

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2205
ANSWERED ON:01.12.2000
MEASURES TO IMPROVE FINANCIAL SYSTEM
MALYALA RAJIAH

Will the Minister of FINANCE be pleased to state:

he measures taken by RBI recently to improve financial system in the country and its actual impact on markets?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL) :

The Reserve Bank has undertaken various measures to improve functioning of various segments of the financial system in the process of financial sector reforms. NBFCs form an important segment of the financial system.

The RBI Act was amended in January 1997 by effecting comprehensive changes in Chapters III-B, III-C and V of the Act vesting more powers with the Reserve Bank for compulsory registration of all existing and newly incorporated NBFCs for commencement and carrying on financial business, of giving Directions to the NBFCs and their Auditors, filing winding up petitions against erring NBFCs and imposing penalty directly on them in case of non-compliance with statutory and other provisions etc. As a built-in safeguard, the NBFCs are required to maintain liquid assets as a percentage of their deposits liabilities, and create a reserve fund and transfer at least 20 per cent of their net profits to such reserve fund to strengthen their owned funds base.

The Bank has put in place a strong supervisory framework for overseeing the implementation of the provisions of the RBI Act and Regulatory Framework. This includes subjecting the NBFCs to the scrutiny of their applications to determine their eligibility as per the criteria enunciated in the RBI Act for issue of a Certificate of Registration, on-site inspections for ascertaining the level and quality of adherence by the entities inspected to the regulatory norms prescribed by RBI in relation to deposit taking activities, quality of assets, capital adequacy etc., off-site surveillance and market intelligence system. The Statutory Auditors of NBFCs have also been assigned a particular role to report directly to the Bank the irregularities, if any, noticed by them in the working of an NBFC.

RBI has developed a comprehensive four pronged mechanism to effectively supervise the NBFCs. This involves (a) on-site inspection of NBFCs; (b) off-site monitoring of NBFCs through periodic control returns using state-of-art information technology; (c) an effective market intelligence network and (d) a system of submission of exception reports by auditors of NBFCs. In January 1997 the unincorporated entities engaged in financial business have been banned from taking deposits from public except from the specified relatives, banks/financial institutions, corporate bodies viz., companies, corporations established under any law or cooperative societies. The major impact of stipulating strict entry point norms, was that the Bank was able to check the haphazard growth in the number of companies. Out of about 38,000 applications received for certificate of registration, the bank has issued registration to only about 700 companies with authorisation to accept public deposits and to about 9900 companies without authorisation to accept public deposits. The Bank has attempted to contain systemic risk to improve the performance of the financial system.