CHAPTER 8

CONCLUSIONS AND SUGGESTIONS

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Topic</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>Findings and Conclusions</td>
<td>193</td>
</tr>
<tr>
<td>8.1.1</td>
<td>Findings</td>
<td>193</td>
</tr>
<tr>
<td>8.1.2</td>
<td>Conclusions</td>
<td>198</td>
</tr>
<tr>
<td>8.1.3</td>
<td>Recommendations</td>
<td>201</td>
</tr>
<tr>
<td>8.2</td>
<td>Chapter wise Conclusions</td>
<td>203</td>
</tr>
<tr>
<td>8.3</td>
<td>Strategic Guidelines: As suggested by researcher</td>
<td>206</td>
</tr>
<tr>
<td>8.4</td>
<td>Scope for Further Research</td>
<td>210</td>
</tr>
<tr>
<td>8.5</td>
<td>Future of NBFCs</td>
<td>211</td>
</tr>
</tbody>
</table>
8.1 Findings and Conclusions

8.1.1 Findings

The study indicated that though NBFC Sector is widely regulated by the Government, NBFC industry still faces challenges in the years to come. The NBFC industry was analyzed on various dimensions using models and major findings of the study could be summarized as follows:

1. In case of NBFCs no organization is having market leadership as many of the companies are having capabilities.
2. In NBFC sector, the product is undifferentiated and can be replaces by the substitute’s products so borrowers have more choice for their products which helps to borrowers to do more bargaining power.
3. In NBFC sector, there can be a switch over to another financial institution if the services are beneficial, for e.g. interest rate as the switch over is fairly easy when rivals are providing lesser rates in their schemes.
4. Rivalry among NBFCs is high and the competition is high as buyers are flexible. Rivalry becomes more volatile when outside sector competes in many NBFC’s area like hire purchase, lease and loans.
5. No organizations avail of patenting their product or registering it as intellectual property.
6. In NBFC sector, the entry barriers are very high so threat from the new entrance is relatively low in this sector.
7. In the NBFC sector the initial investments requirement is very high so the barriers for exit are also high and the only viable option is mergers with related or financial services organizations.
8. NBFC sector suffers from being required to be overly flexible in operations, a facet unique to this industry, owing to constant change in regulations.
9. The structure of the industry in terms of definition and classification underwent a major change during the course of this study highlighting the uncertainty of regulatory changes.

10. There has been a general dropping out of companies from this sector, partly due to regulation and partly due to operational mismanagement.

In today's scenario, most of the investors prefer for investing in stock market rather than other because it's give good return. But same time current trend is toward housing finance loan, venture capital and other NBFCs activates so the current trend is toward NBFCs.

With banking sector to open up in 2009-10, large diversity of products and organizations will be a great challenge to the current industry and further consolidation is expected resulting to more flexible products.

**Research Findings**

**Corporate Research**

The organizational research indicated that most of the organizations are not focusing on NBFC deposits alone as loan and finance business has a longer consistency and can be more attractive business. It also reveals that with advent of nuclear family the financing business is more viable.

The major findings of the study could be summarized as follows:

1. Most of the NBFCs are in the loans and consumer finances business area and many NBFCs are in more than one business area, eastern region especially Kolkata which has the highest number of NBFCs.

2. Economic (recession), market and political risks are the biggest threats to existing NBFCs as according to them the business risks are relatively controllable.
3. Information Technology, Technological Developments and New Product Development are the major challenges facing the NBFC industry.

4. NBFCs mobilizing deposits focus for investments more in ongoing concerns as against green field projects unlike their foreign counterparts and are willing to sacrifice potentially higher rate of returns due to poor public faith in NBFC deposits.

5. The flow of public deposits has declined sharply after the changes in the regulatory environment and increasing caution exercised by investors.

6. The uncompetitive size, the difficult business both on asset and liability side, declining performance and the inability to recapitalize has resulted in large number of companies closing down.

7. The NBFCs themselves are not confident about their core effectiveness in the operations of their strong business segments.

8. Loans and Finances business are the highest revenue generating business segments among all the businesses of NBFCs.

9. Business Development is measured in terms of number of applications received by NBFCs.

10. NBFCs usually operate on a three to five year pricing of the product and always specify the exit mechanism prior to the business.

11. Deposit Mobilization is the indicator of the performance of the NBFCs as a comparative tool within the industry.

12. The investment objective for NBFCs is periodic returns and overall return on investment from the project.

13. The captive NBFCs will enjoy the advantage of manufacturer's brand equity, lower establishment costs, preferred financier status and asset quality support in various forms.

14. Customer acquisition as against customer service is the main focus for NBFCs as against traditional businesses.

15. NBFCs feel a high degree of dependence on external macroeconomic factors affecting the business and industry.
16. NBFCs will continue to focus on new and emerging markets within the geography to continue the momentum as against exploring established markets.

17. NBFCs feel overly regulated and as a result are not able to maximize on the opportunities for new businesses.

18. Cost of funds and ability to capitalize at regular intervals are key factors for NBFCs to sustain good asset quality, maintain reasonable return and defend market position.

19. The extent of linkage and support from manufacturers will have a strong impact on business growth and profitability of captive finance companies.

20. NBFCs continue to be strongly present in funds based business activities as compared to pure service or non fund based business activities.

**Investor Research**

The investor research indicated that most of the people were aware about the NBFCs and NBFC deposits. It also reveals that the awareness was primary and not for technical product aspects.

The major findings of the study could be summarized as follows:

1. The opinion about NBFC deposits is very positive but opinion on NBFC investments aspect is negative.

2. Investors feel that there is a strong need for investor protection regulations and not only organizational regulations as there is no assured return by and large on NBFC deposits.

3. There is a poor financial sense among investors and high degree of sentiment involvement in financial investments primarily of fear and tension after investment.

4. Deposits with banks, equity markets and real estate are the only popular investment avenues and NBFC deposits are not popular among investors.

5. There is inadequate financial literacy among the investors in terms of planning the money inflow and generating positive cash stream.
6. There is unawareness among investors on technical products and flexible combinations such as syndications for investment alternatives.

7. There is no consistent review of portfolio by investors, leading into a fixed maturity product being highly convenient for investment.

8. There is a lot of confidence in Infrastructure, Financial Services and Information Technology sectors among the investors.

9. The investors are not able to differentiate between technical aspects of an NBFC deposit v/s a traditional fixed deposit.

10. Investors are lured by promotions and add on benefits of any schemes as against the fundamental cost benefit offering of the investment product.

11. Rate of return was of highest importance among investment features but there was no correlation between rate of return and underlying asset class which shows poor technical understanding of products by investors.

12. The investor segment is highly unaware about how the macroeconomic factors would influence the NBFC sector and the interrelationship between the policy changes and financial services industry.

13. There is a correlation between the corporate sector and the NBFC sector according to the investor segment which shows need for further investor education and training.

14. Investors learn from internet resources regarding patterns in foreign and developed nations pertaining to finance and investments.

15. The age group of above 60 years is primarily of the opinion that more globally competitive products need to be available to investors and NBFCs can play a major role in the same.

16. The average investor is uneducated about the rules of diversification in managing investments.

17. Investment motivators are Taxation, Current Income and Capital Preservation among investors.

18. Rational financial factors of Capital Appreciation and Wealth Maximization are not highly considered prior to an investment.

19. There is a more emotional approach in evaluating products as against evaluating the opportunity.
20. The professionals and self employed prefer NBFC deposits after the popular investments primarily because of monetary benefits as the perceived risk is very high in NBFC deposits.

21. Investors equally prefer various sources for collection and reading of finance and money related information.

22. People in India are still safety conscious even in case of investments over the returns.

23. All investors are of equal opinion that expert opinion and investment services are necessary.

24. There is no difference in the opinion of investor that a NBFC should directly advertise to public at large, but investor should be made aware by the point of contact about investment avenues prescribed to them.

These observations and findings throw interesting light on multiple facets of NBFCs and how the viewpoint of organizations and the investors differ on similar aspects. What is more interesting is that besides the organizations and the investors a third dominant factor in the market, i.e. the regulator and its role is having a far more impact on the sector.

8.1.2 Conclusion

NBFCs are major financial institutions in the Indian economy and play important role in development of Indian financial system. People of India have less trust on NBFCs with compare to banking sector but it provides high return to the depositors.

RBI has given the rules, regulation and guidelines for NBFCs but not giving guarantee for repayment of deposits to the depositors in the case of insolvency. As a result the depositors are not insured by any insurance companies though it is regulated by reserve bank of India, which is major drawback of the NBFCs.
In recent years, NBFCs are witnessing strong competition in their traditional areas of retail lending from Banks and Financial Institutions. Banks, which have innate advantage of lower cost of funds, are taking an increasing share in retail financing and prow ding strong competition to NBFCs. NBFCs are now under pressure to cut costs and to develop a focused marketing approach on selected customer segments by offering more personalized services. The entry of strong NBFCs in insurance and banking has been some of the major developments in this sector.

To conclude, the concept of investor security is very essential for the society and it is the responsibility of the Government to provide the citizens and not only to foreign investors. It can also be observed that the practices of the Government are far more primitive as against other nations, which practice far superior investor protection measures.

The young age segment is a segment that requires to be provided with more investment education and awareness especially the advent of nuclear families, where the savings ratio is consistently going down. NBFCs can vastly improve the savings and investment conditions especially in growing investment and financial markets awareness scenario with the help of the flexible financial products and schemes. From the above, it is clear that NBFCs have a unique role to play in the financial services industry.

NBFCs are characterized by their ability to provide niche services. Because of their low overheads, quick response and organizational flexibility, they can provide custom-made services relatively faster and deliver better value than other players such as banks and financial institutions. For their survival and growth, NBFCs should realize their strengths.

The persistence of NBFCs India is less puzzling when we take into account the local political, economic and social dynamics that lead to segmented credit markets. Here, merely increasing the availability of credit may not
reach the targeted population because it still needs to be disbursed in some manner. Credit officers and poverty alleviation cadres charged with the responsibilities of extending loans may face local pressures and incentives for credit distribution that deviate from the original intentions of state authorities. It is this precise gap where the industry has flourished over the past years.

NBFCs in India have played a useful role in financing various sectors of the economy, particularly those that have been underserved by the banks. The tendency of regulators to deny access to these institutions to public deposit is a confession of inability to see the economic reality, which calls for a flexible and customer-friendly financial intermediary, which is what NBFCs and chit funds are. In fact, many banks are forming NBFCs to take advantage of their greater flexibility in dealing with customers.

The fact that some NBFCs were found abusing their position in the 1990s seems to have scared the regulators. The answer lay in better regulation, supervision and prudential norms. The RBI has now strengthened its machinery of registration and supervision and extended prudential norms to NBFCs. Denying access to deposits would be the end for NBFCs, on the contrary, the RBI should apply its mind to strengthening the functioning of NBFCs by facilitating better access to market and extending its credit reach.

NBFCs have, indeed, served a useful purpose as instruments for extending outreach of credit in the Indian countryside. We need to recognize that NBFCs have a set of characteristics that have made them an effective form of financial intermediation. Of course there are some persistent problems for NBFCs, apart from deposits. These relate to flexible handling of their capital issues. Both SEBI and the RBI need to revisit their case for relaxations with sympathy, especially since they are rated and supervised. These specific relaxations are more a matter of confidence-building.
In short, NBFCs are vitally needed to give the Indian economy a needed boost by enabling easier access to credit. As it is, public and private sector banks are finding it difficult to extend their reach for various reasons. It behooves the RBI and the Government to view at the problems faced by NBFCs with sympathy rather than with a recollection of the past follies of a few institutions.

The time has come for the RBI to address NBFCs as a class. They are proven instruments of efficient and customer-friendly outreach in the credit space not only for consumer durables, but also housing and transport, besides infrastructure. These are also critical areas in which the Government is vitally interested as part of boosting economic growth. I hope the regulators will not forget that their role is not only to regulate but to spur the growth of the economy. The NBFCs' request to be allowed to continue to accept public deposits deserves to be nurtured, not restricted by regulators.

8.1.3 Recommendations

On the basis of the study, it is observed that there is a requirement of measures from the policy making and administrative perspective in order for the nation as a whole to further widen the reach of financial investment products. The recommendations are both on the micro as well as the macro level.

On the micro level a basic awareness campaign on the need, importance and accessibility of NBFC deposits has to be put into practice. This is urgently required among the urban areas where awareness is relatively higher but technical understanding about product is an area of concern. The rural and underdeveloped areas where even basic financial services are less available can be also considered but would require far more infrastructure strength.
Secondly, it has been observed that with most of national population is in the age group of 25 - 45 yrs, the segment has been highly involved in financial markets, especially stock markets and mutual funds need to be encouraged to contribute and participate aggressively in the various NBFC’s schemes which are very similar to direct equity investments from the point of view of underlying assets.

On the macro front, the recommendations are on a policy level and need to be taken care of; the recommendations are broadly on the basis of progressive regulations and shedding off restrictive legislations.

The issues of corporate governance of NBFCs have not received much attention in the financial sector reforms in India, this issue will become a natural choice in the coming set of reforms. The recommendations by various committees are an important step to modernize the current practices of governance mechanism of NBFCs in India. The current practices have created an inequality and suggest the need for a high degree of transparency with regard to disclosure of information and timely action.

This study also confirmed the urgent need to review the size and composition on adequate board-level representation particularly for NBFCs. There is also an issue of ensuring continuity of the regulations and also to have it insular to political developments. The issues of limited operational autonomy and inadequate representation for private NBFCs require attention as part of a recapitalization strategy. A comprehensive review of the law and organizational set-up in the NBFC sector is necessary with it being consistent with the broader philosophy of financial sector reforms as well.
8.2 Chapter wise Conclusions

The Research Report provides a detailed account of policy developments and performance of NBFCs in the recent history. The Report also presents a detailed analysis of the participants in the sector and viewpoints from the participants.

The Report has eight chapters. Statistical tables appended to the Report provide information on operations and performance of NBFCs both at select individual and aggregate levels.

Chapter 1

The first chapter reviews the settings for the entire study to follow. It includes the rationale of the study, the objectives of the study, the methodology of the study, the variables to be studied for the study and the process of the entire research. Based on this chapter, the subsequent chapters follow and form a part of this report.

Chapter 2

The Chapter second chapter reviews the regulatory and supervisory measures relating to financial institutions, developments in financial markets and technological improvements in financial infrastructure from the financial stability perspective. The Chapter identifies the structure of NBFCs in India and the financial services industry along with the factors that may impact the Indian financial sector in varying degree and could pose challenges for the financial system in the near future. However, in the overall assessment undertaken in the Chapter, it emerges that the domestic financial system has become resilient and is found to cope with adverse developments as they occur.
Chapter 3

The main points that emerge from this analysis in this Chapter are the various researches done on this subject and the review of recent activity and developments in the NBFC sector. This chapter concludes with the various comparisons of NBFC industry with competing industries and how unique NBFCs are to the Indian Financial System. To conclude from the various researches and literature it is clear that NBFCs have a unique role to play in the financial services industry.

Chapter 4

The Chapter highlights some of the emerging issues facing the NBFCs. These include, inter alia, credit delivery and pricing, customer service and financial inclusion, implementation of regulations, operational management, corporate governance and application of technology in banking. In a large country like India with substantial service sector activity, it is important that the role played by NBFCs in credit provision is recognized. They have an extensive network and credibility among their constituents, both borrowers and lenders. The industry analysis provides insights on what are the strengths of the sector as against the challenges that the sector would face in the way to progress.

Chapter 5

This chapter analyzes the operational performance of NBFCs and evaluates how the entire sector has grown in recent history. It evaluates the various businesses of NBFCs in terms of deposits mobilized by them, the financial and non financial parameters for measuring operational efficiency. A comparison of major players in the industry reveals how each one is unique and what can be the road ahead for them.
Chapter 6

This chapter analyzes research done over the NBFCs and competing industry segments. It was found that most of the organizations are not focusing on newer business segments and loan and finance business continues to be the more attractive business amongst all segments catered by NBFCs. In addition, it reveals how the public deposits phenomenon largely dictates the way in which NBFCs mobilize funds.

Chapter 7

This chapter concludes on the investor research and how the perceptions of the average investor differ from that of the industry. It brings to light the fact that NBFCs are dealing with an immature investor and an aggressive regulator in form of RBI, both of whom are at two extremes but effectively complement one another. Further, it focuses on how the image of the sector and the customer satisfaction that it provides collide and create operational challenges for the industry.

Chapter 8

This chapter summarizes the entire study, shows how the entire study is brought to justifiable conclusion and provides the necessary highlights the entire research. The findings, conclusions, recommendation and strategic inputs are provided in the chapter which are concluded from the entire course of the study.
8.3 Strategic Guidelines: As suggested by the Researcher

Financial sector reforms in India have been introduced in a calibrated and well-sequenced manner since the early 1990s. The sustained efforts by the Government and RBI have resulted in a competitive, healthy and resilient financial system. The asset quality and soundness parameters of the NBFC sector, on the whole, are now comparable with global levels.

Combined with rising per capita income, improving awareness of capital market investing and pension fund reforms would result into investing being highly viable in long-term. An investment vehicle, benefiting participants in the form of provider and user would result into a strong combination, when NBFCs are freed from hindering regulations and join cordially with the industry.

As suggested by the Researcher, the following are some of the strategic positioning options for NBFCs. Positioning based on Products and Services NBFCs have an edge over other players in products and services that require strong customer relationships and service such as personal loans, commercial vehicle finance, syndication services, inter-corporate deposits etc. In fact, technological developments such as ATM networks, internet banking etc. have made banks more impersonal which increased the advantage of NBFCs. Hence, it is possible for NBFCs to achieve a unique position by focusing on certain category of products and services.

The example of my first employer, GE Capital Services India (GECSI). It is primarily engaged in corporate asset funding through large ticket term lending, hire purchase, leasing and bill discounting. Its foray into retail lending is done through two separate subsidiaries. By focusing on large ticket corporate assets based on its parenting advantage it has positioned itself away from most NBFCs and carved out a niche for itself.
Positioning based on Customer Needs

NBFCs can also position themselves differently based on the differing needs of groups of customers. This can be done successfully if a company has unique strengths to service a set of customer needs better than others.

The best example is Sundaram Finance. At a time when the focus was on financing large truck operators, Sundaram Finance started off by showing its commitment to and passion for the small truck operators. Gradually it built strong relationships with truck operators and emerged as a leading financier of the transport sector. Devoting its services to the growth of the road transport industry, Sundaram Finance is today synonymous with automotive financing in the country.

The rising number of defaulting NBFCs and the need for a quick redressal system call for change in the existing legislative and regulatory framework for NBFCs.

The RBI should draw up a time bound program for disposal of applications for registration of NBFCs. Also, a higher CRAR of 15% for NBFCs seeking public deposits without credit rating can be prescribed by RBI as not most of the NBFCs find the rating and the cost viable.

Disclosure norms, similar to Mutual Funds in form of fact sheets can add a lot of confidence to the investor segment. In addition, ceilings for exposures to real estate sector and investment in capital market can be prescribed for NBFCs, given the volatility in these industry segments.

Rather than discouraging deposit mobilization, deposit taking by unregistered NBFCs and financial intermediaries should be made a cognizable offence.

The NBFCs will have to remain focused and not enter into unrelated business. All this will help in removing some of the negative perceptions that people
have had about the NBFCs over the last few years. Any player in the finance business should continue to look at unfolding opportunities. Entering insurance and other areas are related diversification and that will help in broad basing income stream.

Again quoting the example of GE Capital, a franchise system is what they started in 1998 where the cost of operations was phenomenally brought down giving wider spreads to the interest differentials.

The success factors for NBFCs are the turnaround time as suggested from the research, having tie-ups with retailers can be replicated at all levels of businesses including service industry. This would result into lesser turnaround time which ultimately would fasten the process. The use of technology, especially in communications can greatly enhance the business.

Since, NBFCs are a business driven set of organizations, effective acquisition of customers is of great significance and the following integrated effort can be put to great effect to build on the customer base:

<table>
<thead>
<tr>
<th>External Marketing</th>
<th>Internal Marketing</th>
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<tbody>
<tr>
<td>Identify different borrower segments.</td>
<td>Top management initiative and support</td>
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<tr>
<td>Personalize products for segments</td>
<td></td>
</tr>
<tr>
<td>Understand your competitors’ offerings to tighten your belt</td>
<td>Ensure commitment of employees by empowering and motivating them</td>
</tr>
<tr>
<td>Acquire customers through personalized channels</td>
<td>Reduce resistance to change in organization</td>
</tr>
<tr>
<td>Provide efficient, timely, hassle-free support using preferred channels</td>
<td>Implement the technology to improve work efficiency</td>
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<tr>
<td>Create Customer Delight, as it is yet unexplored in this business</td>
<td>Train the employees regularly, develop a service approach</td>
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<tr>
<td>Increase Customer Life-time Value and shorten the process chain</td>
<td>Encourage the association of emotional quotient</td>
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To summarize, the synergy between the following could ensure that NBFCs be the future of a mature Financial System of India:

# Positioning of Organizations
# Encouraging and Viable Regulating
# Investor Protection by Simple Regulations

It is the configuration of the entire value chain of the company through a different set of activities to deliver unique value to customers. The set of activities cover all upstream and downstream activities, from the selection of the product mix, the way the products are priced, promoted, the type of distribution mechanism used, the way customers are serviced and so on.

If an NBFC is able to deliver superior value to customers through unique positioning and value chain configuration, then it can attain a sustainable competitive advantage against other players in its chosen product market segment.

The NBFCs have an advantage in management of risks and reach, I would say. Apart from this there is always the adaptability to change, where the NBFCs are fast. Newer banks are also quite like that. In the long-term, the gap between banks and NBFCs will narrow and in which case a different breed of NBFCs will emerge which would be very focused entities catering to a small area.
8.4 Scope for Further Research

In the process of globalization, India is a rapidly progressing economy. Sooner or later the state will have to provide mature regulations to its subjects (citizens) in order to retain the human talent as well as to attract global human talent. The study on NBFCs will help to understand how the progressive sectors are realizing the fact as well as which segments need to recognize the same.

In the current scenario, as a result of an intensively dynamic environment, the macro aspects change as a result of their linkage or internal reliance on other macro variables. In light of these and to answer a few more hypothesis regarding the impact of promotion on investments, the factors influencing investment decisions on NBFCs and need or otherwise of regulations are a few areas that can entertain further research.

It can be argued that to an extent the over regulations or rather unplanned regulations have influenced the growth of the sector. Further research on the trends of Indian NBFC industry with emerging economies such as China or other advancing economies could be studied to provide more robust route to the regulators and the industry.

Like any subject of research, where lots of other supporting or counter theories are resulting from any basic work, this subject is no exception.
8.5 Future of NBFCs

<table>
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<th>Non Banking Financial Companies (NBFCs) (As on 1-1-2007)</th>
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<tr>
<td><strong>States</strong></td>
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<tr>
<td>Gujarat, Daman &amp; Diu, Dadra &amp; Nagar Haveli</td>
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<tr>
<td>Karnataka</td>
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<tr>
<td>Madhya Pradesh</td>
</tr>
<tr>
<td>Orissa</td>
</tr>
<tr>
<td>West Bengal Sikkim, Andaman &amp; Nicobar Islands</td>
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<tr>
<td>Punjab &amp; Himachal Pradesh, Chandigarh</td>
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<tr>
<td>Tamil Nadu, Pondicherry</td>
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<tr>
<td>North Eastern States</td>
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<tr>
<td>Andhra Pradesh</td>
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<tr>
<td>Rajasthan</td>
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<tr>
<td>Jammu &amp; Kashmir</td>
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<tr>
<td>Uttarakhand</td>
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<td>Maharashtra &amp; Goa</td>
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<tr>
<td>Delhi &amp; Haryana</td>
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<tr>
<td>Bihar</td>
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<tr>
<td>Kerala, Lakshadweep</td>
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<tr>
<td><strong>Total</strong></td>
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Table 8.1 : Number of NBFCs
Source: www.indiastat.com

<table>
<thead>
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<th>Deposits Mobilised by NBFC Sector in India (1998 to 2006)</th>
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<tr>
<td><strong>Year (Ending March)</strong></td>
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<tr>
<td>1998</td>
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<td>2000</td>
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<td>2005</td>
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<td>2006</td>
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Table 8.2 : Deposits Mobilized by NBFCs
Source: www.indiastat.com

Over the last decade or so, the Reserve Bank of India has been blowing hot and cold about non-banking finance companies (NBFCs). The RBI reacted to a series of defaults and misdemeanors by a few NBFCs, restricting their
ability to take public deposits. This unfortunately led to a collapse of many NBFCs which depended on a continuous inflow of deposits to meet redemption obligations. Subsequently, there seems to have been a better realization of the role of NBFCs in financing the small-scale industry, particularly the transport sector. The RBI in its monetary policy statement had also cautioned that NBFCs should be encouraged to exit from public deposits, in essence saying NBFCs should not take public deposits. They accept deposits in developed countries as well as in some developing countries, like Malaysia. The existence of thrift societies in the US and housing societies in the UK is learned by all. Thrift and savings associations are almost omnipresent in the US. Credit unions of employees are, in effect, self-help groups, present in every organization. So are housing societies in the UK. They perform a useful role in garnering public savings and extending credit to those in need. The same is the situation with non-bank finance companies in Malaysia.

Non-bank finance institutions in the US are even covered by deposit insurance even as they are subject to supervision by a special office of thrift supervision. These institutions handle a substantial channel of local savings and transfer them as loans to deserving borrowers, besides small and medium-scale industries, as well as housing needs. These institutions are also liberally allowed to access the capital market, where banks subscribe to bonds issued by them. The situation in UK is broadly similar. Building Societies in the UK have a big share of business compared to their analogues in India, which hold deposits amounting to 18 per cent of total retail deposit balances.

The fact is that NBFCs in India have played a useful role in financing various sectors of the economy, particularly those that have been underserved by the banks. No business flourishes unless there is a need for it and it fulfills the need efficiently.
The success of NBFCs bears testimony to its role. Anywhere in India, the small entrepreneur goes first to an NBFC for funds even before banks in view of the former's easy access, freedom from red-tape and quick response. The large expansion of the consumer durable business in India in the last few years would not have taken place if NBFCs had not entered the trade.

Similarly, housing activity has also been encouraged by NBFCs. The role of NBFCs in funding transport activities is well-known. Latterly, some NBFCs have been active in funding infrastructure quite successfully using the securitization of obligations.

Players with pan India presence like Sundaram Finance, Cholamandalam Finance and players with tie up with MNCs like Shriram group of companies has focused on significant improvement in the quality of earnings. Overall, the industry remains positive. The health of the NBFCs, started to show a distinct improvement in recent years facilitated by prudential nurturing. Most of the reporting NBFCs recorded a CRAR of at least the stipulated minimum of 12%, with almost three-fourth reporting a CRAR of above 30%. The overall sector, however, is still recording losses.

While increased competition from banks had an adverse impact on the interest yields of NBFCs initially, yields have started improving in the last few years. On the whole, NBFCs enjoy better interest yield compared to banks because the distribution reach of some NBFCs is much superior to many banking channels.

NBFCs have significant strengths in niche areas and enjoy very good customer relationships in specific segments. They also have high brand equity in specific geographical areas. For example, Sundaram Finance and Cholamandalam Finance have a very strong presence in South India and continue to enjoy leadership position in commercial vehicle finance segment due to their strong rapport with their customer base.
There is consolidation in the primary retail financing segments and many smaller NBFCs have lost share to larger players. Some of the smaller players have become direct selling agents and concentrated on originating portfolios for the larger players. This coupled with a marginal increase in fee income has helped improve their profitability.

As regards other NBFCs, it is quite a heterogeneous group including companies involved in different sorts of business hence a general future is improper. Companies into Leasing, into retail financing with greater rural, and semi urban focus should do well keeping in view the overall development in infrastructure in our country.