

As some of the recommendations required legislative changes, the Government of India, in December, 2000 introduced "The Financial Companies Regulation Bill, 2000", in the Lok Sabha, incorporating the recommendations of the Task Force on NBFCs. The Bill aims at ensuring healthy growth of the NBFC sector and protection of the interest of its depositors.

The Bill has been referred to the Standing Committee on Finance by the Hon'ble Speaker Lok Sabha and is pending with the Committee since 18th December, 2000.

(b) There is no such proposal under consideration of the Government at present.

Committee on NBFCs

†*289. SHRI MANOJ BHATTACHARYA: Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether a Committee was set up in 1998 to go into the adequacy or otherwise of the existing institutional arrangements for the safe return of the money invested by small investors in the Non-Banking Financial Companies (including Residuary Non-Banking Companies);

(b) if so, the details thereof;

(c) whether the Committee has submitted any report and if so, the details thereof; and

(d) what follow-up action, if any, has been taken thereon to protect the interest of the depositors?

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH): (a) to (d) A Statement is placed on the Table of the House.

Statement

(a) and (b) A Task Force on Non Banking Finance Companies (NBFCs) under the Chairmanship of Shri C.M. Vasudev, the then Special Secretary (Banking), Government of India, considered various suggestions received from different quarters and made wide ranging recommendations in October, 1998, to deal with the redressal of depositors' grievances.

†Question Nos. 282 and 289 were taken together.

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(c) and (d) As some of the recommendations required statutory amendments to the Reserve Bank of India Act. Accordingly the Government of India introduced "The Financial Companies Regulation Bill, 2000" in the Lok Sabha in December, 2000, incorporating the recommendations of the Task Force on NBFCs. The Bill aims at ensuring healthy growth of the NBFC sector and protection of the interest of depositors.

Salient features of the Financial Companies Regulation Bill relating to enhancement of the protection of depositors interest are:

(i) Unsecured depositors would have first charge on liquid assets and assets created out of the deployment of the part of the statutory reserve fund;

(ii) Sale of property by a company in violation of prohibitory order issued by RBI in this regard would be void;

(iii) Company Law Board would be the sole authority to adjudicate the claims of depositors against the delinquent companies. They would have powers to order attachment of assets of fraudulent financial company and the management of such assets would be vested with the recovery officer to be appointed by Company Law Board;

(iv) All unincorporated bodies whether conducting financial business or not would be prohibited from issue of advertisements soliciting deposits;

(v) Unauthorised deposit taking by unincorporated bodies, unregistered financial companies or the companies whose application for Certificate of registration have been rejected or whose registration has been cancelled or who have been prohibited from accepting deposits would be a cognizable offence.

The Bill has been referred to the Standing Committee on Finance by the Hon'ble Speaker, Lok Sabha and is pending with the Committee since 18th December, 2000.

SHRI DIPANKAR MUKHERJEE: Sir, these are specific questions regarding lowering of interest rate on small savings, Public Provident Fund and other instruments. Senior citizens, retired people and middle-income groups are lured by the NBFCs, offering high interest rates. There have been increasing instances of default on payment of interest and repayment

schedules by the NBFCs and, in some cases, the NBFCs are vanishing. The question is regarding setting up of a regulatory mechanism for that. The Minister has replied that a Bill is already there. But the Monetary Policy Statement for 2002-03 by the RBI has suggested setting up of a self-regulatory organisation, as part of this regulatory process. Now, this looks to me as sort of 'vegetarian tiger'. There cannot be a 'vegetarian' tiger. The self-regulatory organisations cannot regulate all these defaults and whatever has been happening. I don't think, this 'vegetarian' tiger, the self-regulatory organisation which has been talked about, can take care of the interests of the depositors. Why don't you have an independent regulatory organisation to look after, to take care of, the interests of the small depositors?

SHRI JASWANT SINGH: Sir, strictly speaking, what the hon. Member has said is a matter of suggestion. We will certainly consider this suggestion, not on account of any preference for vegetarianism or non-vegetarianism. We are ready to have a more adequate mechanism. I am in sympathy with them. I have talked about proper management and proper regulation. I have often said earlier that free market operations are impossible without a strong regulatory mechanism. That is the principle that we continue to follow.

SHRI DIPANKAR MUKHERJEE: Sir, let me clarify. I think the Minister has gone through the RBI's Monetary Policy Statement. They are taking about a self-regulatory organisation from the NBFCs themselves. That is why I called it a 'vegetarian' tiger. They are the defaulters. They are creating an organisation out of them. That is not a practical one. I now understand that you are trying to have a regulatory mechanism, a really independent one.

Sir, part (b) of my question is whether the Government can initiate a Deposit Insurance Corporation, something which was there in the banks earlier. There should be a Deposit Insurance for small depositors. You have replied, "No, the Government doesn't have any such proposal". Therefore, my question is: Why is it 'no'? Why is it not 'yes'?

SHRI JASWANT SINGH: Sir, this issue was examined by a committee appointed some time back. It examined the entire gamut of the issues that arise from the operation of Non-Banking Financial Companies and deposit insurance was one of the issues that was examined

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by that committee. The Committee did not recommend a deposit insurance mechanism for Non-Banking Financial Companies. Now, in the absence of any such recommendation, the Government has often, as in the past, examined the possibility of introducing such a thing. In the present circumstances, it has not been found a feasible proposition.

SHRI MANOJ BHATTACHARYA: Sir, even after so many untoward incidents of collapse of or swindling by non-banking financial companies including residuary non-banking companies, which are essentially privately managed or corporate managed — even some foreign companies are also involved in this — is the Government deciding to withdraw the dividend tax imposed on investors in the last Budget to boost the capital market. And, if so, whether such decision will encourage further swindling of the common people's hard earned savings and cause further strain to the people's interest. There is a news item in the Hindustan Times of 5th December that the mutual funds will be treated on an equal footing with individual investors, and exempted from paying dividends. For mutual funds, the proposal will be a bonanza. They are already exempt from paying the Capital Gains Tax on any appreciation in the value of the liquid investment. Sir, this way, in this benighted stage, the overseas financial institutions seem to be behaving like white knights, dominating equities, whose prices seem to follow their own regime, with scant regard for performance or prospects, and the people, at large, are being lured by the strong advertisements. Sir, small wonder, therefore, that, sometimes, the hon. Finance Minister is juxtaposing India with Latin American countries in a humiliating bid to shine by odd comparison. Therefore, would the Finance Ministry reveal the real fact and expressly resort to proper remedial measures to ameliorate the sufferings of the common people?

SHRI JASWANT SINGH: Sir, it is a very impressive reading out by the hon. Member. But I am really at a loss to distil the question out of what the hon. Member has just read out. To the best of my ability, I think, what the hon. Member has enquired, amongst other things, is whether the Ministry of Finance will reveal the real fact. I would like to assure the hon. Member that the Ministry of Finance, in fact, deals with facts, and it can deal with nothing else but fact. Now, on the complicated aspect of mutual funds, there is no dividend tax at the moment, as the hon. Member knows. Apart from this, other issues relating to non-banking finance companies that he has raised are not arising from this particular question.

SHRI MANOJ BHATTACHARYA: If I am not correct, the hon. Finance Minister may correct me. I would like to know whether the Kelkar Task Force on Tax Reforms has also favoured the withdrawal of dividend tax. If at all it is a fact then, what is the reaction of the Government thereto? Sir, as such, the interest on small savings in the banking sector or in the postal sector are being reduced continuously, putting the retired or the widows or the helpless into serious jeopardy. Let me explain, Sir. On the other hand.(Interruptions)

MR. CHAIRMAN: Please put a straight question to the Minister.

SHRI MANOJ BHATTACHARYA: This is going to expose the population at large to further problems. So, would the hon. Finance Minister assure that the common people's money will not be swindled by this NBFCs?

SHRI JASWANT SINGH: Sir, now, I am in a position to understand the hon. Member's concern. I will respond to it. So far as pensioners, senior citizens, widows, small investors are concerned, as I said in response to the point made by the Leader of the Opposition earlier, in this phase of declining interest rates, I myself as Finance Minister and the Government, are seriously concerned about the decline in the possible income of the senior citizen. The Finance Ministry and the Government are addressing this issue. I hope to be able to correct it very soon in a manner that arranges a differential interest rate for pensioners, senior citizens and widows so that this kind of decline in interest rate does not affect them and we are able to compensate them. The Government has to maintain both. We have to continuously match the international decline in the interest rate so as to make the trade, industry and commerce competitive and, at the same time, we have to take care of the interest of those who invest money for higher returns and could suffer if the interest rate continues to decline. The hon. Member is inquiring about the dividend tax, which is part of it.

So far as the Task Force is concerned, that is only a consultation paper. That paper has to be converted, after the suggestions are received, into a report and that report has to be presented to the Ministry of Finance. It is only after the report is presented we will be considering this particular aspect in detail.

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SHRI MURLI DEORA: Sir, thousands of small and medium depositors have lost their hard earned money which they deposited in NBFCs. the activities of NBFCs are regulated by the Reserve Bank of India. In a meeting of the Standing Committee on Finance, a representative of the Reserve Bank of India stated that they were not prepared fully to regulate the activities of NBFCs. I would like to know from the hon. Minister whether the Government would consider putting a ban on NBFCs and stop them from accepting public deposits, especially small deposits.

SHRI JASWANT SINGH: Sir, the hon. Member has put a very important question. It is my experience—I would like to share it candidly with the House—that there are deficiencies in the banking operation regulations, whether it is the cooperative sector or the FIIs. Personally, I am not satisfied with the regulations and management in the banking sector and also in the agriculture sector. Theoretically, NBFCs are to be regulated by the Reserve Bank of India. But the problem is, neither is the Reserve Bank of India adequately staffed to manage it nor is the Ministry of Finance in a position to really regulate NBFCs. I am addressing this issue. I do accept that this is an issue that we need to take seriously. But as the hon. member is aware, I am new in this job. I hope he will give me some time to be able to address this issue.

SHRI C. RAMACHANDRAIAH: Sir, this Bill was referred to the Standing Committee on Finance in December, 2000. Two years have already elapsed. But I am not questioning the delay. The Standing Committee might have its own constraints. But during this period, the small investors have lost crores of rupees. Every day, one company or the other is being closed. They have become vanishing companies. In such a situation, why don't you initiate corrective measures immediately—pending the submission of the report—as you have done in the case of UTI?

SHRI JASWANT SINGH: Sir, I did not wish to say this earlier in my response to the question. There is a piece of legislation which is pending before the Standing Committee on Finance since December, 2000. Since December, 2000 we have been awaiting the Standing Committee's convenience and clearance of that Bill by the Standing Committee. When a Standing Committee is considering an issue, hands of the Government are really tied.

SHRI C. RAMACHANDRAIAH: Sir, when a Bill has been referred to the J.P.C. (*interruptions*)

SHRI JASWANT SINGH: A Parliamentary Standing Committee is actually examining a piece of legislation, related to this subject, for the last two years. How am I able to move unless this Committee clears the issue?

SHRI EKANATH K. THAKUR: Sir, thank you for giving me this opportunity. Sir, there are a number of corporations in India, which are neither banks nor NBFCs. But, they advertise in all the newspapers that they are giving loans beyond Rs. 10 lakhs. They call themselves as "Sashi Financial Corporation", "Pioneer Financial Corporation" and these corporations are functioning even in the city of Mumbai, under the very nose of the R.B.I. For the last 50 years, these corporations have been cheating the persons who seek loans from them. They do not lend a single pie, but they collect the first fee and then they swindle the persons who come to borrow. This is a regular thing which is taking place throughout India and they advertise even in the major national newspapers like The Times of India. But the Reserve Bank of India is doing nothing.

MR. CHAIRMAN: Put your question please.

SHRI EKANATH K. THAKUR: Sir, my question is: "Would the hon. Minister ask these corporations, which are cheating the people of India under public eye, to close their shops?"

SHRI JASWANT SINGH: As the hon. Member brings in experience of banking to this House, he knows very well that operations like chit fund, plantation companies, etc., have been stopped. We have progressively taken measures to ban all such activities. But I take on board what he has suggested that despite the ban, certain operations of this nature are taking place, with a view to cheating the citizens and investors. I have just been informed that unincorporated bodies are not allowed to accept deposits from public. However, the private loans are part of general business activity and it is not possible for the Government, any Government, to ban all private loans altogether. The Reserve Bank of India does not control this activity.