Escrow Account Facility for NBFCs to exit from Public Deposits

April 12, 1999

The Reserve Bank of India today announced that non-banking financial companies (NBFCs) presently holding public deposits will be allowed to park an amount equivalent to the amount of outstanding public deposits together with the present value of future interest differentials (between the yield on investments and the obligation of the company to pay the rate of interest) in an escrow account subject to certain conditions.

The escrow account facility to NBFCs will be subject to the following conditions :

(i) The companies shall keep an amount equivalent to the amount of outstanding public deposits together with the present value of future interest differential (to be calculated on the basis of the return promised to the depositors and the expected yield on the government securities/bank FDRs) in an escrow account in FDRs of one of the scheduled commercial banks or alternatively invest the amount in government securities ;

(ii) Deposit the bank FDRs or government securities as the case may be with one of the scheduled commercial banks appointed for the purpose as a designated banker as per the provisions of NBFC Directions on acceptance of public deposits.

(iii) Such securities can be withdrawn only at the beginning of each month only for repayment of public deposits on production of a certificate from its auditor about the amount of maturing deposits within the current month.

(iv) The company should tender an undertaking that it would not accept any further public deposits or renew such maturing deposits in any manner.

(v) The company may also be asked to submit a resolution from its board of directors to this effect.

This facility will benefit the NBFCs which are intending to exit from public deposits and desire to become non-public deposit holding companies. In terms of the present regulatory framework, companies not holding/not accepting public deposits are regulated by the Reserve Bank in a limited manner. They are not subject to stricter prudential norms.

Background

The Reserve Bank has shifted its regulatory and supervisory focus to NBFCs holding/accepting public deposits and many such companies have indicated to the Reserve bank their intention to exit from the public deposits. While NBFCs can prepay the public deposits without reducing the payable rate of interest by one percentage point for premature payments, subject to certain conditions, NBFCs have represented that their efforts have proved unsuccessful either because the depositors are untraceable and the deposits remained unpaid/unclaimed or the depositors have not given their consent for taking premature payment. Since the companies have opted to repay public deposits and they have chosen to raise resources through other means so as to exit from the regulatory attention of the Reserve Bank to the companies accepting/holding public deposits, the Reserve Bank has extended the escrow account facility to such companies with a view to protecting the interest of depositors.

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