R Gandhi: Re-designing regulatory framework for NBFCs

Speech by Mr R Gandhi, Deputy Governor of the Reserve Bank of India, at the 110th Foundation Day Celebrations of City Union Bank, Chennai, 23 November 2014.

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1. The Non-Banking Finance Companies (NBFCs) in India, have evolved over the last fifty years to emerge as notable alternate sources of credit intermediation. The non-bank sector in India is wide and encompasses several financial intermediaries like the loan and investment companies, housing finance companies, the infrastructure finance companies, the asset finance companies, core investment companies, micro finance companies and factoring companies. In a broader sense, the NBFCs include stock brokers, insurance companies, chit fund companies, etc. The NBFCs are also into distribution of financial products, acting as Business Correspondents to banks, and facilitating remittances. The NBFC sector regulated by the Reserve Bank has changed dynamically since the time an enhanced regulatory framework was placed on them in 1996 in the wake of failure of a large sized NBFC. The changes in the sector have partly been regulation induced; the prudential regulations on systemically important NBFCs and deposit taking NBFCs made them financially sound and better managed, while the light touch regulation on them gave them ample head room to be innovative, and dynamic. Today, while the numbers of registered NBFCs have come down, from the peak of 14,077 in 2002 to 12,029 by March 2014, those in the business found a niche for themselves, in the financial fabric of the country.

2. In a country like India where large sections of the population are still unbanked, there is space for several forms of financial intermediation. Without sounding clichéd, I would say, the NBFCs have emerged as a very important and significant segment, financing small and medium enterprises, second hand vehicles, and other productive sectors of the economy and have very effectively tried to bridge the gaps in credit intermediation. They have played a supplementary role to banks in financial intermediation and a complimentary role in the financial inclusion agenda of the Reserve Bank. NBFCs bring the much needed diversity to the financial sector thereby diversifying the risks, increasing liquidity in the markets thereby promoting financial stability and bringing efficiencies to the financial sector.

3. Although regulated, NBFCs sector is considered as the shadow banking sector. This is because they are lightly regulated, there are pockets within the sector that are not subjected to regulation and or supervision and they are also allowed to conduct activities that may not fall under regulation. I am referring to the Principal Business Criteria (PBC) for registration which allows NBFCs the freedom to conduct other activities, beyond financial activities, from their balance sheets. There are several large entities, undertaking financial business, but do not come within the definition of the NBFC. Here, I am referring to several corporate treasuries. Examples of light touch regulation are as follows: The registered NBFCs are not supervised as intensively as banks; the reporting requirements are very little as compared to banks; capital and other prudential requirements on banks based on Basle III have not been required of the NBFCs; there are no or less pre-emptions in the form of CRR or SLR for NBFCs; nor is prescription of priority sector lending requirements; Unlike banks, there are no restrictions on the number of NBFCs that can be set up by a single Group nor is there any restriction on the number of branches of NBFCs; and corporate governance guidelines have not been as stringent as that for banks. There are also no regulations on connected lending for NBFCs.

4. NBFCs today have grown considerably in size, form and complexity and operations in a variety of market products and instruments, technological sophistication, entry into areas such as payment systems, capital markets, derivatives and structured products. Some of the NBFCs are operating as conglomerates having business interests spread to sectors like

insurance, broking, mutual fund and real estate. The inter-connectedness with other financial intermediaries has increased with increased access to public funds through NCDs, CPs, borrowings from banks and financial institutions. NBFCs being financial entities are exposed to risks arising out of counterparty failures, funding and asset concentration, interest rate movements and risks pertaining to liquidity and solvency. Risks of the NBFCs sector can hence be easily transmitted to the financial sector or the NBFCs can get affected by adverse developments in the financial sector. We can easily draw reference to the 2008 financial crisis when the NBFCs sector came under pressure due to the funding inter-linkages between NBFCs and Mutual Funds. The ripple effects of the turmoil in the Western economies led to liquidity issues and redemption pressures on Mutual funds which in turn led to funding issues for NBFCs as Mutual Funds were unable to roll over the corporate debt papers of NBFCs. Many had to downsize their balance sheets or enter into distressed sale of their loan portfolios. A slew of measures had to be taken then, both conventional and unconventional to assist the NBFCs.

Evolution of Regulation

5. Regulation has generally kept pace with the dynamism displayed by the sector. Historically, more specifically from the 1960s, some form of regulation existed on deposit acceptance by NBFCs. However, regulation was tightened after 1996, with amendments to the RBI Act, by placing entry point norms and stricter and more detailed regulations on manner, form and quantum of deposit acceptance. Further, in 1999 capital requirement for fresh registration was enhanced from ₹25 lakh to ₹200 lakh. When the regulatory gaps and arbitrage between banks and NBFCs became significant in 2006, they were sought to be bridged by identification of systemically important non-deposit accepting NBFCs and placing prudential regulations on such NBFCs. At the same time, NBFCs were allowed to expand their activities to offering newer products and services.

Need for Revisions to Regulations

6. Consider some of the data that is available with the Reserve Bank[1.] The total number of NBFCs as on March 31, 2014 were 12,029 of which deposit taking NBFCs were 241 and non-deposit taking NBFCs with asset size of ₹100 crore and above were 465, non-deposit taking NBFCs with asset size between ₹50 crore and ₹100 crore were 314 and those with asset size less than ₹50 crore were 11,009. The total assets of the reporting NBFCs have grown phenomenally over the last few years. These assets which stood at ₹5,60,035 crore as at end March 2009, grew to ₹14,41,422 crore as at end March 2014. In the last year, the total assets of the NBFC sector have grown by 13.36%, while the assets of the banking sector have increased by 5.36% for the corresponding period. The Return on Assets (ROA) as on March 2014 in case of NBFCs was on an average 2.4%, while the ROA for Scheduled Commercial Banks was 0.8%. Return on Equity (ROE) for NBFC in March 2014 was 12% as compared to 9.5% for scheduled commercial banks. The trend in the important financial ratios for NBFCs-ND-SI and NBFCs-D is given in the tables below:

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1 Source: Regulatory Returns.

Table 1

NDSI (assets size above ₹500 crore)	MAR-12	MAR-13	MAR-14
Gross NPA Ratio (%)	2.1	2.1	2.5
Net NPA Ratio (%)	1.3	1.1	1.5
Return on Assets (%)	1.8	1.9	2.1
Return on Equity (%)	7.7	8.5	9.3
Leverage Ratio	3.2	3.3	3.3

Source : Regulatory Returns

Table 2

NBFC-D	MAR-12	MAR-13	MAR-14
Gross NPA Ratio (%)	2.2	2.4	3.1
Net NPA Ratio (%)	0.5	0.8	1.0
Return on Assets (%)	2.7	2.7	2.6
Return on Equity (%)	15.3	15.6	14.8
Leverage Ratio	4.6	4.7	4.7

Source : Regulatory Returns

7. Sources of funds have also increased. The total borrowings by the reporting NBFCs grew from ₹3,75,072 crore as at end March 2009 to ₹9,98,379 crore as at end March 2014. There has been sizable growth, very high leverage, increasing dependence on public funding and increasing interconnectedness, while the regulations on NBFCs are lighter than that for the rest of the financial sector.

8. There was therefore a need felt to comprehensively review the regulatory framework for NBFCs. Several Committees both internal and external have made significant recommendations. I am referring to the Working Group Report on the Issues and Concerns in the NBFC Sector chaired by Smt. Usha Thorat ex –Deputy Governor of the Reserve Bank and in which there were participants from the industry as well. The Nachiket Mor Committee on Comprehensive Financial Services for Small Business and Low Income Households had also several recommendations for the NBFC sector. The revised regulatory framework has drawn significantly from these studies. While reviewing the recommendations for adoption, the Bank has been mindful of the fact that the revisions should not impede the dynamism displayed by NBFCs in delivering innovation and last mile connectivity for meeting the credit needs of the productive sectors of the economy.

Recent Revisions to Regulatory Framework

9. The broad principles followed in framing the revised guidelines was to review the regulations from the perspective of the mandate of the Reserve Bank, viz., financial stability, depositor protection and customer protection. Hence, a) the focus has been on addressing risks where they exist, b) address gaps in regulation, c) reduce complexities and make

regulations simple and easy to follow, d) harmonise regulations within the sector and with that of banks to a limited extent, e) acknowledge that there may be pockets within the sector that do not require to be stringently regulated and f) give adequate time to the NBFCs to adjust to the revised regulatory framework so that there are no disruptions in business.

10. Out of the 12,029 NBFCs registered with us, only 241 are deposit taking. Out of the remaining 11,788 non – deposit taking NBFCs, there are many NBFCs who do not access public funds and so are not interlinked. These do not pose much risk to financial stability. Hence, a simplified regulatory framework will suit them.

11. Today, there are various types of NBFCs and regulation varies depending on the type of NBFCs. This has unnecessarily complicated the structure. As a precursor to let NBFCs undertake any of the permitted activities, than be constrained by the specific segment of registered activity, we thought it fit first to harmonise the regulations among various types of NBFCs so that no regulatory arbitrage will be possible. Thus harmonisation with banks has also been warranted for those NBFCs which are in good competition with banks.

12. Thus the approach for redesigning the regulation has been "a lighter regulatory framework on NBFCs other than for those with large asset sizes and deposit accepting, harmonisation of regulation across various types of NBFCs, harmonisation with that of banks to some extent for NBFCs with large asset sizes, and for all deposit accepting NBFCs, creating a level playing field that does not unduly favour or disfavour any institution and to provide adequate time to manage transition". Let me now explain the changes in more detail.

Harmonising Minimum Capital Requirement

13. Harmonising the minimum capital requirement for all NBFCs at ₹200 lakh. The minimum capital requirement of ₹200 lakh was set in from April 1999. However, there are several thousand legacy NBFCs registered prior to this date, the capital of which is below this level. With the changed profile of NBFCs, their entry into newer businesses, the capital of ₹200 lakh in itself is grossly inadequate. The general increase in the price level since 1999 by itself would call for an increase in the capital requirements necessary to function as NBFCs. Besides, as the Usha Thorat Committee has pointed out that any financial intermediary must necessarily invest in technology to be efficient and competitive and reap economies of scale, all of which requires enhancement of capital. A higher capital requirement also ensures that serious players enter this space. Besides, registration with the Bank confers a legitimacy to the NBFC as a regulated entity and gives a sense of comfort to the lenders to the NBFCs. It is therefore necessary to begin by harmonising this level across the sector. An easy to follow roadmap for compliance by March 2017 has been provided so that NBFCs have the required time for planning capital augmentation. Needless to say, non-compliance to the roadmap could invite adverse regulatory action.

Harmonising Deposit Acceptance Regulations

14. Deposit acceptance by NBFCs is a legacy activity and no new NBFC has been given the licence to accept deposit since 1997. The stance of the Bank has been that deposit acceptance will have to be a tightly regulated activity and banks are the right structure to carry on that activity. Further given the absence of deposit insurance and an institutional complaint redress mechanism for the NBFC sector, the Reserve Bank is not in favour of allowing NBFCs to accept deposits. Total deposits held by NBFCs amount to ₹20,588 crore as on March 31, 2014. Out of the 241 companies only 17 companies have deposits greater than ₹10 crore. The trend in amount of deposit and deposit profile is given in the tables below:

Table 3

	No. of Reporting NBFC-D	Public deposits (₹ crore)
Mar-12	246	12656
Mar-13	232	15311
Mar-14	201	20588

Source : Regulatory Returns

Table 4

Public deposits	No. of NBFCs		
NBFC-D (in ₹)	Mar-12	Mar-13	Mar-14
0 to 10 cr	229	217	184
10 to 25 cr	9	7	4
25 to 50 cr	2	1	3
50 to 100 cr	1	2	1
more than 1000 cr	5	5	9

Source : Regulatory Returns

15. Within the sector itself deposit directions differ, with Asset Finance Companies (AFCs) being allowed to accept deposits without the mandatory minimum investment grade credit rating, and those that are rated and follow prudential norms can go up to 4 times of the NOF in terms of quantum of deposits they can mobilise. This dispensation was given to Asset Finance Companies as they were financing real productive assets, typically capital equipment, commercial vehicles, tractors and automobiles. Many of these activities are now also carried out by other NBFCs and the AFCs themselves have moved out of hire-purchase, equipment leasing model of functioning. In such a scenario, there is no particular reason for differential limits. Besides, as seen from the Regulatory Returns received from NBFCs, other than a very few, the industry has not exceeded 1.5 times of NOF in deposit mobilisation. The Bank hence has harmonised deposit acceptance regulations by making minimum investment grade credit rating compulsory by March 2016 and aligning the quantum to industry levels at 1.5 times of NOF. For a smooth transition, deposits held by NBFCs-D in excess of the revised limits will be allowed to run off on maturity.

Simplifying the Regulatory Framework

16. Regulation for the NBFC sector over the last decade and a half has been incremental. As and when risks have been detected those were sought to be addressed. This had created complexities in their application and consequently affected compliance culture. There was therefore a need to review regulations comprehensively with the objective of making them simple and easy to follow. Consequently, the revised regulatory framework

has brought about only two levels of regulation viz., for those above the systemically important threshold and for those below. Regulation for NBFCs-D will be similar to those applicable to systemically important NBFCs-ND, as protection of interest of depositors is one of the mandates of the Reserve Bank. NBFCs-D will additionally have to follow the Direction on deposit acceptance, as hitherto. As regards the Non-Deposit taking NBFCs which are not systemically important, they will not be subjected to any regulation either prudential or conduct of business regulations viz., Fair Practices Code (FPC), KYC, etc., if they have not accessed any public funds and do not have a customer interface; those having customer interface will be subjected only to conduct of business regulations including FPC, KYC etc., if they are not accessing public funds; those accepting public funds will be subjected to limited prudential regulations but not conduct of business regulations if they have no customer interface; where both public funds are accepted and customer interface exist, such companies will be subjected both to limited prudential regulations and conduct of business regulations. However, registration under Section 45 IA of the RBI Act will be mandatory and they will be subjected to a simplified reporting system.

17. It is worthwhile to note that out of the 12,029 NBFCs registered with the Reserve Bank, as many as 11,598 will be regulated by this simplified regulatory framework.

Threshold for Systemic Significance

18. The Basel Committee on Banking Supervision and the Financial Stability Board, the two international standards setting bodies, have defined what is a systemically important financial institution (SIFI). They do not establish merely an asset size threshold for defining a Systemically Important Financial Institution (SIFI). They have identified four major parameters for assessing whether a financial institution is systemically important viz., its size, its complexity, its interconnectedness, the lack of readily available substitutes for the financial infrastructure it provides. Financial sector regulators in each jurisdiction are expected to identify SIFIs within their jurisdiction and make suitable laws, regulations and rules that would apply to those entities. The Financial Stability Board also describes G-SIFIs as financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.

19. The SIFIs identified by the Reserve Bank in the non-banking space have been based on the asset size, although they also meet the other parameters, including substitutability factor. Nevertheless, ₹1 billion in asset size is considered too low from both national and international standards.

20. Consequently, the threshold for systemic significance has been relooked at from the perspective of the overall growth in the sector and international standards and a revised total asset size of ₹500 crore has been put in place. With this redefinition, as mentioned earlier, there are now only two broad categories of NBFCs and regulations accordingly applied. These are:

i. *non – deposit accepting NBFCs with asset size of less than ₹500 crore (NBFCs-ND) and*

ii. *non – deposit accepting NBFCs with assets of ₹500 crore and above (NBFCs-ND-SI) and deposit accepting NBFCs*

21. There will consequently be as many as 11,598 NBFCs who will be subjected to the simplified regulatory framework and only 190 NBFC-ND-SIs and 241 NBFC-Ds who will be subjected to the enhanced regulatory framework.

22. Minimal prudential regulations are prescribed for non-deposit accepting NBFCs with asset size of less than ₹500 crore. For these non-deposit accepting companies (NBFCs-ND) below the threshold of systemic significance, prudential regulations, other than capital adequacy and credit concentration norms, are applicable only where public funds are

accepted and conduct of business regulations (FPC, KYC) where there is customer interface. A simple leverage ratio of 7 has been put in place so that their asset growth is in sync with the capital they hold. Further, reporting by such NBFCs will be through a simplified annual return. There have been concerns about non-systemically important NBFCs not being subjected to any supervision and reporting requirements in the past. This is now sought to be addressed by the revised reporting system for all NBFC-NDs and the supervisory arrangements based on risk perception and in normal course so that the regulator is in the know on the activities of smaller companies.

23. For those non-deposit accepting companies (NBFCs-ND-SI) above the threshold of systemic significance and for all NBFC-D, prudential regulations are applicable and conduct of business regulations wherever customer interface exists. In line with international best practices, core capital requirement has been strengthened (existing 7.5%; raised to 10% to be phased over 2 years). The minimum Tier 1 capital requirement for NBFCs primarily engaged in lending against gold jewellery remains unchanged for the present and will be reviewed for harmonization in due course.

24. Asset Classification norms have been aligned with that of banks (from the current 180 day and 360 day norm for loan and HP/Leased assets respectively to a 90 day norm phased in over 3 years). Higher standard asset provisioning has been put in place (0.4% against the existing 0.25% phased in over 3 years). Further, credit concentration norms have been harmonised between the various categories of NBFCs by removing the dispensation given to AFCs to exceed the defined norms by 5%. (Dispensation given to IFCs and IDFs has been retained as infra loans are high value loans) and corporate governance standards, viz., fit and proper criteria for directors, disclosure and transparency have been strengthened so that they are professionally managed and develop a sound compliance culture.

25. Assets of multiple NBFCs in a group shall be aggregated to determine if such consolidation falls within the asset sizes of the two categories mentioned above. Regulations as applicable to the two categories will be applicable to each of the NBFC-ND within the group.

Revoking of temporary suspension of CoR

26. The regulatory framework for NBFCs was based on the provisions of the RBI Act 1934, as amended in 1997. Since then, several important developments warranted a major shift in the regulatory paradigm for the NBFC sector. In the circumstances, a decision to revamp the basic framework was taken. It was thought appropriate that no new NBFCs may be registered when the regulatory framework is being overhauled and the grant of issue of CoR was suspended on April 1, 2014. With the revised guidelines in place, the suspension on new applications has been revoked simultaneously.

Relaxation in the factoring guidelines

27. Factoring companies were facing difficulties in meeting the Principal Business Criteria (PBC) set down for them for the purpose of registration. Factors needed to ensure that their financial assets in factoring business constitutes at least 75 per cent of its total assets and income derived from factoring business is not less than 75 per cent of gross income. The PBC was placed high to align with that of all specialized NBFCs, such as IFCs, MFIs, etc. A number of representations were received from the industry requesting for lowering the PBC especially in the initial teething phase. Consequently, and to provide impetus to factoring, it was decided to make it easier for Factors to apply for registration by lowering the PBC. Existing companies can now seek registration if their financial assets in the factoring business constitute at least 50 per cent of its total assets and income derived from factoring business is not less than 50 per cent of its gross income. Several statutory amendments are required to the Factoring Act, 2011 which the Reserve Bank is separately taking up with the Government of India.

Feedback on the framework

28. The revised regulatory framework has been generally received positively by the market. As somebody put it, given the context of high anxiety levels, these guidelines came as "polite regulatory action". There could be short term impact on the profitability due to increased provisioning and on account of the revised asset classification norms, but the phased introduction of these norms is likely to cushion any adverse impact on the NBFCs. Besides, the strengthening of governance standards and disclosures will enhance shareholder and investor confidence. NBFCs already hold a high Tier 1 capital, and hence there is likely to be no material impact on them.

29. There have been some apprehensions expressed in the media pertaining specifically to the asset classification norms being aligned with that of banks, a higher standard asset provisioning requirement and the reduction in the quantum of deposits that can be accepted by NBFCs. Media reports have stated that NBFCs catering to small borrowers are likely to see a jump in gross NPAs and provisioning as they migrate to the 90 days norm by 2018, while restriction on accessing public deposits will narrow margins and will adversely impact the profitability of the NBFCs.

30. Several representations that we have received are with regard to the issue of aligning the asset classification norms with banks; if you all will recall, this has been the focus of the Reserve Bank for several years and has also been the recommendation of several Committees. Certain uninformed campaign has been spreading a fear that this regulation will lead to increase in the borrowing cost for borrowers of NBFCs and it will lead to recall of loans, repossession of the assets, etc. These fears are all baseless. What are we telling the NBFCs? We are saying that you be truthful, when you prepare your balance sheets. If a loan is non-performing i.e. if an instalment or interest payment is not received even after a reasonable period after the due date, you cannot recognise income out of that loan. Thus, what we are bringing is an accounting discipline, so that all stakeholders know the real financial position of an NBFC. Be it the depositor who keeps a deposit with an NBFC or be it an investor or prospective investor of the NBFC when it raises funds from the market, or be it a bank which finances an NBFC, all of them need to know the real financial position of the NBFC's assets. These IRAC norms i.e. the Income Recognition and Asset Classification norms are thus an accounting requirement; these in no way curtail the NBFCs' right to extend further/adequate time to the borrowers who are viable. These norms do not require that these loans/assets classified as NPAs should be recalled or repossessed. That is a call the NBFCs will take, based on their assessment about the possibility of repayment, and the probability of default, not on the mere fact that these are classified as NPAs.

31. I understand that several members of the industry have already factored these changes and suitably, that too voluntarily, moved towards a 150 days or a 120 days asset classification norm. Also it may be borne in mind that the revised rules have been made applicable to only systemically important NBFCs, that too as per the new definition and for deposit accepting NBFCs in line with the Bank's mandate of financial stability and depositor protection. Besides, ample time of 3 years has been given for compliance, which is likely to cushion impact on profitability. As on date, as I said earlier, out of the total 12,029 registered NBFCs, only 190 NBFCs which are systemically important, non-deposit taking NBFCS and only 241 deposit taking NBFCs will be required to comply with these requirements.

32. On reduction in deposit acceptance, I would like to clarify that these have not been reduced but merely aligned to the industry practice. Regulations are framed taking into account the practices in industry as a whole, not by the practices of outliers. Most NBFCs have migrated to other forms of resource mobilisation. As per data available with us, only 5 deposit taking NBFCs may have to bring down their deposit level. All other 236 deposit accepting NBFCs are already within the revised deposit acceptance threshold.

Way ahead

33. The above revised regulatory framework is the first step towards a vibrant professionally managed and healthy NBFC sector. Much needs to be done and there is work already in progress. These include migration to an activity based rather than entity based regulation, comprehensive review of regulations placed on the NBFC-MFIs in the light of the significant progress made by them post the AP crisis, a formal institutional framework for grievance redress for the customers of the NBFCs and bringing the Government owned NBFCs within the regulatory jurisdiction of the Bank. There are also several amendments to the RBI Act, 1934, that need to be taken up with the Government in right earnest.

34. Another issue that need to be tackled is resource raising by NBFCs. Today debentures and bank finance are the two main sources of funds for reporting NBFCs. The Bank had in the past observed an unhealthy and sudden spurt in debenture issuances under the private placement route. On-site inspections of the companies also showed that the debentures were accepted on tap, the subscription amounts as low as in double digits, passbooks and internal circulars of companies using the nomenclature of deposits, loans being extended against the amounts received, debentures being issued to walk-in customers, besides other features reflecting that the debentures were in effect surrogate deposits. As NBFCs are to be accepting only wholesale funds, the Bank took action to prevent retail participation by stipulating the minimum subscription amounts, the maximum number of subscribers per issue, and preventing NBFCs from lending against the security of their own debentures. This while curbing the undesirable practices, has constrained the resource raising ability of NBFCs. With the revisions in the Companies Act on private placements, the Bank is in the process of aligning largely the Bank's debenture regulations with that of the Companies Act 2013.

Challenges for the regulator

35. The challenges faced by the regulator are many. First, there is a need to streamline the sector, to bring within its fold entities that should have, but have not, sought registration from the Bank. These have been identified and suitable corrective action is underway. Second, it has come to the notice of the Bank that there are financial companies that have been accepting deposits from the public without authorisation from the Bank. These again have been identified and the respective State Governments are in the process of taking suitable action under the State Protection of Interest of Depositors Acts. Third, the menace of unincorporated entities and fly by night operators accepting deposits need to be addressed in full earnest. The Bank is strengthening its Market Intelligence efforts and the inter-regulatory coordination. The State level Coordination Committees (SLCCs), an inter-regulatory forum, has been strengthened, with the Chief Secretaries presiding over the SLCCs, and the frequency of such meetings has also been increased. The Bank is also examining the need for a Residual Regulator which can address issues and products that are hybrid in nature and do not strictly fall under any financial sector regulator. Some State Governments have expressed the desire to act as Residual Regulator for the financial sector. This again, is work in progress.

36. In keeping with the work done on Shadow Banking by G-20 and Financial Stability Board, the Reserve Bank has been tasked with identification of shadow banking entities and activities in the country, putting in place a data gathering mechanism to ascertain the interconnectedness and the risks transmitted to the formal financial sector from shadow banks. This is a humongous task, as today there is little data available on say Chit Funds, both in the formal and informal sector, money lenders, and the like. An inter-regulatory group consisting of financial sector regulators, enforcement agencies and the concerned Government Ministries are engaged in this task.

Conclusion

37. In conclusion, may I emphasize that framing regulations is a public policy function and it retains a long term perspective; though there may be some short term setbacks, the revised prudential regulations as detailed so far, including the strengthening of core capital, governance standards and disclosures, will strengthen the NBFC sector, make it more resilient to economic downturns, lower systemic risks and enhance stakeholder confidence. Overall the Reserve Bank is confident that the recent regulatory changes will have a salutary effect on financial stability in the long run. It is hoped that these and other forthcoming changes in the pipeline, will further strengthen the robustness of significantly important NBFCs and allow them and other NBFCs to operate in an enabling regulatory environment.

38. Thank you.