

How safe is your NBFC deposit?

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The RBI has various checks in place for NBFCs accepting deposits. But, the onus is on you

With banks slashing their deposit rates by 1-1.5 percentage points over the past year, non-banking financial companies (NBFCs) offering a percentage point or more on some of their deposits, are a big draw for investors.

Given that interest rates will only trend lower in the next year or so, locking into higher rates now, is no doubt advisable. But before you invest in NBFC deposits, here are some questions you need to ask.

Can all NBFCs accept deposits too?

While NBFCs may appear similar to banks in all respects, not all NBFCs can accept deposits.

Only those holding a deposit accepting Certificate of Registration from the RBI can accept deposits.

So which are the NBFCs permitted to take deposits?

The RBI publishes the list of NBFCs that hold a valid Certificate of Registration for accepting deposits on its website: www.rbi.org.in — Sitemap — NBFC List — List of NBFCs permitted to accept deposits. As on December 1, 2015, 208 NBFCs were allowed to accept deposits. But the RBI prohibits some companies temporarily from accepting deposits.

Do keep a watch on them too. For instance, within this list of 208 NBFCs, 14 have been prohibited from accepting deposits.

So are all NBFCs regulated by the RBI? And does the RBI guarantee the repayment of such deposits?

Some financial businesses have specific regulators — IRDA for insurance companies; Securities and Exchange Board of India for merchant banking, venture capital, stock broking and mutual funds companies; National Housing Bank for housing finance companies; Department of Companies Affairs for nidhi companies and State governments for chit fund companies. Thus, these companies are exempted from the RBI regulations to avoid dual regulation.

In case of NBFCs that do come under the purview of the RBI and are allowed to accept deposits, remember that the central bank does not guarantee repayment of deposits.

Hence, the onus is on you to do the necessary diligence. Also, unlike bank deposits, where deposits up to ₹ 1 lakh (per bank) are covered by DICGC, deposits made with an NBFC are not insured.

If deposits are not insured, how will my interest be protected?

To safeguard your interest, the RBI has various checks in place for NBFCs accepting deposits.

The central bank has laid down detailed regulations on several aspects such as the quantum of deposits that can be collected, mandatory credit rating and maintenance of liquid assets for repayment to depositors, and so on.

It also undertakes periodic inspection of the NBFCs to ensure that they comply with the norms, failing which it imposes penalties and takes legal action. It may also, as mentioned earlier, prohibit such companies from accepting further deposits.

Moreover, it has made it mandatory for NBFCs to have a minimum investment grade credit rating to be able to accept deposits. NBFCs can get themselves rated by any of the six rating agencies, namely, CRISIL, CARE, ICRA, FITCH Ratings India, Brickwork Ratings India and SMERA.

The symbols of minimum investment grade rating of these agencies are FA (-), CARE BBB, MA (-), tA-(ind), BWR FBBB and SMERA A, respectively. For instance, in case of CRISIL, only deposits that have a minimum 'FA' rating make the cut. A notch lower — FB — indicates (according to CRISIL) uncertainties the NBFC faces that could lead to its inability to make timely payments. If the rating of an NBFC is downgraded to below minimum investment grade, it has to stop accepting deposits. Existing deposits cannot be renewed and have to be repaid within three years.

How do I know that the higher rates on some of these deposits are for real?

The RBI allows NBFCs to accept or renew deposits for a minimum period of 12 months to a maximum of 60 months. The RBI has also set a cap on interest rates that an NBFC can offer.

The central bank keeps altering these rates from time to time, which is published on www.rbi.org.in — Sitemap — NBFC List — FAQs. The present ceiling for interest is fixed at 12.5 per cent.

What is the recourse I have if an NBFC fails to return the principal or interest?

If an NBFC defaults, you can approach the Company Law Board or Consumer Forum or file a civil suit in a court of law to recover the deposits. Further, at the State government level, the State Legislations on Protection of Interest of Depositors (in Financial Establishments) empower the governments to take action even before the default takes place or complaints are received. NBFCs also have to follow a grievance redress procedure, with the name and contact details of the Grievance Redressal Officer displayed in the premises. In case you are not satisfied with the settlement, you can approach the nearest office of the RBI.

Diversify

Besides bank deposits, invest a part of your portfolio in a few quality NBFCs

Before you invest

Compare rates with bank deposit

Review credit rating

Invest in companies with strong pedigree

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