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IL&FS crisis has disciplined NBFCs, says RBI

The RBI, in its financial stability report released on Thursday, said the IL&FS case had brought the NBFC sector under greater market discipline as better-performing companies continued to raise funds while those with asset quality concerns were subjected to higher borrowing costs. **P17**

'IL&FS crisis to bring discipline into NBFCs'

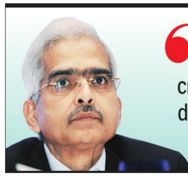
Banks Better Off, But Face Risks From Fin Cos: RBI

TIMES NEWS NETWORK

Mumbai: The RBI has said that the failure of the largest non-banking finance company/housing finance company (NBFC/HFC) can cause losses comparable to those caused by a big bank's failure. This has prompted the central bank to reinforce regulatory and supervisory framework to better adapt to the evolving scenario, the central bank said.

In the 19th issue of the financial stability report released here on Thursday, RBI governor Shaktikanta Das said that last year credit intermediation shifted from banks to NBFCs on the back of "weakly capitalised and impairment-laden" public sector banks. "As the banks are on the mend, the structure of non-banking credit intermediation should focus on developing on more prudent lines. This will require harnessing niche expertise at their disposal and ensuring better asset liability management, so that balance sheet growth is sustainable," he said.

According to the report, the IL&FS stress episode brought the NBFC sector under greater market discipline as the better-performing companies continued to raise funds while those with asset-liability management or asset quality concerns were subjected to higher borrowing costs. Stress tests for finance companies showed that in the worst-case scenario, the capital adequacy of NBFCs would decline from 19.5% to 11.7%. The RBI has cautioned that five banks may see capital adequacy ratio falling below the minimum 9% level by March 2020 if the government does not infuse further capital.



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Shaktikanta Das | RBI GOVERNOR

The financial stability report is a bi-annual publication brought out by the RBI in the wake of the global financial crisis in 2008. The central bank publishes the report after conducting stress tests on various segments of the financial sector. While NBFCs face challenges in fund mobilisation, banks are better placed than they were last year.

RBI's macro-stress tests for credit risk indicate that under the baseline scenario, banks' gross non-performing asset (GNPA) ratio may decline to 9% in March 2020 from 9.3% in March 2019. "With the bulk of the legacy non-performing assets (NPAs) already recognised in the banking books, the NPA cycle seems to have turned around," the RBI said.

However, there is a risk from finance companies. NBFCs and HFCs are among the largest borrowers of funds from the financial system. A substantial part of this funding comes from banks. "Therefore, failure of any NBFC or HFC will act as a solvency shock to its lenders. The solvency losses caused by these shocks can further spread by contagion," the report said.