PRESS RELEASE

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RBI meets NBFC Representatives

Dr Y V Reddy, Governor, Reserve Bank of India, last week met the Finance Industry Development Council (FIDC), a representative body of non-banking finance companies (NBFCs). Deputy Governor Shri V Leeladhar, Shri A V Sardesai, Executive Director and other senior officials of the Reserve Bank were also present. The objective of the meeting was to work out a three-year perspective for the sector.

In his opening remarks, the Governor pointed out that the NBFCs were an important component of the service sector which was a significant contributor to the growth of the economy. It was important for the NBFCs to efficiently intermediate and enhance credit delivery to the dispersed, underbanked and underserviced sections of the economy. However, it was also the Reserve Bank's responsibility to protect the depositors' interest. The Governor clarified that while ensuring that the public deposit taking companies and systemically important non-deposit taking companies were well regulated, the Reserve Bank was looking at further strengthening the NBFC sector so as to help the sector grow in terms of its asset base. He stressed the need for further strengthening the NBFCs in this context and stated that the Reserve Bank was looking at preparing a roadmap for NBFCs against this background through a consultative process. The Governor further clarified that the Reserve Bank had given an option to the NBFCs to voluntarily move out of public deposits acceptance activity if they found the regulatory costs outweighed their benefits. In case an NBFC voluntarily chose to get out of public deposits, the Reserve Bank would, in fact, help the NBFC in its efforts, including imparting training and technology support, he assured. He urged them to adopt technological changes including on-line reporting by NBFCS.

The representatives of the NBFC sector appreciated the role of the Reserve Bank in regulating the sector. They pointed out that the 1998 regulations had indeed helped weed out the non-serious players from the market and had infused greater discipline in the sector. The representatives averred that they had some inherent strengths of local knowledge, credit appraisal skills, a well trained collection machinery, close monitoring of borrowers and personalised attention to each client to cater to the needs of small and medium enterprises in the rural and semi urban areas. As such, they played a significant role in financing road transport and infrastructure. They could also reach the grass root level through micro finance. The NBFCs should, therefore, be viewed as complementing the banking sector and not as competitive, they urged. The representatives further mentioned that for regulations, they were on par with players, such as, banks, financial institutions and housing finance companies and desired that they should have a level playing field with housing finance companies in matters such as, funding from banks and access to from refinancing institutions such as SIDBI or NABARD. NBFC representatives pointed out that easy access to bank finance as well as refinance would also help reduce their dependence on public deposits. They further urged that provisions of Debt Recovery Tribunal Act and the SARFAESI Act available to banks and housing finance companies could be extended also to NBFCs to protect their assets. Rationalising the number of regulations, deposit insurance and rating of NBFCs were also discussed. Requesting for a more frequent consultative meeting between FDIC and the Reserve Bank, the representatives of NBFCs appealed that the Reserve Bank should play a developmental role with regard to the growth of NBFC sector.

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