

Central bank moving to strengthen four supervisory pillars of NBFCs

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Will facilitate better understanding of intra/inter-group deals, exposures

The **Reserve Bank of India**, on Thursday, said it will make concerted efforts in 2019-20 to further strengthen each of the four supervisory pillars – onsite supervision, offsite surveillance, market intelligence, and submission of annual reports by statutory auditors – of non-banking finance companies (NBFCs).

This move comes in the backdrop of debt defaults by large **NBFCs** such as IL&FS and DHFL, and its ripple impact on banks.

In its latest annual report, the RBI said inspection of all regulated entities (banks/NBFCs) will be conducted together to facilitate better understanding of intra/inter-group transactions and exposures, and to obtain a holistic view of an NBFC which has other NBFCs/banks in the same group.

The concept of Senior Supervisory Manager, as the central point of contact for a single large NBFC/group of NBFCs, will be implemented for focussed attention on large entities/groups.

In addition, the system of on-site inspection and off-site surveillance mechanism is being strengthened, and a review of the supervisory/regulatory framework of core investment companies (CICs) would be undertaken, keeping in view the need for close monitoring of CICs which tap funds from the market and invest in/lend to the group companies

The RBI said off-site returns for NBFCs are being revised and rationalised from 21 to 17 returns, while deepening and widening the information set being obtained.

Submission of data

Various reports have been designed to check timely submission of data, along with accuracy of reporting, as well as to pick up early warning signals of weakness in the regulated entity. Referring to the sachet portal, which was launched in 2016 in two languages (Hindi and English) for reporting unauthorised collection of deposits/Ponzi schemes, the central bank said the portal will be made available in 11 regional languages in 2019-20, in addition to Hindi and English.

This will facilitate receipt of information on Ponzi schemes and deposit collection by unauthorised bodies. It will also help in spreading financial literacy as the portal also contains material on financial literacy in many languages.

The central bank said a template will be designed for statutory auditors (SAs) to enable them to directly upload the audited data on the RBI's database.

This will also provide a benchmark for comparing off-site data submitted by the NBFCs.

The Department of Non-Banking Supervision plans to work towards development of the fifth pillar of supervision – engagement with stakeholders of the sector, including NBFCs, their SAs, credit rating agencies (CRAs), other regulators and banks having large exposures to the sector so as to identify emerging risks and developments in the sector and take prompt action.

In order to usher in more transparency and provide an effective and robust disclosure framework for NBFCs, the extant disclosure requirements for NBFCs will be reviewed.

The RBI will also examine the implications of the asset quality/health of the banking sector and NBFCs on credit flows to the commercial sector.

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RBI and other central banks **non banking finance companies**

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