പതിനാലാം കേരള നിയമസഭ

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നക്ഷത്രചിഹ്നമിടാത്ത നിയമസഭ ചോദ്യം നം. 5464 - 02/11/2016 – ലെ മറുപടിക്ക്

പ്ലാനിംഗ് ബോർഡ് വർക്കിംഗ് ഗ്രൂപ്പ് നടത്തിയ പഠനങ്ങൾ

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(ധനകാര്യവും കയറും വകുപ്പുമന്ത്രി)

	ചോദ്യം	ഉത്തരം
(എ)	മൈക്രോ ഫിനാൻസ് സ്ഥാപനങ്ങളെ കുറിച്ച് പ്ലാനിംഗ് ബോർഡ് വർക്കിംഗ് ഗ്രൂപ്പ് നടത്തിയ പഠനങ്ങൾ എന്തെല്ലാം; സർക്കാരിന് വർക്കിംഗ് ഗ്രൂപ്പ് റിപ്പോർട്ട് സമർപ്പിച്ചിട്ടുണ്ടോ; റിപ്പോർട്ടിലെ വിശദാംശങ്ങൾ എന്തെല്ലാം;	മൈക്രോ ഫിനാൻസ് സ്ഥാപനങ്ങളെ കുറിച്ച് പ്ലാനിംഗ് ബോർഡ് വർക്കിംഗ് ഗ്രൂപ്പ് നടത്തിയ പഠനങ്ങളുടെ റിപ്പോർട്ട് സർക്കാരിന് സമർപ്പിച്ചിട്ടുണ്ട്. പ്രസ്തുത റിപ്പോർട്ടിലെ പ്രധാനപ്പെട്ട ശുപാർശകൾ അനുബന്ധമായി ചേർക്കുന്നു.
(ബി)	സംസ്ഥാനത്ത് പ്രവർത്തിക്കുന്ന മൈക്രോ ഫിനാൻസ് സ്ഥാപനങ്ങളുടെ എണ്ണം എത്ര; ജില്ല തിരിച്ച് വ്യക്തമാക്കാമോ?	156 മൈക്രോ ഫിനാൻസ് സ്ഥാപനങ്ങൾ സംസ്ഥാനത്ത് പ്രവർത്തിക്കുന്നുണ്ട്. ഇവയ്ക്ക് ആകെ വിവിധ ജില്ലകളിലായി 4236 ബ്രാഞ്ചുകളുണ്ട്. സംസ്ഥാനത്ത് പ്രവർത്തിക്കുന്ന മൈക്രോ ഫിനാൻസ് സ്ഥാപനങ്ങളുടെ ബ്രാഞ്ചുകളുടെ ജില്ല തിരിച്ചുള്ള വിശദാംശങ്ങൾ ചുവടെ ചേർക്കുന്നു.

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അക്കൗണ്ട്സ് ഓഫീസർ

CHAPTER - 12

The Indian Financial System consists of Banking Institutions and Non-Banking Financial Institutions which offer numerous financial products and services with an attempt to meet the credit needs of the country. The roles of banking institutions are clearly different and well regulated by RBI.

NBFIs operate under different regulators like RBI, IRDA, ROC, MCA, State Government, SEBI, NHB and so on. Some of them are registered and many are unregistered. There is no authentic data on NBFIs, specifically when they are unregistered. However, the last few decades have seen their activities flourishing through diversified channels.

As the non-banking financial sector is marked by heterogeneity in terms of different types of entities functioning under different regulators, there is no level playing field among the regulated entities and those engaged in unauthorized collection of public deposits often escape punishment due to the absence of inter regulatory co-ordination and swift legal action.

There is a need to have an umbrella regulation which would provide the framework for right operations and prevent floating ponzy schemes. Kerala is in the process of framing rules under the Protection of Interest of Depositors Act to meet the requirements of protecting the rights of the depositors.

NBFCs regulated by the RBI are variously categorized - based on their liabilities they are classified into, Deposit and Non-Deposit accepting NBFCs, non-deposit taking NBFCs are further divided based on their size into systemically important and other Non-Deposit Holding Companies (NBFC-NDSI and NBFC-ND) and finally, by the kind of activity they conduct.

The number of NBFCs registered with RBI showed a reduction from 14077 in 2002 to 12029 by March 2014 and further to 11842 in March 2015. Of the 12029 NBFCs as on March 31, 2014, 241 were deposit taking (NBFC-D), 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.

Total assets of the NBFCs (including loans and advances) grew by a phenomenal amount from ₹58071 crore in 2003 to ₹1247200 crore in 2014 recording a more than 2000 per cent increase and further to ₹1456500 crore in March 2015 (FSR, June 2015).

As per the Report on Trend & Progress in Banking, 2013, the NOF as on March 31, 2012 of NBFC-D was ₹21800 crore, that of RNBCs was ₹3079 crore and NBFC-ND-SI was ₹2415 crore, thereby approximating ₹2,86,379 crore for the sector. The growth of NOF thus showed a healthy trend over that of the position of 2003, keeping in line with the growth in assets and the need to maintain the requisite capital adequacy ratios.

The number of deposit accepting NBFCs in Kerala declined from 23 as on December 31, 2002 (Report on WG on NBFI, 2005) to 12 as on March 31, 2015 of which one company voluntarily surrendered its CoR. Number of NBFCs-D in Kerala standing at 12 which formed 5.5 percent of the total number of NBFC-D operating at the All-India level (220) as on March 31, 2015. Out of the NBFC-D companies, only 9 companies had outstanding deposits as on March 31, 2015. Further, some of the deposit taking companies had converted themselves into non-deposit ones, perhaps to avoid stringent regulations of the RBI applicable to deposit accepting companies and in general, to avail of other, readily available and accessible means of finance, especially to big companies like bank borrowings, non-convertible debentures, etc. There were 10 such companies that had converted from NBFC-D to NBFC-ND over the period 2003 to 2011. Though the number of NBFC-D had decreased over the years, the size of aggregate public deposits had increased from ₹50.47 crore in 2001-02 to ₹191.46 crore as on March 31, 2014 and to ₹231.59 crore as on March 31, 2015. (Source: RBI Statements to various committees). The aggregate Public deposits of the State thus formed a little less than 1 per cent of the deposits at the national level as on March 31, 2014.

The study presents the growth in credit disbursements and financial services of entities like KFC, KSIDC, KTDFC, KCBC and KSBCDC.

There has been a phenomenal growth in the business of Chit Funds and similar growth in the revenue of the Government through Chit business. The revenue to the Government from Chit business are in the form of Chit Registration Fee and Stamp Duty. The number of Chits registered in the State by KSFE, Private Chit Funds and Co-operatives increased from 8810 in 2009-10 to 13,737 in 2014-15. Further the number of Chits registered by the Private Foreman during the period from 2009-10 to 2014-15 has shown an increasing trend whereas a fluctuation can be noticed in the number of Chit registered by KSFE for the same period. The growth in the registration of Private chits can be attributed to the effects of implementation of Chit Funds Act 1982 which prevent the outflow of foreman to other States for registration. The data also reveals that total revenue to the Government by way of Chit registration fee and stamp duty increased from ₹1346.2 lakh in 2009-10 to ₹2819.7 lakh in 2014-15.

Co-operative Societies are conducting Monthly Deposit Scheme (MDS)/Group Deposit Scheme (GDS) instead of being named Chitty. In effect, they are 'Chit schemes' but do not get registered with the Registrar of Chits. In Kerala 2452 Co-operative Societies are conducting 34838 MDS/GDS schemes with an aggregate Chit turnover (Sala) of ₹14364 crore as on 31-03-2015.

An evaluation of The Kerala Chitties Act, 1975 leads to the conclusion that many of the provisions of the Act were restrictive to the healthy growth of the Chit business in Kerala. It has failed to protect the interests of both the subscriber and the foreman, even with the amendments made in April 2002. In exercise of the powers conferred by Section 89 of the Chit Funds Act, 1982 (Central Act 40 of 1982), The Government of Kerala, in consultation with the Reserve Bank of India, enacted The Kerala Chit Funds Rules, 2012 for the proper growth of Chit business in the State. But certain Rules of The Kerala Chit Funds Rules, 2012 seem less appealing and may cause unnecessary procedural delay and difficulties for the efficient conduct of Chit business.

Some of the major problems faced by the Chit fund industry are the complex procedural formalities for the completion of registration of a Chit and the office delay for the release of Chit security deposits, delay in issuing a No Objection Certificate for opening new branches etc.

Large unregistered sector in the Chit business has been a threat to the financial sector. The entry of certain Chit Funds into other risky fields of business has resulted in the failure of such Chits. Unfair practices by some foreman and even disappearance of certain foreman result in loss of reputation to Chit business. Some of the suggestions for solving the problems of Chit Fund Industry are given below.

The procedural formalities for the registration of Chits shall be simplified so as to complete the process more efficiently and without dealy. A single window procedure will enhance the efficiency of the sector. English version should also be allowed in documentation of Chit registration. Considering the volume of work involved in administering the Chit Fund industry, a separate Department for Chitty can be considered. A post of under Secretary shall be created exclusively for monitoring Chit business. A separate Additional Sub Registrar of Chits under the District Registrar exclusively for the issue of prior sanction, easy registration of Chits and matters related to the business may avoid delay and bring in operational efficiency. Office automation and computerisation of Registrar's office including facilities for E-Filing of all records by the foreman and online auction facility to the subscribers can strengthen the efficiency of the Chit Fund business.

Cost of registration of Chits shall be rational and at par with that of other States. Reduction of stamp duty for the registration of Chitty can reduce the cost of registration. Measures should be taken to release the Chitty security deposit submitted by the foreman in the name of Registrar of Chits on termination of the Chit within thirty working days of completion of all formalities and procedures in this regard. Measures shall be taken for the regular payment of interest on Chitty security deposit put in the name of the Assistant Registrar by the Chit foreman till the termination of the Chit. Section 13 of the Chit Fund Act 1982, on aggregate amount of Chits, seems less appealing both to the foreman and subscriber. Hence the ceiling on Chit amount to an individual foreman shall be raised from ₹1 lakh to ₹5 lakh -section 13 (1) - and to five lakh per partner and up to a maximum of twenty five lakh to the partnership firm -Section 13 - (2a & 2b).

Kudumbashree is formally involved in micro finance through Self Help Groups. They are actively engaged in Thrift and Lending. Lending is in the form of Internal Loan and Linkage Loan with Matching Grant. Being part of the lending process, Kudumbashree has a vital role to play in the economic development through credit disbursement through Non-Banking Financial Network. Considering the potential for development through micro finance, Kudumbashree Projects should be encouraged in emerging sectors.

Kerala State Financial Enterprises (KSFE) comes under the category of Miscellaneous Non-Banking Financial Companies and has the unique position as the only public sector Chit Company in India. The core business of KSFE has been Chit scheme since its inception and serves as a discipline factor in Chit business and also as an alternative to unregistered and fly-by- night Chit fund operators. Total business of KSFE includes annual Chit turnover and outstanding of other schemes viz. total advances and deposits. Total volume of business of KSFE has increased from ₹10700 crore in 2009-10 to ₹22599 crore in 2014-15. KSFE has been registering impressive growth every year.

The revenue to the Government from KSFE in the forms of service charges, guarantee commission, registration and filing fees, chitty security deposits with the treasury, savings bank account and other deposits with the Treasury has increased from ₹143604 lakh in 2009-10 to ₹246855 lakh in 2013-14. The main contributor to the total revenue of KSFE is the Chit scheme and in 2013-14, 68.65 per cent of the total revenue was through the Chit scheme. The number of Chits registered in the State for the period 2009-10 to 2013-14 also shows a clear dominance of KSFE Ltd. The savings mobilised by KSFE from the public by way of term deposits, Sugama Savings account and Chitty security deposit in Trust seems impressive, registering a growth rate of 104.3 per cent during 2009-10 to 2013-14. The Gold Loan, Reliable Customer Loan and New-Chitty Loan are the major loan schemes of KSFE, and the volume of other loan schemes seems insignificant.

The outreach of KSFE services to the rural masses seems less satisfactory as shown by the lesser proportion of rural branches. The opening up of new branches or Extension Counters in the rural areas shall be helpful to the Chit subscribers and also to the small traders to escape from the clutches of the local 'blade companies'. The growing presence of informal Chit Funds and the fly-by-night Chit operators pinpoint the need for more dynamic growth and wider market outreach for KSFE. The support enjoyed by KSFE as a fully owned Government Company and hence the exemptions from various provisions of Chit Fund Act 1982 viz. Section 11, Section 12 (1), Section 20 and Section 22 (2) of the Kerala Chit Funds Rules 2012 demand the need for fulfilling its social obligations in a more vibrant way. The capital structure of KSFE shows the necessity to widen the capital base of the Company. Chit being the dominant contributor towards the revenue, KSFE shall concentrate in the growth, diversification and modernisation of the firm's schemes. Modernisation and diversification of Chit schemes including provision for Online Chitty auction, e-remittance facilities for customers and conduct of daily and weekly Chits shall enlarge the scope of business for KSFE.

As per Money Lenders Act of 1958 registered Money Lenders are formed through registration under the Inspecting Assistant Commissioners of Sales Tax Department at the District level. The Presence of Registered Money Lenders is dominant in the districts of Ernakulam and Thrissur in Central Kerala and Thiruvananthapuram and Kollam in Southern Kerala. The very small presence of Registered Money Lenders in the northern districts are noteworthy. There was a significant decline in the number of Registered Money Lenders in Alappuzha and Pathanamthitta during the period 2003-04 to 2014-15 while there was a significant increase in their presence in Ernakulam and Thrissur. Results of Operation Kubera reveal large number of raids in the Districts where Registered Money Lenders were more dominant through their presence. However, exceptions to this were in the Districts of Idukki, Palakkad, Alappuzha and Kottayam. In these Districts Registered Money Lenders did not have dominant presence but number of raids and cases registered were high indicating the presence of huge number of Unregistered Money Lenders. The interest rate cap for money lenders under the Money Lenders Act must be stipulated by the Government and revised from time to time considering market conditions. The audited account of the money lenders must be compiled and Annual Financial Statements showing volume of business to be published.

In the Co-operative Sector there were 1638 PACS out of which 606 were running under loss, 33 dormant and 34 societies were under threat of liquidation. The PACS are functioning with a paid up share capital of ₹1473.80 crore and reserves of ₹2088.27 crore.

The total loan disbursed during 2013-14 was ₹94881 crore against that of ₹82410 crore in 2012-13. Compared to the previous year, there was an increase in the disbursement of short term and medium term loans but the long term loan declined. With regard to performance of the cooperatives in disbursing agricultural loan, it is unfortunate to note that out of the total disbursement of ₹94881.88 crore, a mere 12.37 per cent was for agricultural purposes. What is even more unfortunate is that out of this only ₹170.38 crore (1.45 per cent) was meted out for long term agricultural purposes.

The selected indicators of the credit operations of the PACSs show that, deposits of the societies increased to ₹67785 crore in 2013-14 as against ₹56942.33 crore in 2012-13. The average working capital position of the societies increased to ₹90245.74 crore from ₹70500.91 crore.

During 2013-14 the co-operatives could mobilize ₹6674 crore as against the target of ₹5000 crore, with an achievement rate of 133 percent. In the year 2012-13 the achievement rate was 115 percent.

National Cooperative Development Corporation has disbursed a cumulative financial assistance of ₹5437.99 crore for various cooperative development projects as on 31.3.2014, of which ₹1354.72 crore is through state government and ₹4083.27 crore is via direct funding. Of the total funding ₹1317.53 crore comes under long term loan and only ₹37.461 crore came under subsidy.

Zero Interest banking, taking its roots from the Middle East, has grown into a worldwide phenomenon with operations in more than 75 countries worldwide. According to Ernst and Young's World Islamic Banking Competitiveness Report, 2011-12, Zero Interest banking assets with commercial banks globally will grow to US $1.1 trillion in 2012 from US $826 billion in 2010. Modern, secular and industrialized countries like Britain, Singapore, Hong Kong and Japan have allowed Zero Interest banking.

Salient features of Zero Interest Banking are Profit and Loss Sharing, the need for underlying assets, the avoidance of uncertainty or gambling, zero interest in credit. This banking system is based on the principles of Musharakah, Mudarabah, Murabaha and Ijarah.

The study had a primary survey among Gold Loan and Micro Credit NBFIs operating in Kerala. Such NBFIs were catering to the credit requirements of the unorganized sector. This is a huge space as this sector constitutes 90 percent of the working class whose credit needs are numerous. They include street vendors, hawkers, small traders, marginal service providers, small scale entrepreneurs and other marginal dealers. The banking sector continues to be inaccessible to them as they often do not have established registered place of business, proof of identity and the like. Through micro credit NBFI's enable financial inclusion. Their terms are liberal and they follow the outreach mode- the lender approaches the borrower. The average amount of the loan is relatively low and speed of transactions is relatively fast.

These NBFIs operate under a major constraint which is on mobilizing funds. They are not allowed to accept deposits from the public and NBFIs exposure to bank credit to NBFIs comes with a cap. The recent guidelines on lending against gold and imposition of regulations have affected their operations. Many NBFIs are forced to raise money by NCDs.

NBFIs see a huge space between formal bankers and private money lenders where they can operate. The interest rates on borrowing is higher than that of bankers but lower than that of private money lenders and so are the lending rates. They believe that the accessibility and inclusiveness which they create can be justified in terms of economic empowerment it creates.

Chit funds run by NBFIs are affected with huge registration fee and restrictive government clearances.

The functioning of scandalous NBFIs with a tag of deceptive activities is affecting other NBFIs which are running well. There is a need to assess the activities of NBFIs in terms of benefits they convey and the nature of operations they perform. There must be a distinction between well regulated socially oriented NBFIs and the deceptive money lenders. The former should be encouraged as a source of inclusive growth.

In a bid to block Ponzi schemes and recurrence of Saradha chit fund-like incidents, many States have enacted the Protection of Interest of Depositors Act. Kerala also has recently enacted the PID Act and is now in the process of framing rules under the said Act. The Protection of Interest of Depositors in Financial Establishments Acts confers adequate powers on the State Governments to attach and sell assets of the defaulting companies/ entities and their officials. The State must ensure necessary action based on rules framed under PID Act.

Money lending should be recognised as a business. Facilitating mechanisms to improve the credibility and financial soundness of money leders like fulfilment of minimum eligibility criteria, credit rating of money lenders etc. to make them viabile and attractive for sourcing loans from banks to meet their genuine funds requirements must be implemented. Sutiable legislation/policies are to be framed by the regulator.

In recent years, gold-loan NBFCs have recorded significant growth and Kerala boasts of a large number of gold loan companies, both big and small. The large gold loan NBFCs in Kerala have expanded their balance sheet size and also their reach in different parts of the country. Some of the top NBFCs in the State have more than 85-90 % exposure to gold as a percentage of their total assets. In terms of their loan portfolio, some of the top NBFCs have more than 95% in the form of gold loans, though there has been some diversification in the portfolio as a few NBFCs have started giving micro-finance loans, retail loans, property loans, etc. A Working Group was set up by the RBI to study issues related to gold imports and review extent regulatory norms relating to gold loans, under the Chairmanship of Sri. K.U.B. Rao. Based on the recommendations of the Working Group, the guidelines issued on Fair Practices Code for such NBFCs were revised and issued on February 18, 2013. Accordingly, such NBFCs are required to put in place a grievance redressal mechanism with due approval from their respective boards and to display the Fair Practices Code prominently in vernacular languages. Further, RBI has standardized the procedure for valuation of gold jewellery and advised NBFCs to maintain transparency in loan pricing, auction process of gold and follow KYC norms and avoid issuing misleading advertisements like sanctioning loans in a matter of 2-3 minutes. Presently, LTV ratio of 75% has been prescribed by RBI in respect of gold loans given by NBFCs.

RBI has defined the Principal Business Criteria (PBC) under which an NBFC will come within its purview only if 50% of its total income comes from financial income and 50% of its total assets are financial assets. NBFCs which do not fulfil / cease to fulfil the above PBC will not come under the jurisdiction of the RBI leaving them in a space which is lightly regulated.

Even within the regulatory space, due to multiplicity of regulators who are regulating different types of activities, entities could be incentivised to indulge in regulatory arbitrage. Such entities maybe undertaking NBFI activities but as they fall below the threshold level (PBC) prescribed by RBI, they will not be subjected to regulation by RBI. Similarly, cooperative societies are registered with the RCS but their deposit collection activities or loan sanctioning activities are not subjected to intensive regulatory or supervisory oversight, either through a system of periodical inspections, prudential regulations, or through periodical submission of returns. Jewellery shops are registered under the Shops and Establishments Act for tax and other purposes but Gold deposit schemes being floated by such shops are not subjected to any regulatory oversight. A separate Ombudsman to deal with borrowing, lending and financial services of NBFIs not coming under ther RBI regulations need to be appointed. All cases of financial services under different NBFIs coming under regulators other than RBI can be referred to this Ombudsman for redressal of grievances. A suitable legislation is to be enacted for this purpose.

The growth of NHGs under Kudumbashree indicates the need to examine in detail the potential for micro credit through SGHs. Bringing SHGs and Women Help Group to the formal sector under the Kudumbashree Community Organisation Network and exploring the possibility of new ventures would enhance credit off take for the informal sector.

There is a need to ascertain the factors that lead to concentration of money lenders in certain regions of the State and to assess the impact of private money lending. Even where registered money lenders were few, Operation Kubera had numerous cases. Making formal credit more accessible through meaningful channels of NBFIs and ensuring regulations that deliver is a must.

NBFIs are providing credit to the informal sector in cases where formal credit cannot be accessed. The mode of ensuring access as well as resultant economic change in the beneficiaries should be considered while determining quality of credit. NBFIs must be given greater access to bank funds in terms of the quality of the credit they provide and outcome it creates. The State has NBFIs in different forms like money lenders (registered and un registered), Co-operative Institutions, Micro Finance Institutions, Gold Loan companies, Welfare Socities and Funds, Specialised lending institutions and the like. All the above institutions have a space in the financial needs of targeted beneficiaries in the state. What is desirable is to formulase their services and make it more productive and beneficiary oriented in terms of accessability and growth. Their functioning must be made more visible and well organised. The respective regulators and Ombudsman should ensure the same.

The interest cap on NBFIs must be fixed considering their sources of funds and quality of credit. Such a cap needs to be determined by the concerned regulator. A detailed study on the impact of unregistered private money lenders in Kerala is necessary to ascertain ground realities of informal lending - its consequences and implications.