Financial Force Extension for the Masses

Non Banking Financial Companies (NBFCs), though are termed as Non-Banks, are entities that perform one or more part/s of the businesses permitted exclusively for Banks - "in parts" - to ensure the benefits of banking reach the masses. Banks complete the economic cycle of savings, investment and lending. NBFCs too can accept public deposits like Banks do - subject to RBI approval; lend across industry sectors with or without acceptance of collateral; and make investments in the capital markets. The only difference is that though the physical reach to the target customers is higher for NBFCs, their scope of activities are restricted through regulations. NBFCs are required to focus on a "Principal Financial Business" rather than offer all the services like a Bank can, under one roof. Also as these entities do not obtain Banking License as required under Section 22 of Banking Regulation Act, 1949, but act as extended arms for banking operations and conduct specific financial businesses, they are termed as Non Banking Financial Companies. The three things that an NBFC cannot do are: (a) accepting demand deposits; (b) forming part of the Payment and Settlement System and issuing cheques drawn on themselves and (c) providing deposit insurance facility to its depositors through Deposit Insurance and Credit Guarantee Corporation.

NBFCs have transited from being less regulated to fully regulated entities and thus have become shock absorbers of the economy rather than shock givers. The growth of NBFCs outpaced the regulations resulting in evolution of RBI regulations to govern not just the deposit accepting NBFCs but also those not accepting deposits. NBFCs function as financial conduits based on needs and does not differentiate between the 'haves' and 'have nots' of the society. NBFCs also contribute to the growth of the productive sectors and form an integral part of the Indian Financial eco-system, facilitate the economic growth of the country. NBFCs have deepened the financial markets and promoted retail lending; creating a severe competition to the Banking system. NBFCs have to a large extent reduced the concentration of credit risk in banks by extending loans to low-income, less-collateralized borrowers.

According to a World Bank Report only 26% of the Small and Medium Enterprises Sector (SME) is being funded by banks while the remaining 74% are funded either by NBFCs or private money lenders, close relatives or friends. NBFCs can function across various sectors and enable affordable housing, extend micro finance, enhance infrastructure lending, fund new or used commercial vehicles and construction equipment etc. NBFCs have enabled employment opportunities for people who make a living by utilizing the credit facilities availed.

The key factors for growth in this sector have been attributed to flexible operations, quick disbursements of credit, widespread physical infrastructure and adoption of sophisticated technology infrastructure. Despite these advancements, the regulators have been time and again emphasising on the need to bring in all the entities undertaking financial business into the mainstream financial system in order to ensure that their existence does not create systemic abberrations in the financial markets. Despite constant supervision and surveillance by the regulators like RBI, there have been finance companies falsely posing as registered NBFCs that are illegally soliciting deposits from public on promise of high returns.

Customer awareness is therefore essential for the structured growth of the NBFC sector. While various leading NBFCs have established their repute in the market for timely repayments of deposits, having a strong capital base and for creating a sustainable business model for conducting finance businesses, many of them are yet to establish their stronghold in this market. NBFCs need to aim at serving the masses and not looting the masses. While accumulation of funds is essential for conducting finance business, so is catering of credibilityassessed loans to the masses and generation of promised returns for the investors and depositors who are the stakeholders to the NBFC business. Those NBFCs willing to overlook self-governance will soon witness the regulator twisting their arms.