit taking NBFCs for want of insurance cover. The RBI informed the Committee that due to moral hazard and regulatory discomfort in extending the deposit insurance cover to the NBFCs, these committees/ working groups recommended that deposit insurance to NBFCs should not be extended either through DICGC or outside of DICGC. However, many experts expressed their views before the Committee are in favour of extending the insurance cover to the said deposits within the DICGC framework. The Committee are of the considered view that extension of deposit insurance will go a long way in encouraging the savers in remote areas who, in the absence of commercial banks, hitherto are forced to approach the unscrupulous entities, offering high interest rates, only to default in repayment at a later date, for saving their hard earned monies. Moreover, in the light of RBI's own admission that many defaults during 1960s -90s by NBFCs

were partly due to lack of regulation, the Committee believe that the risk involved in extending the deposit cover can be addressed by instituting stringent regulations by the regulator. They, therefore, recommend that insurance cover may be extended to the deposits of NBFCs either within the DICGC framework by amending the relevant legislation or through creation of separate entity as favoured by the RBI for offering deposit insurance. The Committee strongly believe that this will go a long way in tapping the savings by the NBFCs in villages, towns, and far flung areas of the country.

6. Unclaimed deposits : The Committee note that an amount of Rs. 566 crore was lying unclaimed with 24 NBFCs-D at the end of March, 2014. Notably, the RBI has not issued any guidelines about the use of unclaimed deposits by the NBFCs for their own business operations beyond the period these were deposited. RBI submitted that they have not given any specific instructions for transfer of unclaimed deposits lying in these NBFCs to Investor Education and Protection Fund (IEPF) giving credence to the doubt that these unclaimed deposits may not have been actually transferred to IEPF as is required under Section 205 C of the Companies Act, 1956 or Section 125 of Companies Act, 2013. The Committee are of the considered view that the RBI, being the sole Regulator of NBFCs-D, should have given their anxious consideration to the serious issue of unclaimed deposits aggregating to ₹ 566 crore. The Committee, therefore, recommend that the Government / RBI specify in unambiguous terms whether the huge amount of unclaimed deposits lying with 24 NBFCs have actually been transferred to IEPF and if so, the details thereof (NBFC

wise) and if not the reasons thereof be submitted to the Committee within three months of presentation of this report.

7. Exception report from auditors : The Committee note that in terms of NBFCs Auditors Report (Reserve Bank) Directions, 2008, Statutory Auditors are required to submit to the RBI directly exception reports in the event of non-compliance by NBFCs to the provisions of the Chapter III B of the RBI Act, 1934 and directions issued by the Bank regarding deposit acceptance and prudential norms.

The RBI furnished 50 cases of NBFCs-D operating without registration or violating relevant provisions of the RBI Act, 1934 or the directions issued thereunder, to refund the deposits collected from the public. Surprisingly, none of the auditors of these NBFCs furnished exception reports to the RBI. The Committee are perturbed to note that the RBI has neither cared to take up the issue with the defaulter auditors nor they seem to have discussed the issue in the Co-ordination mechanism with the Institute of Chartered Accountants of India (ICAI), the regulatory body for auditors. Deploing the casualness, the Committee seek reasons for not taking up the matter with the said firms or ICAI and also the action taken or proposed to be taken against the firms for failing to send the exception reports in the said cases. The Committee also recommend that a proper code of ethics and conduct be formulated for the statutory auditors of NBFCs about the requirement of submitting Exception Reports to RBI for defaulting entities. It also urge the Ministry of Finance (Department of Financial Services) to amend the RBI Act to empower RBI to remove or replace auditors in cases where they fail to inform the RBI of any violations committed

by the NBFCs detected during the course of their audit under the said directions. Further, in the event of such occurrences, the matter pertaining to Statutory Auditors be discussed with ICAI to ensure that suitable action is taken against them.

8. **Mass Awareness Campaign :** The Committee note that many investors, especially in small towns and villages , lured by high interest rates offered , deposit their hard earned savings in the schemes floated by unscrupulous and fly-by-night operators / firms , mostly unregistered NBFCs and unincorporated bodies, without assessing the risk involved therein. The Committee believe, it is due to absence of awareness among the said sections of the population about the risks involved. There have been instances of the gullible investors being duped of their hard earned money by these unscrupulous fly-by-night operators. Apparently there is lack of awareness, or the public awareness campaigns about unincorporated entities and other entities collecting money illegally from the public do not appear to have created sufficient awareness among the small time investors. The Committee note that many of the programmes designed for creating awareness are limited to metro and urban centres and are carried out in English and Hindi languages only, leaving out vast number of people living in small towns and villages who speak vernacular languages. The Committee, therefore, strongly recommend :

- (i) Mass awareness campaigns be conducted not only in electronic media but also in print media especially in vernacular languages at regular intervals to create the desired impact;

- (ii) The other channels of mass communication such as radio jingles, banners in public places and on public transport should be used to curb and eliminate such unscrupulous entities from the money market;
- (iii) A part of the amount lying in unclaimed deposits with NBFCs which are required to be transferred to Investor Education and Protection Fund (IEPF) may be used for educating the investors and creating awareness among them about the risks involved in investing in fly-by-night firms.
- (iv) The Investors' awareness and education programmes may be included as an activity eligible for spending money under 'Corporate Social Responsibility';
- (v) Lists of the type of firms eligible and ineligible for acceptance of deposits from the public and also of firms banned from accepting deposits from public may be published in English , Hindi and vernacular Dailies to ensure that people make informed investment decisions; and
- (vi) Every entity advertising/representing/soliciting customers, must indicate their PAN/Registration number so that the activities of fake/fly-by-night operators are checked and the gullible public are not duped.

9. Development of Market Intelligence : The Committee note that market intelligence is one of the four pillars of supervisory framework others being On-site supervision, Off-site monitoring and exception reports from auditors for the NBFCs. However, notably, despite market intelligence mechanism of the regulator, there are reports of illegal collection of deposits by NBFCs and

unincorporated bodies. The Regulator attributed the continuance of illegal collection of deposits by unscrupulous entities to lack of skills of intelligence gathering and necessary expertise and wherewithal. Surprisingly, despite such a realisation, the regulator demurred to develop professional expertise for gathering necessary market intelligence. Considering the vital importance of robust market intelligence in maintaining vigil over the financial market and the uncanny modus operandi used for collection of deposits, the Committee, recommend that urgent and effective steps should be taken to improve the intelligence gathering apparatus of the Regulator to check effectively illegal collection of deposits. The Committee should like to be apprised of the action taken in this regard in due course.

10. **Grievance Redressal Mechanism** : The extant mechanism for redressal of grievances especially with regard to repayment of matured deposits and/ or return of the deposits collected illegally by the NBFCs offers various options to the investors such as approaching NBFC itself which has defaulted in repayment of the deposits/ collected deposits illegally, Company Law Board (CLB), RBI, state police authorities / Economic Offences wing of the state police. The Committee observe that the multiple authorities/ channels are time consuming and do not appear to guarantee the timely settlement as is evident from the data furnished by the RBI. Moreover, there is every likelihood that such multiple authorities, involving time consuming processes might discourage the investors from filing complaints against the defaulter / illegal collection. Some experts also underscored the need for instituting the permanent redressal mechanism. The Committee therefore recommend that :

- (i) A grievance redressal mechanism on the lines of the Securities and Exchange Board of India (SEBI) Complaints Redressal System (SCORES), should be set up and suitable IT platforms be developed to enable lodging of e-complaints as well;
- (ii) An all India toll free call centre in major and regional languages be set up for convenience of the depositors;
- (iii) A dedicated web portal may be created for lodging of complaints and answering web queries on the RBI site, which should also be translated and made available in various regional languages; and
- (iv) The Department of Financial Services need to look into the feasibility of creating an ombudsman on the lines of banking ombudsman for NBFC sector as well for effective reach to the last mile depositor and for redressal of his grievance.

11. **Coordination amongst Regulators :** The Committee were apprised that the DFS has in place an institutional mechanism to coordinate between the financial sector regulators in the form of State Level Coordination Committee (SLCC) which includes as members State Government officials from Home and Law Departments, Registrar of Companies, Regional Directorate of Ministry of Corporate Affairs (MCA), National Housing Board (NHB), SEBI, Registrar of Chits and Institute of Chartered Accountants of India (ICAI) under the aegis of RBI with Chief Secretary of State as convener of such meeting, held quarterly since its reconstitution in May, 2014. It appears that the regulator does not take up the issues involving the other members represented on the SLCC as for instance,

RBI has not taken up the issue of failure of auditors of 50 NBFCs which were directed to refund the deposits collected illegally with the ICAI, the regulatory body for auditors. The RBI was unable to specify any particular reason for not taking up the matter with the ICAI.

The Committee observe that the role of SLCC is critical in overcoming legal and regulatory gaps through effective market intelligence and co-ordinated timely action not only in checking deposit collection by unincorporated entities but also against those illegal entities that down the shutters in one State and shift to other leaving the depositors struggling to recover their hard earned money. However, the Committee observe that the SLCC has not lived up to its assigned role. The Committee were informed about a proposal for setting up of a dedicated portal for the SLCC, which will be a repository of information on all financial entities authorized by the financial sector regulators to accept deposits, and the regulations pertaining to them. The portal, the committee were informed, will also have the facility of posting market information on any unauthorized activity in any state, posting of grievances by the public, sharing of information by various financial sector regulators and to facilitate coordinated action. Taking note of the glaring inadequacies in the coordination between the financial sector regulators and the SLCC and the need for far greater and effective synergy between them, the Committee recommend that :

- (i) The Frequency of the meetings of the SLCCs be suitably fixed to facilitate effective periodic coordination so that necessary corrective/remedial action is taken on time; and

(ii) The Income Tax Authorities and Enforcement Directorate be also associated with the SLCC so as to facilitate sharing of vital information and timely action against unauthorized financial entities.

12. Need for separate regulator/ legislation : The Committee note that In terms of RBI Act, 1934, registration of NBFCs with the RBI, is mandatory irrespective of whether they hold public deposits or not. NBFI activity in violation of section 45 1A of the RBI Act, 1934 by any company is not permissible. In case NBFCs-D (NBFCs authorized to accept deposits from the public by RBI) default in repayment deposits, the depositor can complain against the NBFC to the nearest Regional office of the Reserve Bank, approach the Company Law Board constituted under the Companies Act, 1956 or a Civil Court or Consumer Redressal Forum for recovery of their money. Affected persons can also complain to the state police authorities / Economic Offences Wing of the state Police as well. The Committee observe that though RBI is empowered to file winding up petitions before the Company Law Board against the NBFCs which are unable to pay their debts, to initiate criminal action against NBFCs for non-compliance with the orders passed by the CLB for repayment of deposit amount, the RBI Act does not have provisions to make order for repayment of deposit amount to depositors, or attaching the properties of the NBFCs and its directors, etc. Surprisingly, the RBI expressed constraints in this regard stating that their Regulatory role is not equipped for the same which can best be executed by the State Machineries. The Committee were also apprised that the RBI has been pursuing with the State Authorities for enacting the State Protection of Interest of Depositors Act wherever it has not been passed.

The Committee also note that acceptance of deposits by UIBs is prohibited under Section 45-S of RBI Act and is an offence under Section 58-B (5-A) of RBI Act. In case of violations of the provision by UIBs, under the RBI Act, either the State Authorities or the RBI is empowered to approach the Court of competent jurisdiction and obtain a search warrant (Section 45-T) and either the State Authorities or the RBI can file criminal complaint under Section 58-E of RBI Act. The Committee observe that though both RBI and State Governments are empowered to take action under the said provisions, RBI, citing lack of wherewithal in terms of expertise and reach in remote corners of the country where the violations of the provision are reported to be mainly taking place, is seeking the support of the EOWs/ State Police/CVC/Cyber Crime cells /State Government for initiating necessary action against the perpetrators. However, as many state governments also do not have the required expertise in the matter, RBI relies on the SLCCs, having representatives of various financial sector regulators and state Government representatives, to bring to their notice any illegal deposit raising activities of the UIBs.

The Committee are deeply concerned that the RBI has not taken any initiative of empowering themselves so as to punish defaulting NBFCs and ensuring repayment of the deposits expeditiously and also to address the shortage of skills required for the effective regulation of NBFCs. Notably, the absence of enforcement powers to the regulator (RBI) is unique in the sense that other financial sector regulators such as the Securities and Exchange Board of India (SEBI), the Insurance Regulatory Development Authority (IRDA) , are given enforcement powers over the entities they are empowered to regulate.

The Committee feel that RBI should have taken up the issue with the Ministry of Finance long ago to effectively widen its regulatory functions to punish the defaulting NBFCs, the unincorporated entities fleecing the small investors and ensure repayment of their deposits.

In the considered view of the Committee, the RBI Act should be amended to empower RBI to impose penalties and /or direct refund of deposits in case of non repayment on the due date. In order to recover the penalties and secure repayment of deposits, RBI should be able to attach and sell the movable and immovable assets of the defaulters. RBI should also be allowed to conduct searches, both within and outside the country, in respect of defaulting entities, freeze the assets/bank accounts of such defaulters as well as to take action against Directors and key management personnel.

Further, in the light of RBI's reluctance to empower themselves to effectively regulate NBFCs is reflected in their lack of action on one pretext or the other all these years. The Committee recommend that Government may also consider enacting a separate legislation for regulating all deposit accepting entities (other than commercial banks).

NEW DELHI;
28 April, 2015
Vaisakha 8, 1937 (saka)

DR. MURLI MANOHAR JOSHI
Chairperson,
Committee on Estimates.

Appendix-1

(vide Para 4.3)

Details of the NBFCs-D whose application for CoR have been cancelled during the last 10 years (year wise)

Sr No	Name of the Company and Status
2004	
1	CFL CAPITAL FINANCIAL SERVICES LTD (FORMERLY CEAT FINANCIAL) - Repaying the depositors
2	Sinnamani Finance Ltd.
3	Mont Blanc Financial Services Ltd.
4	Madras Credit and Investment Ltd.
5	New Line Finance Ltd.
6	Sri Selvanarayana Finance Ltd.,
7	Rajalakshmi Finance and Services Ltd.
8	Vulcan Leasing & Investment Ltd.
9	Manipal Finance Corporation Ltd.
10	Sibar Finance Ltd.
11	Raasi Finance & Investments Ltd.
12	Mango Securities Ltd.
13	MahaveerLeafin& Holdings Ltd.
14	BRR LeafinPvt. Ltd.
15	CFL CAPITAL FINANCIAL SERVICES LTD (FORMERLY CEAT FINANCIAL)
2005	
1	NICCO UCO ALLIANCE CREDIT LTD (FORM.NICCO UCO FINANCIAL SER)- Repaying the depositors
2	PONTIAC LEASING LTD – Repaying the depositors
3	VARUNA INVESTMENT LTD.
4	Nandambakkam Finance Co Pvt Ltd.
5	Pondicherry Nidhi Ltd.
6	Hallmark Finance and Leasing Ltd.
7	Savandapoor Finance and Leasing Ltd.
8	TVS Finance Ltd.
9	Sharavani Financial Services Pvt. Ltd. (formerly Pesala)
10	Bhaskar Narayan Finance Co Pvt. Ltd.
11	Karvy Consultants Ltd.
12	Labham Finance Ltd.
13	Sona Finance Ltd.

14	Sri Ramalingeswara Leasing &Autofin (P) Ltd.
15	Vikramashila Finance & Leasing Ltd.
16	DCL Finance Ltd.
17	Sri Ganesh Anand Leasing & Finance Ltd.
18	De-Novo Leasing & Investments Ltd.
19	Kelachandra Leasing & Finance Ltd.
20	Mudavoor Financial Services Ltd
2006	
1	Adyar Finance & Leasing Ltd
2	JEBA Finace Ltd.
3	Baithul Islam Fin & Investment (India) Ltd
2007	
1	GILT SECURITIES TRADING CORPORATION LTD
2	FEDEX SECURITIES LTD
3	APICAL FINANCE LIMITED
2008	
1	KGK Finance Ltd.
2009	
1	JENSON & NICHOLSON FINANCIAL SERVICES LIMITED - Criminal case pending against the company.
2	DHANPRAYOG INVESTMENTS CO LTD
3	M/s Sheen Finance & Investment India Ltd.
4	PONTIAC LEASING LTD
5	JENSON & NICHOLSON FINANCIAL SERVICES LIMITED
2010	
1	FINPIC LEASING & FINANCE LTD
2	WELPLACE PORTFOLIO & FINANCIAL CONSULTANCY
3	SBI FACTORS & COMMERCIAL SERVICES LTD.
4	K.L.S.Finance& Investment Ltd.
2011	
1	Shri MappillaiVinayagar Fin(Madurai) Ltd. (CoR cancelled)
2	Vinman Finance & Leasing Ltd.
2012	
1	DWARIKESH SHARES & STOCKS LTD
2	LSP Finance Ltd.
2013	
1	CHAMBERS EQUITY & FINANCIAL COMPANY LTD.
2	SAITOMO FINANCIAL SERVICES P LTD.

3	Arshdeep Finance Ltd.
4	Trasworld Hire Purchase India Ltd
2014	
1	New Sethi Finance Co. Ltd
2	Pancharatna GUW
3	M/s Thind Finance Company Ltd., Jalandhar
4	Om Shri Devi Finance and Leasing Ltd
5	M/s Dutta Financiers(I) Ltd.
6	M/s Shiromani Finance Ltd

Appendix-2
(vide Para 4.5)

Data on the status of repayment of depositors by NBFCs whose CoRs have been cancelled and accordingly directed by the regulator for return of the deposits

No.	Name of Problem companies	Amt of PD (Rs. In lakh)
1	MAGNETIC FINANCE LTD.	22.94 (The Bank is continuously following up with the company)
2	HADOTI HOUSING FINANCE DEVELOPMENT LTD.	22.07 (As above)
3	APPNA GHAR LEASING LTD.	1.36 (As above)
4	RAJASTHAN MARUSTHAL HOUSING FINANCE & INVESTMENT LTD.	5.21 (As above)
5	RAJASTHAN JEEVAN RAKSHA VIKAS FINANCE & INVESTMENT LTD.	18.03 (As above)
6	SANKLECHA CAPFIN LTD.	1.16 (As above)
7	Pancharatna Finance & Investment Ltd-	Criminal case filed on 22.4.2014 at Kamrup, Assam
8	Vanguard (India) Finance Ltd-	Under the process of Striking off (UPSO), it cannot be ascertained whether the company still continues to hold deposits as returns are not being submitted.
9	Ganesh Trading &Company Pvt Ltd.-	Under the process of Striking off (UPSO), it cannot be ascertained whether the company still continues to hold deposits as returns are not being submitted.
10	Arshdeep Finance Ltd	CoR was cancelled on supervisory grounds and the process of filing Winding up petition has been initiated.
No.	Name of Vanishing companies	Amt of PD (Rs. In lakh)
11	CAREER SAVINGS & INVESTMENT (I) LTD.	140.98
12	CHAMBAL VIT VIKAS LTD.	74.90
13	FIRST RISE FINANCE & INVESTMENT LTD.	12.98
14	M.M.SAVINGS & FINANCE	2.57
15	RAJASTHAN GRAMIN VIKAS VITT LTD.	0.74
16	RAJASTHAN JAN CHETNA	35.07

	FINANCE LTD.	
17	RAJASTHAN MEMORIAL CAPITAL SERVICES LTD.	8.00
18	TRIVENI GREENERY FINLEASE (I) LTD.	135.95
19	VITT PATI FINANCE LTD.	3.90
20	New Sethi Finance Co. Ltd	The company was not found functioning at the registered address and no communication received
21	M/s Thind Finance Company Ltd.	The copy of cancellation order was forwarded to company's email address. The letter of cancellation of CoR was also sent to past and present directors but reply is yet awaited from them.

Appendix-3
(vide Para 5.3)

Data on the NBFCs which were directed to return the deposits due to violations of legal provisions by RBI

Mumbai	Jayabharat Credit Ltd- Mumbai- The company has not complied with the IRAC norms as on March 31, 2011. It has not complied with prudential norms relating to quantum of public deposits. The company has been advised to stop immediately acceptance of fresh deposits and renewal of existing deposits and reduce within 3 years the quantum of deposits to 1.5 times of NOF or Rs. 10.00 crore.
Patna	Nil
Bhubaneswar	1 as per Appendix 5
Kolkata	Nil
Jaipur	Nil
Bhopal	Nil
Ahmedabad	AISE Capital Management Private Limited operating without registration. Criminal complaint has been filed in the court for violation of the provisions of RBI Act, 1934.
Jammu	Nil
Kanpur	1) CoR of New Sethi Finance Co. Ltd has been cancelled on 28.03.2014 for violation of RBI Act, 1934 2) Prohibitory Orders u/s 45MB imposed on Proficient Leasing & Finance Ltd on 20.02.2014. 3) Case of cancellation of CoR of Singh Motor Hire Purchase Co Ltd is under examination.
Chennai	1)Integrated Finance Ltd and 2) Viswapriya (India) Ltd (erstwhile ViswapriyaFinancial Services and Securities Ltd) 3) Fullerton India Credit Company Limited
New Delhi	30, as per Appendix 5
Trivandrum	Nil
Guwahati	Pancharatna Finance & Investment Ltd was found to be accepting deposits. We have filed criminal complaint in the Court of the Chief Judicial Magistrate, Kamrup District on April 22, 2014 against the said company.
Hyderabad	--
Chandigarh	7, Details as per Appendix 6 & 7
Bangalore	3, Details as per Appendix 6

Appendix-4
(vide Para 5.5)

Details of the status of return of the deposits collected illegally by NBFCS

Mumbai	--
Patna	Nil
Bhubaneswar	1
Kolkata	Nil
Jaipur	Nil
Bhopal	Nil
Ahmedabad	The matter is pending in the court.
Jammu	Nil
Kanpur	No information regarding repayment/ refund of public deposits by New Sethi Finance Co. Ltd and Singh Motor Hire Purchase Co Ltd is available as both the companies have not been found functioning at the respective registered addresses and no communication received. Proficient Leasing & Finance Ltd is repaying public deposits as per its schedule.
Chennai	<ol style="list-style-type: none"> 1) Yet to be repaid. The company was issued a Prohibitory Order on January 18, 2005, prohibiting the company from accepting deposits from public and alienating its assets in exercise of the powers conferred under section 45MB of the Reserve Bank of India Act, 1934. Further, Show cause notice was issued against the company on October 3, 2012 against which the company had approached the court. Presently, the case is pending. 2) Yet to be repaid. The Bank had issued issuedprohibitory order against the company on August 17, 2005 prohibiting it under Sec 45 MB (1) from accepting further deposits and under Sec 45 MB(2) from alienating its assets. Further, RBI filed a criminal complaint against the company and its directors in charge and responsible for the affairs of the company in the Chief Metropolitan Magistrate Court, Egmore (E.O.C.C.No.343 of 2009) which is presently pending. 3) Issued Prohibitory Order
New Delhi	As per Appendix-6.
Trivandrum	Nil
Guwahati	--
Hyderabad	--
Chandigarh	As per Appendix-7 .
Bangalore	1) Manipal Finance Corp. Rs.129.69 lakhs; 2)Mukunda Industrial and Finance Ltd Rs.227 lakhs and 3) Achal Finance Ltd.

Appendix-5
(vide Para 5.5)

Details of the status of return of the deposits collected illegally by NBFCs

S.No	Name of the Company	Status as Rejected /Cancelled	Company against which winding up petition/criminal complaint has been filed	Referred to EOW	Amount of Public Deposit (Rs.in lakh)
1	Agriotek Finance Limited	Rejected	Struck off by ROC		0.15
2	CRB Capital Markets Limited	Rejected	Yes		5700.00
3	Crystal Credits Corporation Limited	Cancelled	Yes		591.49
4	DCM Financial Services Limited	Rejected	Yes		5602
5	Dawsons Leasing Limited	Rejected		Yes	0.30
6	Gomukh Finance Ltd. (Company had paid Rs. 45,340 till March 2014)	Rejected			1.20
7	Haryana Credit & Leasing Limited	Rejected	Yes		175
8	Hindustan Financial Management Limited	Rejected	Yes		1161.65
9	Hoffland Finance Limited	Rejected	Yes		2144.32
10	Hindustan Auto Finance Ltd.	Cancelled			2.13
11	JVG Finance Limited	Rejected	Yes		394.38
	JVG Leasing Limited	Rejected	Yes		
	JVG Securities Limited	Rejected	Yes		
12	KM Capital Limited	Rejected			63.6
13	KMF Limited	Rejected	Yes		95.46
14	Kuber Auto General Finance and Leasing Limited	Rejected	Yes		24.24
15	Madhur Leasing Limited (vanishing company)	Rejected			PD not ascertainable.
16	Mangal Finance Limited	Rejected	Yes		491
17	Onida Finance Limited	Rejected			539
18	Phoenix International	Rejected			23.48

	Finance Limited				
19	Ram Mohan Financial Services Limited	Cancelled			7.55
20	Rockland Leasing Limited	Rejected	Yes		2096.00
21	SSL India Limited		Yes		227.00
22	Schematic Finance Limited	Rejected	Yes		7.08
23	Shabnam Leasing and Finance Limited	Cancelled			6.00
24	Arshdeep Finance Ltd.	Cancelled on 06.12.2013	Filing of Winding up petition & Criminal Complaint in process	yes	2392.00
25	Escorts Finance Ltd. (Company has applied for deregistration.)	Registered	RBI has filed the application on December 20, 2012 for modification of the order dated March 04, 2011: a) to the extent that all claims received even after the expiry of two years period stipulated in the order shall be duly honoured by the Company; and/or b) direct the company to continue making payment to the FD holders after expiry of two years; and/or (c) to keep an amount equivalent to the unclaimed deposit amount with upto date interest accrued	No	1605.00 (as on 31.05.2014)

			thereon in a separate bank account; and (d) in case the amount is unclaimed after expiry of 7 years, the same may be kept to be credited to IEPF in terms of Section 205C of the Companies Act, 1956.		
26.	Multani Motor Finance Ltd. (Company not found at the given address. SCN being issued)	Registered		No	3.29
27	Rakshit Motor & General Finance Ltd.(CoR being cancelled)	Registered		No	0.21
28	Samrat Motor Finance Limited	Registeresd	Shortfall in maintenance of stipulated SLR requirements and penal interest was imposed during quarter ended June 2012, September 2012 and December 2012 respectively. Unauthorised acceptance of deposits. Advised to repay excess deposits	-	
29	Micro Finance Ltd (Chandigarh)		unable to meet the minimum credit rating requirement- directed to stop accepting public deposits and		

			refund the deposits held as and when they matured. After repayment of deposits, the company applied for conversion from 'NBFC-D' to 'NBFC-ND'		
30	V&C Vaults & Finance Ltd		Unauthorised acceptance of deposits and Non-maintenance of liquid assets (2013). In the process of issuing SCN.		
31	The Instalment Supply Ltd.		(Show Cause Notice and Prohibitory Order issued and further action in process.) With regard to shortfall in maintenance of stipulated SLR requirements, penal interest was imposed		Rs.67 lakh (unauthorised collection of deposits)

Appendix - 6
(vide Para 5.5)

Details of the status of return of the deposits collected illegally by NBFCS

Year	Name of company	Nature of Violation	Action taken
2014-15	DHP Leasing Ltd	Violated provisions of RBI Act	Company's CoR cancelled in July 2014 and instructed to repay public deposit.
	Ramir Finance & Leasing Company	Violated provisions of RBI Act	Prohibitory order under section 45 MB (1) & (2) of the Act was issued on 29.05.2013 was extended. Cancellation of CoR in under consideration
	Deep Hire purchase Ltd	Violated provisions of RBI Act.	Company's CoR cancelled in July 2014 and instructed to repay public deposit.
	Thind Finance Limited	Violated provisions of the RBI Act.	The CoR was cancelled on May 9, 2014
2013-14	Amrit Hire Purchase Ltd., Jalandhar	During Inspection, company was reclassified as Loan company as it did not fulfill criteria for AFC status.	Company has been advised not to accept fresh public deposit or renew the existing deposits.
	Kuldip Finance Ltd, Jalandhar	From perusal of SAC as on 31.3.12 & 31.3.13 submitted by the company and during inspection, it was observed that it did not fulfil criteria for AFC status.	Company was advised not to accept fresh public deposit & repay the outstanding deposits. Issuing SCN is under process.
2013-14	Ramir Finance & Leasing Company	Violated provisions of RBI Act.	Prohibitory order under section 45 MB (1) & (2) of the Act was issued on 29.05.2013.
	Manipal Finance Corp. Ltd (Bangalore)	Cancelled due to non refund of matured public deposits 20.12.2004 (regulatory violations)	The company is under the scheme of compromise and arrangement approved by the High Court of Karnataka. As on 31.3.14 the O/S public deposits is ₹ 16.03 lakh. The HC of Karnataka is monitoring the repayment of deposits.

	Mukunda Industrial and Finance Ltd (Bangalore)	Cancelled due to non refund of matured public deposits 13.5.2011	The company is under liquidation (provisional).The liquidator will initiate action for refund of deposits and is being monitored by the liquidator's office.
	Achal Finance Limited (Bangalore)		<p>The Company was not meeting the prescribed criteria of Asset Income pattern to be classified as AFC. The company is not also complying with CRAR requirement of 15%. As on 31.3.2013 the CRAR was 7.6%</p> <p>Directions were issued to the Company not to accept fresh public deposits and also to repay the public deposits as & when they mature. As per Balance Sheet of March 31, 2012 the total public deposits were Rs. 125 lakh. Which the company is following.</p>

Appendix-7
(vide Para 5.5)

Details of the status of return of the deposits collected illegally by NBFCS

Name of Company	Amount of PD involved	Reasons
DHP Leasing Ltd	Rs. 35.57 lakh (as per last NBS 1 return-Dec., 2013)	CoR cancelled in July 2014. Information/confirmation on repayment of PD not received from company yet.
Deep Hire Purchase Ltd	Rs. 29.02 lakh (as per last NBS 1 return-Dec., 2012)	CoR cancelled in July 2014. Information/confirmation on repayment of PD not received from company yet.
Amrit Hire Purchase Ltd	Rs. 396.05 lakh (as per last NBS 1 return-June, 2014)	Matter under consideration.
Kuldip Finance Ltd, Jalandhar	Rs. 2.76 lakh (as per last Inspection Report, March 31, 2013)	As observed deposits not refunded. Action under process
Ramir Finance & Leasing Co Ltd.	Rs 6.49 lakh as on March 31,2010	The company has not provided any information in this regard. The cancellation of CoR is under consideration.
Thind Finance Co. Ltd.	Rs. 3.24 lakh as on March 31, 2012	The registered letter dispatched to the company has been returned undelivered.
M/s SCF Finance Ltd., Ludhiana		The company had defaulted in repayment of matured deposits in violation of NBFC APD (RB) Directions 1998. Irregularities pointed out to the company for rectification.The case is under consideration.

Appendix-8
(vide Para 6.12)

Data on the number of complaints disposed off by the competent grievance redressal body/authority for the last five years as submitted by RBI

Regional Office	Year											
	2009-10		2010-11		2011-12		2012-13		2013-14		2014-15(till date)	
	No of Complaints Received	No of complaints disposed	No of Complaints Received	No of complaints disposed	No of Complaints Received	No of complaints disposed	No of Complaints Received	No of complaints disposed	No of Complaints Received	No of complaints disposed	No of Complaints Received	No of complaints disposed
Ahmedabad	20	20	36	36	30	30	32	32	51	51	132	123
Bangalore	113	113	67	67	78	78	81	81	65	65	77	76
Bhopal	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Bhubneswar	1	1	NIL	NIL	1	1	2	2	7	7	5	5
Chandigarh	28	28	24	24	55	55	55	55	48	48	41	41
Chennai	180	137	358	336	241	242	238	259	280	246	352	364
Guwahati	1	1	3	3	9	9	18	18	6	6	1	1
Hyderabad	80	80	56	56	49	49	56	56	48	48	33	33
Jammu	NIL	NIL	NIL	NIL	NIL	NIL	1	1	NIL	NIL	NIL	NIL
Jaipur	NIL	NIL	4	4	4	4	13	13	4	4	9	9
Kanpur	45	45	11	11	21	21	38	38	23	23	25	25
Kolkata	299	299	218	218	143	143	159	159	145	145	107	95
Mumbai	NA	NA	630	630	657	657	704	704	679	679	946	713
New Delhi	NA	NA	719	719	482	482	435	435	639	639	944	906
Patna	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	1	1	NIL	NIL
Thiruvananthapuram	70	59	68	53	100	113	258	213	252	281	191	191
Total	837	783	2194	2157	1870	1884	2090	2066	2248	2243	2863	2582

Appendix-9
(vide Para 8.1)

**Data regarding the amount of unclaimed deposits lying with NBFCs -D for the last 10
years (year wise)**

Sr. No.	Regional Office	Company name	Year Wise information (Rs. In lakhs)									
			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1	Chennai	CARTHIC CREDITS LIMITED	15	30	35	32	64	26	38	34	34	28
2	Chennai	Deccan Finance Ltd.	5	3	10	9	9	3	1	16.34	4.1	5.97
3	Chennai	Ever Trust Finance (India)Ltd.	0	2	3	3	2	1.13	1	0	0	0
4	Chennai	GOVE INVESTMENT & FINANCE COMPANY LIMITED	5	4	7	11	14	3	17	25	7.96	3
5	Chennai	GTP Finance Limited.	0	0	0	0	1	1	1	0	0	0
6	Chennai	INDO ASIA FINANCE LIMITED	27	1	7	17	0	0	0	0.3	0	0
7	Chennai	Integrated Finance Co. Ltd.	70	107	0	0	0	2088	2052	0	0	0
8	Chennai	Sakthi Finance Ltd.	293	326	348	333	624.02	359	207	208.57	247.91	223.2
9	Chennai	SeyadShariat Finance Ltd.	22	27	5	7	9	1	5	14.5	2.44	7.61
10	Chennai	Shriram City Union Finance Ltd.	33	37	24	20	34	20	21	14.51	8.34	13.37
11	Chennai	Shriram Transport Finance Co. Ltd.	90	93	105	64	117	65	61	739.38	1109.99	3918.14
12	Chennai	Sri Vijayaram Hire Purchase & Leasing Finance Ltd	1	4	4	10	19	7	5	7.85	4.47	3.35
13	Chennai	Sundaram Finance Ltd	808	1095	1070	1028	1501	763	901	1410.96	2051.63	2018.02
14	Chennai	Tamil Nadu Industrial Development Corp'n Ltd	209	94	140	161	95	0	0	0	0	0
15	Chennai	Tamil Nadu Power Finance &Infrastructure Development Corporation Ltd(TUFIDCO)	304	383	484	563	1483	1007	849	27011	47152	49187
16	Chennai	Tamilnadu Transport Development Finance Corporation Ltd	569	365	282	300	540	191	573	0	0	0
17	Chennai	Vijay Hemant Finance & Estates Ltd	4	2	0	9	28	11	9	21.86	15.44	30.83
18	Trivandrum	Muthoot Vehicle & Asset Finance Ltd	25	51.89	67	17	18.9	25.35	54.97	53.32	59.7	67.09
19	Trivandrum	SML Finance Ltd	0	0	0	0	.3	.3	.3	1.1	0	0
20	Trivandrum	Kerala State Power and Infrastructure Finance Corporation Ltd	0	0	0	0	107.87	72.21	122.09	55.44	50.43	40.43
21	Mumbai	Bajaj Finance Ltd.	1	2	4.5	2	2	8	NA	NA	.2	NA
22	Mumbai	Mahindra & Mahindra Financial Services Ltd.	NA	NA	NA	NA	0	NA	104	219	686	NA
23	Mumbai	Jaybharat Credit Ltd	NA	5	6	6	8	13	85	101	57	46
			2481	2631.89	2601.5	2592	4677.09	4664.99	5107.36	29934.13	51491.61	55592.01

Appendix 10
(vide Para 9.15)

Data and details of the violations of provisions of RBI Act, 1934 or the directions issued there under as reported by auditors to RBI directly

Mumbai	Nil
Patna	Nil
Bhubaneswar	Nil
Kolkata	The Statutory Auditor of West Bengal Infrastructure Development Finance Corporation Ltd. (NBFC-D) had submitted exception report directly to RBI that the company's financial assets for the financial year ended 2011-12 assessed at 39.26% was below the stipulated requirement of 50%. The company had submitted the road map for fulfilling the financial criteria by 2015.
Jaipur	Nil
Bhopal	Nil
Ahmedabad	Nil
Jammu	Nil
Kanpur	Nil
Chennai	The auditors reported instances of violation of provisions of RBI Act in cases of three companies in the last five years. Ever Trust Finance (India) Ltd, Apna Finance (India) Ltd (twice) and Prem Hire Purchase Ltd. Details given below in Appendix 11
New Delhi	Exception reports in respect of the following companies have been received: V&C Vaults & Finance Ltd. regarding non-meeting of NOF, CRAR, etc. <ul style="list-style-type: none"> a) There was a change of control/management of the Company but the Company has not complied with the instructions in this regard. b) Company is not engaged in the NBFIs activities. c) Company is not entitled to hold CoR of RBI. d) As the Company being unrated Loan Company is not eligible to accept Public Deposits it has accepted Public Deposits. e) We are unable to comment whether the Company has defaulted to pay interest/repayment of principal deposits of the Public. f) We are also unable to comment whether Company is maintaining required CRAR as per RBI requirements. g) Company has not complied with the liquid assets requirement as per RBI norms. h) Company has not submitted NBS-1 return on deposits and NBS-II return on prudential norms. i) The Company has not complied with the following provisions : <ul style="list-style-type: none"> • Minimum NOF requirement • Various policies

	<ul style="list-style-type: none"> • SAC • B/S for the financial year 2011-12 • Changes in respect of Registered Office address, Directors, Auditors and other Principal Officer <p>In the process of issuing SCN for cancellation of CoR.</p> <p>Bansal Credits Ltd. regarding delayed-submission of Statement In Lieu of Advertisement, received in September 2014, is under examination.</p> <ul style="list-style-type: none"> • Delay in submission of Statement In Lieu of Advertisement for the financial year 2012-13 • Delay submission in furnishing the online NBS-1, II and III returns
Trivandrum	Nil
Guwahati	Nil
Hyderabad	Nil
Chandigarh	Details given at Appendix 11

Appendix 11
(vide Para 9.15)

Exception Reports submitted by the Statutory Auditor
Details of non-compliances observed with RBI prudential requirements- year wise

Sr No	Name of the Company and Status
2009-2010	
1	<p>Apna Finance (India) Ltd</p> <ol style="list-style-type: none"> 1. Deposits are not rated from any credit rating agency 2. Delay in submission of NBS returns was observed 3. Certain copies of Registration certificates and insurance policies were not produced <p>The company was advised to rectify the irregularities. The company was issued Show cause notice- The company is not accepting public deposits and their request for conversion to Category-B company is under process.</p>
2	<p>Prem Hire Purchase Ltd</p> <ol style="list-style-type: none"> 1. Deposits are not rated from any credit rating agency 2. Delay in submission of NBS returns was observed 3. Non availability of Renewed insurance policy/hire purchase agreement forms and Certain hire purchase agreement forms/RTO endorsement in registration certificates are not in the name of the company <p>The company was advised to rectify the irregularities. The company was issued Show cause notice. The company is not accepting public deposits and their request for conversion to Category-B company is under process.</p>
3	<p>Swami Hire Purchase Limited Jalandhar (Name changed to DPGC Finance Ltd)</p> <p>Violation of credit concentration Norms- Matter has been followed up with the company</p>
4	<p>Baba Purandass Financial Services Ltd , Khanna (Punjab)-</p> <p>Delay in submission of return on prudential norms- Do</p>
2010-2011	
1	<p>Ramir Finance & Leasing Company Ltd- Non maintenance of SLR Securities- Prohibitory Order under section 45 MB (1) & (2) of the Act,1934 imposed on 29.05.2013. The cancellation of CoR is under consideration.</p>
2011-2012	
1	<p>West Bengal Infrastructure Development Finance Corporation Ltd.</p> <p>The company's financial assets for the financial year ended 2011-12 assessed at 39.26% were below the stipulated requirement of 50%. The company had submitted the road map for fulfilling the financial criteria by 2015.</p>
2	<p>Deep Motor Finance Ltd, Jalandhar- Loans & Advances in excess of 15% exposure limit. Not complied with liquidity requirement- The cancellation of CoR is under consideration.</p>

3	Nau-Nidh Finance Ltd- Returns not certified by CA- The company was advised to take necessary action
4	Majha Finance Ltd- PBC criteria not fulfilled by the company- Converted into Non-deposits (Category – B) company
5	Thakar Investment Ltd- PBC criteria not fulfilled by the company- The issue of Prohibitory Order/ Cancellation of CoR is under process.
6	PHF Leasing Ltd- The company has not furnished in detail yearly return for the period ended 30.09.2010- The company was advised to take necessary action
7	PHF Hire Purchase Ltd- The company has not furnished in detail yearly return for the period ended 30.09.2010- The company was advised to take necessary action
8	PHF Finance Ltd- The company has not furnished in detail yearly return for the period ended 30.09.2010- The company was advised to take necessary action
9	PHF Investment Ltd- The company has not furnished in detail yearly return for the period ended 30.09.2010- The company was advised to take necessary action
10	Skylark Deposits & Advances Ltd- Lost the status of NBFC- As per the inspection of the company w.r.t.31.03.2013, the company is reclassified as loan company.

2012-2013

1	<p>Ever Trust Finance (India) Ltd</p> <ol style="list-style-type: none"> 1. Delay in the submission of the Quarterly NBS returns- The company was issued letter seeking compliance from the company. 2. Non furnishing the Return on deposits - The company was advised to submit the same within a period of 15 days from the close of the quarter vide letter dated 3. Non compliance with customer identification procedure in certain cases.- The company was advised to submit the compliance in this regard vide letter dated- The company assured that the discrepancies will be sorted out and will not be repeated in future vide its letter dated May 13, 2013 4. Not producing certain copies of registration certificates for verification. Not endorsing the Insurance policies in favour of the Company. Not producing the Photo IDs for few parties for verification- The company was advised to submit the compliance in this regard 5. The exception report was submitted (on August 30, 2013). Further, the company was issued letter seeking clarification/ compliance. In reply to it, the company submitted compliance assuring that it will not be repeated in future. Bank has sought further compliance from the company.
2	<p>Apna Finance (India) Ltd</p> <ol style="list-style-type: none"> 1. Non availability of the copies of the registration certificate /renewal insurance

	<p>policy for certain customers</p> <p>2. Missing of information regarding compliance with KYC guidelines for the customers</p> <p>The company was advised to rectify the irregularities. The company was issued Show cause notice.- The company is not accepting public deposits and their request for conversion to Category-B company is under process.</p>
3	<p>Deep Motor Finance Ltd. , Jalandhar- Delay in return submission</p> <p>The company was advised to take necessary action.</p>
4	<p>Deep Hire Purchase Ltd , Jalandhar Delay in return submission The company was advised to take necessary action.</p>
5	<p>Deep Finance Ltd, Jalandhar Delay in return submission</p> <p>The company was advised to take necessary action.</p>
6	<p>Himachal Motor & General Finance Ltd., Hamirpur</p> <p>The company was advised to take necessary action.</p>
7	<p>Himgiri Hire Purchase Ltd., Mandi Delay in return submission</p> <p>The company was advised to take necessary action.</p>
8	<p>Thakar Investment Ltd Delay in return submission. The issue of Prohibitory Order is under process.</p>
9	<p>PHF Leasing Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
10	<p>PHF Hire Purchase Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
11	<p>PHF Finance Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
12	<p>PHF Investment Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
13	<p>Shine Blue Hire Purchase Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
14	<p>Moga Finance Ltd Delay in return submission There was a change in management without written prior permission of the Bank. The proposal for issue of SCN is under consideration.</p>
15	<p>Nawanshahar Finance Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
16	<p>Mand Finance Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
17	<p>Novelty Finance Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>
18	<p>Punjab Kashmir Finance Ltd Delay in return submission</p> <p>The company was advised to take necessary action.</p>

19	PKF Finance Ltd Delay in return submission The company was advised not to accept deposits outside state of registration.
20	Majha Finance Ltd Delay in return submission The company was converted into non-deposits taking company.
21	SCF Finance Ltd Non Compliance of NBFC-D (RB) Directions,1998 The company is defaulted in payment of public deposits. The proposal for issue of SCN is under consideration.
22	Ramir Finance & Leasing Company Ltd Non-Maintenance of SLR Prohibitory order under section 45 MB (1) & (2) of the Act was imposed on 29.05.2013.The cancellation of Certificate of Registration is under consideration.
23	Skylark Motor & General Finance Ltd Delay in return submission The company was advised to take necessary action.
24	Thind Finance Ltd Default in SLR The Certificate of Registration was cancelled vide order dated May 9, 2014.
2013-2014	
1	HRD Fincap Limited, Sangrur Default in SLR, Penalty recovered from the company .
2	Ess Dee Hire Purchase Ltd ,Moga Delay in submission of returns Matter has been followed up, company has submitted the return.
3	Himgiri Hire Purchase Ltd, Mandi Delay in submission of returns Matter has been followed up, company has submitted the return.
4	Himachal Motor & General Finance Ltd, Hamirpur Delay in submission of returns Matter has been followed up, company has submitted the return.
5	Deep Motor Finance Ltd , Jalandhar Delay in submission of returns Matter has been followed up, company has submitted the return.
6	Deep Finance Ltd , Jalandhar Delay in submission of returns Matter has been followed up, company has submitted the return.
7	Baba Purandass Financial Services Ltd, Khanna Delay in submission of returns Matter has been followed up, company has submitted the return.
8	SCF Finance Ltd Delay in submission of returns The company has defaulted in payment of public deposits. The proposal for issue of SCN is under consideration.
9	Thakar Investments Ltd Delay in submission of returns The issue of Prohibitory order under section 45 MB (1) & (2) is under process.
10	Mand Finance Ltd Delay in submission of returns The company was advised to take necessary action.
11	PKF Finance Ltd Delay in submission of returns The company was advised not to accept deposits outside State of registration.
12	Novelty Finance Ltd Delay in submission of returns The company was advised to take necessary action.
13	Punjab Kashmir Finance Ltd Delay in submission of returns

	The company was advised to take necessary action.
14	Majha Finance Ltd Delay in submission of returns The company was converted into non-deposit taking NBFC.
15	Shine Blue Hire Purchase Ltd Delay in submission of returns The company was advised to take necessary action.
16	PHF Leasing Ltd Delay in submission of returns The company was advised to take necessary action.
17	PHF Hire Purchase Ltd Delay in submission of returns The company was advised to take necessary action.
18	PHF Finance Ltd Delay in submission of returns The company was advised to take necessary action.
19	PHF Investment Ltd Delay in submission of returns The company was advised to take necessary action.

MINUTES OF TENTH SITTING OF THE COMMITTEE ON ESTIMATES (2014-15)

The Committee sat on Wednesday, the 31st December, 2014 from 1540 hrs. to 1740 hrs. in Room No. '62', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Kirti Azad
3. Shri Ashwini Kumar Choubey
4. Shri Kalikesh N. Deo
5. Shri Sanjay Dhotre
6. Shri K. H. Muniyappa
7. Shri J.C. Divakar Reddy
8. Shri Md. Salim
9. Shri Sudheer Gupta
10. Shri Jai Prakash Narayan Yadav

SECRETARIAT

- | | | | |
|----|------------------------|---|---------------------|
| 1. | Shri P.C. Koul | – | Director |
| 2. | Shri Srinivasulu Gunda | – | Additional Director |
| 3. | Shri U.C. Bharadwaj | – | Deputy Secretary |

WITNESSES

- | | | | |
|----|------------------------------|---|--|
| 1. | Shri Om Prakash Agarwal | - | Chief General Manager,
RBI (Retd.) Mumbai |
| 2. | Shri Subhash Chandra Agrawal | - | RTI Activist, Delhi |

2. The Sitting could not be convened as scheduled at 1500 hrs. due to lack of quorum. The Sitting was re-convened at 1540 hrs. once the quorum was complete.

3. The Chairperson welcomed the Members to the Sitting and directed that the first witness be ushered in.

(At around 1545 hrs Shri Om Prakash Agarwal took his seat)

4. The Chairperson welcomed the witness and drew his attention to Direction 55(1) of 'Directions by the Speaker, Lok Sabha' regarding confidentiality of the proceedings of the Committee. After the customary introduction was over, the Chairperson directed the witness to brief the Committee on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFC) – An Overview'. The Members raised several queries and sought clarification from the witness. The Chairperson, thereafter, directed the witness to send to the Committee Secretariat information on unanswered queries at the earliest.

The witness then withdrew.

5. The Chairperson then directed that the second witness be ushered in.

(At around 1645 hrs. Shri Subhash Chandra Agrawal took his seat)

6. The Chairperson welcomed the witness and drew his attention to Direction 55(1) of 'Directions by the Speaker, Lok Sabha' regarding confidentiality of the proceedings of the Committee. After the customary introduction was over the Chairperson directed the witness to brief the Committee on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFC) – An Overview'. The Members raised several queries and sought clarification from the witness. The Chairperson, thereafter, directed the witness to send to the Committee Secretariat information on unanswered queries at the earliest.

The witness then withdrew.

7. The Committee then adjourned to meet at 1100 hrs. on the next day.

A verbatim record of the proceedings has been kept.

MINUTES OF TWELFTH SITTING OF THE COMMITTEE ON ESTIMATES (2014-2015)

The Committee sat on Monday, the 19th January, 2015 from 1500 to 1730 hrs. in Room No. G-074, Parliament Library Building, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Kirti Azad
3. Shri Kalyan Banerjee
4. Shri Om Birla
5. Shri Kalikesh N. Singh Deo
6. Shri Sanjay Dhotre
7. Shri Sudheer Gupta
8. Dr. Sanjay Jaiswal
9. Smt. Darshana Vikram Jardosh
10. Shri J.C. Divakar Reddy
11. Shri Arvind Sawant
12. Shri Rajesh Verma
13. Shri Jai Prakash Narayan Yadav

SECRETARIAT

- | | | |
|----|------------------------|---------------------|
| 1. | Shri P.V.L.N. Murthy | Joint Secretary |
| 2. | Shri Srinivasulu Gunda | Additional Director |
| 3 | Shri U.C. Bharadwaj | Deputy Secretary |

WITNESSES

MINISTRY OF FINANCE

[DEPARTMENT OF FINANCIAL SERVICES]

S. No.	Name	Designation
1.	Shri Hasmukh Adhia	Secretary
2.	Smt. Snehlata Shrivastava	Additional Secretary
3.	Dr. Shashank Saxena	Economic Advisor

MINISTRY OF CORPORATE AFFAIRS

1.	Shri Naved Masood	Secretary
2.	Ms. Anjuly Chib Duggal	Special Secretary
3.	Shri Amardeep Singh Bhatia	Joint Secretary
4.	Shri Ajai Das Mehrotra	Joint Secretary

RESERVE BANK OF INDIA

1.	Ms. Archana Mangalagiri	GM-In-Charge, DNBR
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2. Ms. Bindu Vasu

Assistant Legal Advisor,
Legal Department

2. The proceedings commenced with the Chairperson welcoming the Members to the Sitting. The Committee, thereafter, held internal deliberations for a while. The Chairperson then directed that the witnesses be ushered in.

At around 1510 hrs. the witnesses took their seats.

3. The Chairperson welcomed the witnesses and drew their attention to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the proceedings of the Committee. After the customary introduction was over, the representative of RBI made a presentation on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFCs) - An Overview'. The Members raised several queries and sought clarifications from the witnesses. The Chairperson, thereafter, directed the witnesses to furnish to the Committee Secretariat detailed written replies to the points to which they could not readily respond at the earliest.

The witnesses then withdrew.

4. A verbatim record of proceedings has been kept.

The Committee then adjourned to meet at 1100 hours on the next day.

MINUTES OF FIFTEENTH SITTING OF THE COMMITTEE ON ESTIMATES (2014-2015)

The Committee sat on Tuesday, the 10th February, 2015 from 1100 to 1315 hrs.
in Room No. '53', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Sultan Ahmed
3. Shri Kirti Azad
4. Shri Kalyan Banerjee
5. Shri Ashwini Kumar Choubey
6. Col. Sonaram Choudhary
7. Shri Ramen Deka
8. Shri Kalikesh N. Singh Deo
9. Shri Sanjay Dhotre
10. Shri Sudheer Gupta
11. Dr. Sanjay Jaiswal
12. Shri Vinod Khanna
13. Shri P. Kumar
14. Shri Ravindra Kumar Pandey
15. Shri K.N. Ramachandran
16. Shri J.C. Divakar Reddy
17. MD. Salim

SECRETARIAT

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|----|----------------------|----------------------|
| 1. | Shri Devender Singh | Additional Secretary |
| 2. | Shri P.V.L.N. Murthy | Joint Secretary |
| 3 | Shri P.C. Koul | Director |

WITNESSES

S. No.	Name	Designation
1.	Shri C.S. Ghosh	Chairman & MD Bandhan Financial Services Ltd., Kolkata
2.	Shri Umesh Revankar	MD & CEO Shriram Transport Finance Company Ltd., Chennai
3.	Shri M. Ramaswamy	Chief Financial Officer Sundaram Finance, Chennai

2. The proceedings commenced with the Chairperson welcoming the Members to the Sitting. The Committee, thereafter, held internal deliberations for a while. The Chairperson then directed that the first witness be ushered in.

(At around 1120 hrs. Shri C.S. Ghosh took his seat)

3. The Chairperson welcomed the witness and drew his attention to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the proceedings of the Committee. After the customary introduction was over, the Chairperson asked the witness to brief the Committee on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFCs) - An Overview'. Amongst the various suggestions made by the witness on the subject, the salient ones were increasing capital base requirements of NBFCs appropriately, enhancing the SLR/CRR commitment, strengthening Know Your Customer (KYC) norms of NBFCs and strictly ensuring them, bringing NBFCs on CBS platform,

awareness generation about deposit taking NBFCs at grass root level, desirability of having one regulator for all deposit taking entities, etc. He, thereafter, replied to /clarified on the queries/points raised by Members of the Committee. The Chairperson, thereafter asked the witness to furnish information on unanswered queries to the Committee Secretariat at the earliest.

4. The Chairperson then directed that the second Witness be ushered in.

(At around 1215 hrs. Shri Umesh Revankar took his seat)

5. The Chairperson welcomed the witness and drew his attention to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the proceedings of the Committee. After the witness introduced himself, the Chairperson asked him to share his experience with the Committee about the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFCs) - An Overview' as also issues like efficacy of regulatory mechanism, insurance of both credit and deposit of NBFCs on the lines of banks, camouflaging of cash transactions as deposits, use of questionable measures for recovery, etc. The witness briefed the Committee on all these aspects. He also submitted that there was a need for reducing 15% SLR requirement imposed on NBFCs for reducing load upon debtors, amplification in the definition of deposit, need to remove 8% securitization conditionality, etc. The Members also raised several queries and sought clarifications from the witness. The Chairperson, thereafter, asked the witness to furnish to the Committee Secretariat detailed replies to the points to which he could not readily respond to at the earliest.

6. The Chairperson then directed that the third Witness be ushered in.

(At around 1300 hrs. Shri M. Ramaswamy took his seat)

7. The Chairperson welcomed the witness and drew his attention to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the proceedings of the Committee. After the customary introduction was over, the Chairperson asked the witness to give an update on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFCs) - An Overview'. He deposed on various issues concerning the subject including the sanctity of handling public funds, capital adequacy norm of 15% adding to the cost of loans, improvement in the system due to deposit acceptance ceiling getting reduced from four times of net owned funds to one and a half time of net owned funds, SARFAESI Act being made applicable to NBFCs so as to discipline wilful defaulters, allowing NBFCs to borrow from external sources, etc. The Members also raised several queries and sought clarifications from the witness. The Chairperson, thereafter, asked the witness to furnish to the Committee Secretariat detailed replies to the points to which he could not readily respond to at the earliest.

The witness then withdrew.

8. The verbatim proceedings was kept on record.

The Committee then adjourned.

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MINUTES OF EIGHTEENTH SITTING OF THE COMMITTEE ON ESTIMATES (2014-2015)

The Committee sat on Tuesday, the 10th March, 2015 from 1650 to 1750 hrs. in Room No. '62', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Sultan Ahmed
3. Col. Sonaram Choudhary
4. Shri Kalikesh N. Singh Deo
5. Shri P.C. Gaddigoudar
6. Dr. Sanjay Jaiswal
7. Smt. Kavitha Kalvakuntla
8. Shri Nalin Kumar Kateel
9. Shri Vinod Khanna
10. Shri K.H. Muniyappa
11. Shri Ravindra Kumar Pandey
12. Shri J.C. Divakar Reddy
13. Shri Kirti Vardhan Singh

SECRETARIAT

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|----|---------------------|----------------------|
| 1. | Shri Devender Singh | Additional Secretary |
|----|---------------------|----------------------|

2.	Shri P.C. Koul	Director
3	Shri Srinivasulu Gunda	Additional Director

WITNESSES

S. No.	Name	Designation
1.	Shri Keki Mistry	Vice-Chairman & CEO, HDFC Ltd.
2.	Smt. Renu Karnad	Managing Director, HDFC Ltd.
3.	Shri Y.M. Deosthalee	Chairman & MD, L&T Finance Holding
4.	Shri N. Sivaraman	President & Director, L&T Finance Holding

2. The proceedings commenced with the Chairperson informing the Members about the business to be transacted during the Sitting. The Chairperson then directed that the witnesses be ushered in.

(At around 1655 hrs. the witnesses took their seats)

3. The Chairperson welcomed the witnesses and drew their attention to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the proceedings of the Committee. After the customary introduction was over, the Chairperson asked the first witnesses to brief the Committee on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial

Companies (NBFCs) - An Overview'. The Committee was briefed on various aspects of NBFCs including the role played by the NBFCs in financial services sector, the wide reach of NBFCs in areas not covered by regular banking, need for parity in regulations of NBFCs and banks in respect of capital adequacy ratio, the need to introduce insurance facility for deposits of NBFCs on lines of banking sector, difficulties in the regulatory mechanism of NBFCs, need for a separate regulator primarily for NBFCs on lines of National Housing Bank for housing finance companies, need for wide spread awareness campaigns, utilization of CSR spend on awareness generation, problems arising due to multi state dimension of regulation, etc. The Members also raised several queries and sought clarifications from the witnesses to which the witnesses duly responded.

4. The Chairperson, thereafter, directed the witnesses to furnish information on the queries that had remained unresolved or on which information was not readily available with them to the Committee Secretariat at the earliest. He further directed them to also send written replies to the List of Points being sent by the Committee Secretariat by 23 March, 2015.

The witnesses then withdrew.

5. The verbatim proceedings was kept on record.

The Committee then adjourned.

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MINUTES OF NINETEENTH SITTING OF THE COMMITTEE ON ESTIMATES (2014-2015)

The Committee sat on Wednesday, the 25th March, 2015 from 1130 to 1315 hrs.
in Room No. '53', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Kirti Azad
3. Shri Dileep Singh Bhuria
4. Shri Ashwini Kumar Choubey
5. Col. Sonaram Choudhary
6. Shri Kalikesh N. Singh Deo
7. Shri Sanjay Dhotre
8. Shri P.C.Gaddigoudar
9. Dr. Sanjay Jaiswal
10. Smt. Darshana Vikram Jardosh
11. Smt. Kavitha Kalvakuntla
12. Shri P. Kumar
13. Shri K.H. Muniyappa
14. Shri J.C. Divakar Reddy
15. Shri Arvind Sawant
16. Shri Jai Prakash Narayan Yadav

SECRETARIAT

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|----|---------------------|----------------------|
| 1. | Shri Devender Singh | Additional Secretary |
| 2. | Shri P.C. Koul | Director |

WITNESSES

Reserve Bank of India

- | | | |
|----|----------------------|-----------------------|
| 1. | Shri R. Gandhi | Deputy Governor |
| 2. | Shri Sathyan David | Chief General Manager |
| 3. | Shri C.D. Srinivasan | Chief General Manager |
| 4. | Shri G.S. Hegde | Legal Consultant |

Securities and Exchange Board of India

- | | | |
|----|---------------------|-----------------------|
| 5. | Shri Ananta Barua | Executive Director |
| 6. | Shri R.S. Srivastav | Chief General Manager |

2. The proceedings commenced with the Chairperson informing the Members about the business to be transacted during the Sitting. The Chairperson then directed that the witnesses be ushered in.

(At around 1135 hrs. the witnesses took their seats)

3. The Chairperson welcomed the witnesses and drew their attention to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the

proceedings of the Committee. After the customary introduction was over, the Chairperson asked the representatives of RBI to brief the Committee on the subject 'Regulatory Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFCs) - An Overview' on various aspects like the regulatory responsibilities of RBI in the context of NBFCs, need for separate institution or mechanism to regulate NBFCs, lacunae, if any in the legislation of NBFCs, need to have an efficient early warning system and a strong market intelligence network for NBFCs, need to bring deposit taking NBFCs under SARFAESI Act amongst others.

4. The witnesses spoke at length on the cited issues as also on other matters such as strengthening of the coordination mechanism; need to equip the regulator with required skills/expertise and also the need to expand the reach of the regulator to prevent collection of deposits by unincorporated bodies from the public, ensuring the enactment of the Protection of Interests of Depositors' Act by all the States, improvement of the effectiveness of market intelligence mechanism to check unauthorized collection of deposits from the public and also the violations of the regulations by NBFCs, role of State Governments, need for more proactiveness on the part of State Level Coordination Committees, etc. The Members also raised several queries and sought clarifications from the witnesses to which the witnesses duly responded.

5. The Chairperson, thereafter, directed the witnesses to furnish information on the queries that had remained unresolved or on which information was not readily available with them to the Committee Secretariat at the earliest. He further directed them to also send written replies to the List of Points being sent by the Committee Secretariat by 1 April, 2015.

The witnesses then withdrew.

6. The verbatim proceedings was kept on record.

The Committee then adjourned.

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MINUTES OF TWENTIETH SITTING OF THE COMMITTEE ON ESTIMATES (2014-2015)

The Committee sat on Wednesday, the 25th March, 2015 from 1430 to 1545 hrs.
in Room No. '53', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Kirti Azad
3. Shri Dileep Singh Bhuria
4. Shri Ashwini Kumar Choubey
5. Col. Sonaram Choudhary
6. Shri Kalikesh N. Singh Deo
7. Shri Sanjay Dhotre
8. Shri P.C.Gaddigoudar
9. Dr. Sanjay Jaiswal
10. Smt. Darshana Vikram Jardosh
11. Smt. Kavitha Kalvakuntla
12. Shri P. Kumar
13. Shri K.H. Muniyappa
14. Shri J.C. Divakar Reddy
15. Md. Salim
16. Shri Arvind Sawant
17. Shri Jai Prakash Narayan Yadav

SECRETARIAT

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|----|------------------------|----------------------|
| 1. | Shri Devender Singh | Additional Secretary |
| 2. | Shri P.C. Koul | Director |
| 3. | Shri Srinivasulu Gunda | Additional Director |

WITNESSES

Ministry of Finance (Department of Financial Services)

- | | | |
|----|---------------------------|----------------------|
| 1. | Dr. Hasmukh Adhia | Secretary |
| 2. | Mrs. Snehlata Shrivastava | Additional Secretary |
| 3. | Dr. Shashank Saksena | Economic Advisor |
| 4. | Shri Sudhir Shyam | Director |

Reserve Bank of India

- | | | |
|----|----------------------|-----------------------|
| 5. | Shri C.D. Srinivasan | Chief General Manager |
| 6. | Dr. Sathyan David | Chief General Manager |

2. At the outset the Chairperson welcomed the Members and the witnesses to the Sitting of the Committee.

3. The Chairperson, thereafter, drew the attention of the witnesses to Direction 55 (1) of Directions by the Speaker, Lok Sabha, regarding confidentiality of the proceedings of the Committee. After the customary introduction was over, the Chairperson asked the witnesses to brief the Committee on the subject 'Regulatory

Mechanism of Protection of Interests of the Depositors of Non Banking Financial Companies (NBFCs) - An Overview'. The witnesses briefed the Committee on various issues like need for introducing a mass campaign for awareness and education of depositors regarding market risks involved in depositing money in NBFCs, need to encourage whistle blowers and people in filing complaints at an early stage through a formal channel against unincorporated bodies accepting deposits, necessity of equipping RBI with required expertise and technical knowledge to check depositing of unaccounted money in NBFCs, the gap created in the market since 1998 due to non issuance of certificate of registration for deposit taking by NBFCs, the prospects of the proposed small and payment banks filling the void by collecting and mobilizing deposits and bringing them in the mainstream, the need to amend Reserve Bank of India Act as proposed by the RBI regarding the definition of deposits, enactment of Protection of Interests of Depositors Act by the State Governments. The Members also raised several queries and sought clarifications from the witnesses to which the witnesses duly responded.

4. The Chairperson, thereafter, directed the witnesses to furnish information on the queries that had remained unresolved or on which information was not readily available with them to the Committee Secretariat at the earliest. He further directed them to also send written replies to the List of Points being sent by the Committee Secretariat by 1 April, 2015.

The witnesses then withdrew.

5. The verbatim proceedings was kept on record.

The Committee then adjourned.

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MINUTES OF TWENTY- SECOND SITTING OF THE COMMITTEE ON ESTIMATES
(2014-15)

The Committee sat on Friday, the 24 April, 2015 from 1000 hrs to 1100 hrs. in Room No. '62', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi – Chairperson

MEMBERS

2. Shri Dileep Singh Bhuria
3. Shri Ashok Chavan
4. Shri Col. Sonaram Choudhary
5. Shri P. C. Gaddigoudar
6. Dr. Sanjay Jaiswal
7. Shri Nalin Kumar Kateel
8. Shri P. Kumar
9. Shri K.N. Ramachandran
10. Shri Arvind Sawant
11. Shri Ganesh Singh
12. Shri Rajesh Verma

SECRETARIAT

1. Shri Devender Singh – Additional Secretary
2. Shri Vipin Kumar – Director
3. Shri Srinivasulu Gunda – Additional Director
4. Shri U. C. Bharadwaj – Deputy Secretary

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee.

3. The Committee then took up for consideration the following draft Reports:-

(i) Draft Report on 'Regulatory Mechanism of Protection of Interests of Depositors of Non Banking Financial Companies - An Overview' pertaining to the Ministry of Finance (Department of Financial Services);

(ii) *****

(iii) *****

(iv) *****

4. The Committee adopted Reports at (i), (ii) & (iii) above without any modifications.

*****. The Committee then authorized the Chairperson to finalize them in the light of the modifications suggested and factual verification and present the same to Lok Sabha.

5. The Chairperson placed on record the cooperation and valuable suggestions of the Members in the work of the Committee. He also thanked the Secretariat for their cooperation and assistance rendered to the Committee.

The Committee then adjourned with vote of thanks to the Chair.