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Role of consumerism in non-banking financial companies in India-A Study

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ABSTRACT:

The objective of this paper is to analyze the consumerism in the Indian consumers basically for Non-Banking Financial Company Investors. Protection of Investors' interest is needed for effective regulatory action keeping in view the rapid growth in the business of NBFCs. It gave way to implementation of many regulations in the banking sector. Thus, RBI came up as provider of benefit to the investors. In order to evaluate the regulatory framework present role for NBFCs, guidelines for investor protection & role of NBFCs, data have been collected from various secondary sources for this study.

Keywords: *NBFCs, Consumerism, Investors*

1. INTRODUCTION:

Though the lexical meaning of the word "consumerism" is the "the protection or promotion of the interest of consumers but it can be understood as indulgence of consumption of the consumers on the one hand and protection of the consumer right or consumer sovereignty on the other. In this paper, sovereignty of consumers and protection of consumer right is studied. In this paper, sovereignty of consumers & protection of consumer right is studied.

When the excess fund of the investor is invested in different industries, it gives way to the economic growth of the nation and thus the capital, earned with hard labour by the investors is utilised for the growth and development of the nation while the funds are managed by the board of directors, financial professionals and others of the corporate bodies. However, this may incur risk to the Investors' funds. Thus, there is a great risk of attrition of the funds of the investors in the financial markets. Hence, the Investors Protection system is implemented to safeguard the fund and interest of the investors.

We may define here a Non-Banking Financial Company (NBFC) that is registered under the Companies Act, 1956 and it does the business of providing loans and advances, acquisition of shares, bonds, stocksand debentures which are issued by the Government, local authority, other marketable securities of the same type. They also do the business of leasing, hire-purchase, insurance chit, etc excluding the institutions which are engaged in chiefly the business relating to agricultural, industrial; purchase-sales of goods expect securities or providing any services or construction as well as sale-purchase of immovable property. A non-banking institution, being a company receives deposits in shape of instalment or one time mode as contributions. Though Non-Banking Financial Companies lend as well as make investments like that of banks but they are different in the sense that they cannot accept demand deposits, they are not part of the payment and settlement system and cannot issue cheques drawn on itself and unlike that of banks, deposit insurance facility of Deposit Insurance and credit guarantee corporationis not available.

2. REVIEW OF LITERATURE:

The Taxmann's published book entitled " Statutory Guide for Non-Banking Financial Companies" published by Taxmann Publications (2013), New Delhi the laws relating to Non-Banking Financial Companies have enlisted while the rules and laws governing the kinds of business undertaken by different types of NBFC have been discussed.

Amit Kumar and Anshika Agarwal (2014) in their work named "Latest Trends in Non-Banking Financial Institutions" that published in "Academicia: An International Multidisciplinary Research Journal" found out two major financial institutions like Banking and Non-Banking. The Non-Banking Financial Institutions have greater significance in the Indian Economy in consideration of their supply of wide range of financial services, risk-based products and enhanced equity offer, making provision of both short term and long-term finance for different sectors of the economy, etc. They also try to analyse the trends in Non-Banking Financial Institutions that are presently continuing as well as growth and prosperity of the financial institutions found in the country.

Naresh Mokhyani (2014) in his paper entitled "Non-Banking Finance Companies: Time to Introspect" in " Antique" finds that the Non-Banking Finance companies (NBFC) do show their significance in the banking system on the basis of providing reach to unbanked areas, niche business models and under-served credit supply.

With an aim to make the regulations of NBFCs similar with the Reserve Bank of India gives such proposal of various charges in the existing regulatory norms to govern the NBFCs as removal form priority sector status, tougher provision norms, increased capital adequacy and changes in securitization guidelines. Such changes may bring down the growth as well as the profitability of the

NBFC sector. The NBFCs must confront stringent regulatory norms and rising cost of funds, competition from banks and meagre capital for which they need to go through and make necessary charges in their business models.

In their book named "Manual of Non-Banking Financial Companies" Ravi Puliani and Mahesh Puliani (2014) presented the glossary of terms which are used in banking operations and non-Banking activities. They also discussed about the circulars and directions issued by the Reserve Bank of India which are meant to control, manage, and regulate the NBFCs' business.

3. OBJECTIVES OF STUDY.

The study is meant to analyse consumerism in Indian consumer relating to investment in NBFCs. The following are the objectives of the study:

i. To study the NBFCs' regulation framework

ii. To analyse the regulatory authority' role in NBFCs.

iii. To analyse the outline meant for investor protection in NBFC.

4. DATA AND METHODOLOGY:

Data have been collected from the RBI Bulletin issues pertaining to NBFC guidelines and many other secondary sources such as books, various websites, and Journal newspapers, etc for the present study. The study is empirical and descriptive so far, its nature is concerned. The study is limited to the examination of the state of Non-Banking Financial Institutions in India with the implementation of new financial regulations by RBI for security purpose.

5. THE ROLE OF PRESENT REGULATORY FRAMEWORK FOR NBFC:

As section 45-1A of RBI Act, 1934, unless a Non-Banking Financial Company obtains a certificate of registration from the bank & has Net Owned Funds of Rs 25 lakhs increased to Rs Two Crore since April 1999, With an aim to abolish dual regulations, as powers vested to the Bank , some categorized NBFCs being regulated by other regulators, do not require registration with RBI & such NBFCs are Merchant Banking companies, stock-banking companies registered with SEBI, Venture Capital Fund, Insurance company with a valid Certificate of registration issued by IRDA, Chit companies as defined in clause (b) of Section 2 of the Chit Funds Act, 1982, Nidhi Companies as notified under Section 620A of the Companies Act 1956, a Mutual Benefit Company, Housing Finance companies regulated by National Housing Bank & Stock Exchange.

An unincorporated body or financial entity calls for penal action under the Indian Penal Code if it illegally tries to mislead the public & collect deposits making a false claim that if it is regulated by the RBI, steps are taken against such illegal action after information is given to the nearest of the Reserve bank & the Police. Without being registered with the RBI, no companies can do non-banking financial activities like investment , deposit receive, lending etc. , if they do, they invite penally, prosecution by legal authority or fine. If it is noticed by anyone that any financial entity involves in non-banking financial activity without being enlisted as authorised NBFC or RBI or RBI website, he or she can inform the nearest regional office of the Reserve Bank for contravention of provisions of the RBI Act, 1934.

As per RBI deregulation rule, except NBFC- Micro Finance Institution, the financial institutions can charge interest rates from borrowers & the same shall be as per terms & conditions of the loan agreement made between the borrowers & the NBFCs. The NBFCs shall openly disclose in the application forms & in the sanction letter the rate of interest they offer to the various borrowers.

All NBFCs, though registered with the RBI, can accept deposits, but those who told a deposit accepting certificate of registration are able to accept deposits. For instance, non-banking finance companies possessing certificate of registration from RBI with specific licence to accept deposits, can accept public deposits, while banks including co-corporation banks, are able to accept deposit, though they can accept deposit to a certain limit which is permitted. With specific authorization, housing finance companies are collected deposits. As per companies' acceptance of deposits Rules formed by Central Govt, under the companies Act, the companies authorised by the Ministry of corporate Affairs are able to accept deposits upto a permissible limit. Co-operative credit society are allowed to accept deposits only from their members but not from the general public. The RBI has regulations of deposit acceptance for the banks, NBFCs & cooperative banks. Other entities are not legally allowed to accept public deposits. Individuals, partnership firms or any other associate of individuals who are unincorporated bodies cannotconduct the business of acceptance of deposits as their chief business & they are also prohibited from accepting deposits as part of financial business.

6. INVESTORS PROTECTION OUTLINE:

The following are the important regulations for acceptance of deposits set for NBNFCs:

I. The NBFCs can accept & renew public deposits for a minimum duration of 12 months & maximum duration of 60 months. Theyareableto accept deposits repayable on demand.

II. More interest rates than the ceiling rate so prescribed by the Reserve Bank of India cannot be offered by the NBFCs. They may pay interest or compound at rates not short than monthly rates.

III. NBFCs shall not make any provision of gifts or incentives or additional benefit for the depositors.

IV. NBFCs must have maximum investment grade outfit rating.

V. The NBFC deposits are never insured.

VI. The Reserve Bank of India does not guarantee the repayment of deposits made by NBFCs.

VII. The companies soliciting deposits must make certain mandatory disclosures about the concerned in the application forms issued by them.

A depositor can file a civil suit in a court of law or take the help of law board or consumer forum for recovery of his deposits in case an NBFC becomes a defaulter in repayment of deposit. Moreover, if the depositor complain of default, the state legislations on Protection of Interest of depositors in Financial establishments at the state government level has power to take action against the defaulter. The state government can also confiscate properties of the defaulter if it finds the proof of perpetration of an offence or fraudulent intention.

The NBFCs are authorized by the Reserve Bank of India does not guarantee repayment of deposits by the NBFCs. Here, the depositors or investors need to make well-informed decisions before making deposits in NBFCs

If a depositor appeals or by its own, when an NBFC cannot repay the deposit or part of it, as per the terms & conditions, the Company Law Beard (CLB) can direct the concerned NBFC to repay the deposit or part of if specifying time & conditions mention ed in the order. The company needs to comply with the nearby office of the Reserve Bank of India, the consumer court has here crucial role in sorting out the problems of the depositors. The depositors can also seek the help of the civil cast, CLB or consumer forum at a time. The RBI has such ways to protect the interest of the NBFC depositors as under:

I. The NBFCs shall work on sound lines obeying the regulations laid down by the RBI on deposit acceptance the includes mandatory credit rating, manner by which deposit books need be maintained, mandatory maintenance of liquid assets for repayment to depositors, exposures limitations, inspection of NBFCs & prudential regulations which includes maintenance of adequate capital.

II. The Reserve bank of India can prohibit an NBFC from accepting deposits further or from selling its assets if it becomes sure after auditing, getting complaints, by inspecting or any means adopted it that the concerned NBFC does not act following RBI directors.

III. Moreover, the RBI may prosecute on NBFC, initiate criminal action or closer of it, if a depositor complains to the Company Law Board (CLB) against the NBFC regarding non-repayment & non-compliance of the CLB order.

Consequently, the Reserve Bank of India, on the grounds of complaints, market intelligence reports, reserve reports received from statutory audits of the companies or reports got from any other source takes quick action in shape of imposition of patties& legal action against companies that violation of RBI norms. The RBI informs regarding this to the regulations in the financial sector as well as the enforcement agencies in the state level co-ordination committee meetings.

The RBI works as harbinger in taking benevolent steps for making the general public aware & careful while investing their money since the RBI is the apex public policy institution. As part of its steps, the RBI participates in the exhibitions & trade fairs sponsored by the State Government, town hall events, issues cautionary notices in newspapers, interests with public during outreach programmes & distributes educative & informative brochures or pamphlets among the public. If needed it advises the popular local & national print media not to accept any advertisements inviting deposits by unincorporated bodies.

The depositors can complain to the concerned regular as given in figure-1 & figure-2 under. A complainant can seek help from the state police or economic offences wing of the state police against any banned activity of an NBFC by lodging a complaint.

Figure-1

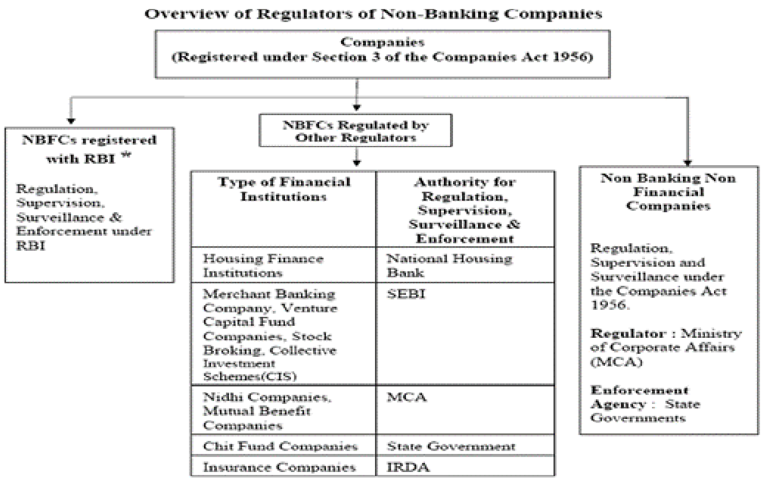
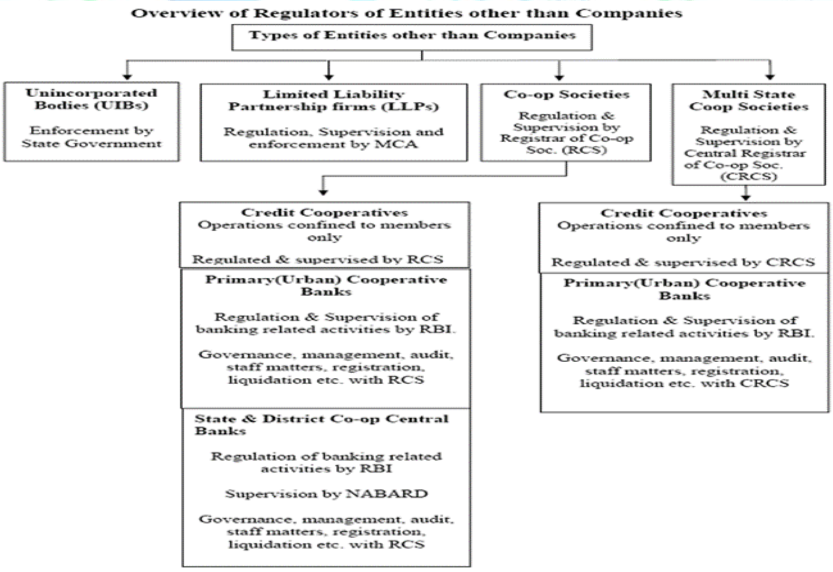


Figure-2



7. CONCLUSION:

From the above study it is clear that NBFC industry has to confront challenges in future in spite of being regulated by the RBI & other regulators. So far as development of Indian financial system is concerned, NBFCs play vital role since they are major financial institutions in the Indian economy. Though NBFCs high return to the depositors, they are less relied on by the people of India in comparison to the banking sector. If there is any insolvency, the Reserve bank of India does not give any guarantee for any repayment of on behalf of the NBFCs even if the rules, regulations & guidelines are given by the RBI. The great disadvantage of the of the NBFCs is that though the Reserve Bank of India regulates them the insurance companies never insure their deposits.

It can be concluded saying that the Government should be responsible for providing better investor protection measures since security of investor is vital for the society.

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