



STRUCTURED TRAINING PROGRAMME ON NBFC FOR POLICE OFFICIALS

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RESERVE BANK OF INDIA

- ❖ The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the [Reserve Bank of India Act, 1934](#).
- ❖ Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India

□ Preamble

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."



RBI - Main Functions

- ❖ Monetary Authority
- ❖ Regulation and Supervision of Financial System
- ❖ Manager of Foreign Exchange
- ❖ Issuer of Currency
- ❖ Developmental Role: Consumer Education & Protection; Financial Inclusion & Development of Institutions
- ❖ Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker
- ❖ Banker to banks: maintains banking accounts of all scheduled banks



RBI - Main Functions (contd.)

- ❖ **Monetary Authority** - Formulates, implements and monitors the monetary policy with the objective of maintaining price stability and ensuring adequate flow of credit to productive sectors
- ❖ **Regulation and Supervision of Financial System** - Prescribes broad parameters of banking operations within which the country's banking and financial system functions with an objective to maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public



RBI- Main Functions (contd.)

- ❖ **Manager of Foreign Exchange:** Manages the Foreign Exchange Management Act, 1999 with an objective to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India
- ❖ **Issuer of Currency:** Issues and exchanges or destroys currency and coins not fit for circulation with an objective to give the public adequate quantity of supplies of currency notes and coins and in good quality
- ❖ **Developmental Role:** Consumer Education & Protection; Financial Inclusion & Development of Institutions.
- ❖ **Banker to the Government:** performs merchant banking function for the central and the state governments; also acts as their banker
- ❖ **Banker to banks:** maintains banking accounts of all scheduled banks



What is an NBFC?

- ❖ NBFC is a company incorporated under the Companies Act, 1956 (Now the Companies Act, 2013) & granted Certificate of Registration (CoR) under the RBI Act, 1934 u/s 45 IA which makes it mandatory for NBFCs to get registered with RBI to commence or carry on NBFI business as defined under sub-Section (a) of Section 45 I and
- ❖ is primarily engaged in the business of
 - loans and advances
 - acquisition of shares/stock/bonds/debentures/securities
 - leasing, hire-purchase
 - but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property



Principal Business Criteria

- ❖ To be an NBFC - *RBI Press Release dated 8-4-1999*
 - ❖ the financial assets should not be less than 50% of total assets
 - ❖ The financial income should not be less than 50% of the total income
 - ❖ NoF of Rs. 200 lakh (Earlier it was Rs. 25 lakh only)
- ❖ If a company fulfills the above criteria, then it has to obtain Certificate of Registration (CoR) from RBI to continue to carry on NBFi business
- ❖ It shall be mandatory for all NBFCs to attain a minimum NOF of Rs. 200 lakh by the end of March 2017, as per the milestones given below:
 - ❖ Rs. 100 lakh by the end of March 2016
 - ❖ Rs. 200 lakh by the end of March 2017



Different types of NBFCs

Liabilities side - based on Resource mobilization

- Deposit - taking (NBFC-D) - A category
- Non-Deposit taking (NBFC-ND) - B category

Based on Assets - deployment of funds

- Loan companies
- Investment companies
- Asset Finance companies
- Core Investment companies
- Infrastructure Finance companies



Financial Companies regulated by different regulators

- ❖ Nidhis (Mutual Benefit Funds) - MCA
 - ❖ If application for Registration as MBC is rejected by MCA (Ministry of Corporate Affairs) - then automatically under RBI purview
- ❖ MNBCs (Chit funds) - State Govt.
 - ❖ Aug 2009 - advised not to accept or renew deposits from public - only from members
- ❖ HFCs (Housing Finance Companies) - NHB (National Housing Bank)
- ❖ Insurance Companies - IRDA (Insurance Regulatory and Development Authority)
- ❖ Broking Companies - SEBI (Securities and Exchange Board of India)
- ❖ Merchant Bankers - SEBI



Various methods of raising money from Public & Agencies regulating them

Sl. No.	Activities	Respective Regulators/ Agencies
1	Deposits taken by fraudulent financial establishments	State Governments under PID Act
2	Prize Chits / Money Circulation / Multilevel Marketing Schemes	State Governments under PCMCB Act, 1978
3	Chit Business under Chit Fund Act	State Governments under Chit Fund Act, 1982
4	Acceptance of deposit by Cooperative Societies	State Governments under Cooperative Societies Act, 1992
5	Deposits accepted by NBFCs, Micro Finance Companies	Reserve Bank of India
6	Deposits under Companies Act including deemed deposits	Ministry of Corporate Affairs (MCA)
7	Nidhi or Mutual Benefit Society	Ministry of Corporate Affairs
8	Mutual funds, CIS (Collective Investment Schemes), AIF (Alternative Investment Funds), PMS (Portfolio Managers Scheme), Public Issue or deemed public issue of securities	SEBI
9	Multi State Cooperative Societies	MoA, Govt. of India
10	Contract of Insurance	IRDA
11	Pension Scheme or Insurance Scheme	IRDA / EPFO
12	Others: Housing, timeshare, goat/emu farming etc	Not clearly defined

Entities Authorised to Raise Deposits

Sr. No.	Category	Regulator	Additional Comments
1	Commercial and Cooperative Banks	RBI	All Commercial and Co-operative Banks are entitled to accept deposits
2	Non-Banking Finance Companies (NBFCs)	RBI	Only few NBFCs are authorised to accept deposit upto a certain limit (Click here to view the complete list)
3	Housing Finance Companies (HFCs)	National Housing Bank (NHB)	Only few HFCs are permitted to accept deposits(Click here to view the complete list)
4	Other Companies	Ministry of Corporate Affairs (MCA)	Only eligible companies are allowed to accept deposits under Companies (Acceptance of Deposit) Rules, 2014 upto a certain limit (Click here to view the list of the companies which have filed advertisements with the MCA for accepting deposits)
5	Cooperative Credit Societies	Registrar of Cooperative Societies (RCS)	Can only accept deposits from their voting members
6	Multi State Cooperative Societies	Central Registrar of Cooperative Societies	Can only accept deposits from their voting members

Case study - fraudulent scams: Ablaze Info Solution / Social Trade scam

Noida online trading scam: Three held for duping people of Rs 3,726 crore

Three members of a 'digital marketing' company, SW, were arrested on Thursday for allegedly duping people across the country of Rs 3,726 crore.

Noida

Updated: Feb 03, 2017 15:25 IST



Sahil Sehrawan
Hindustan Times, Noida





Case study - fraudulent scams:

Ablaze Info Solution / Social Trade scam

- Rolled out a plan under which people could invest money under different slabs of Rs 5,750, Rs 11,500, Rs 28,750 and Rs 57,500. For example, a daily return of Rs 625 was promised on an investment of Rs 57,500.
- The investors were entitled to a daily return for one year based on the money deposited. They were promised a return of the principal amount at the end of one year.
- The company reached out to people with its scheme through social networking websites and other web portals.
- All members of the Social Trade scheme were sent 125 links every day that they were supposed to **click like button** to stay invested.
- Registered members were promised a commission on bringing more members under the scheme – **Money Chain model**
- **The company used to return money for some days and later it would stop paying promising to pay at a later date.**
- Investigation by Uttar Pradesh Special Task Force
- The case was booked under Prize Chits Money Circulation (Banning) Act
- Freezed Bank Accounts with the help of RBI
- As per latest report, Rs. 650 crore has been seized

Anubhav Teak Plantations Scam (1990's)

- Anubhav investors were offered Teak certificates / teak shares for investing anything upwards of Rs. 1000. These investments were marketed under different confusing and complicated schemes that started to give returns each year of Rs. 1000 and bumper returns after 20 years to the tune of Rs. 50,000. While NABARD stated that only Rs. 20-30 was actually required to plant a teak tree, plantation firms such as Anubhav justified their charging nearly ten times this amount by including costs for security de-weeding and fertilisers. Further, Anubhav inflated the expected yield of timber by nearly twenty times the standard that had been generally observed by previous studies NABARD. In return, a teak plant would be planted on their behalf, which could be sold 20 years later. During these 20 years, the certificate would yield around 20% interest for the depositor, giving returns of around Rs. 50,000 after 20 years. This was nearly triple that offered by bank deposits. The company claimed that it owned teak plantations spread over 1000 acres of land, and floated attractive advertisements and plush offices, thus encouraging confidence among people.
- Some investors reported that other than the first two payments, all the cheques had bounced. Most of these investors were middle class and retired Indian working class people, who had invested their savings in Anubhav. Their amounts varied between Rs. 15,000 to Rs. 50,000 per person.

Other such scams

- Teak Tree Share' scheme (2009): clients were mainly residents of Delhi, Jaipur and Kolkata.
- Pearls Agrotech scam (PACL - Pearls Agrotech Corporation Limited), PACL collected Rs 49,100 crore (Rs. 491 billion) from 5.85 crore (58,500,000) customers over 15 years by offering ambiguous investments linked to agricultural land and its development over a certain period of time.
- Golden Trees Plantation Ltd (2012): Gujarat based scam.

Hindustan Finance

- The company is carrying out unauthorised NBFC activities and claims that it has been registered with RBI.
- The Kanpur Regional Office of RBI via advertisement dated April 04, 2018 had informed general public that Hindustan Finance is not registered with and had warned anyone doing business with it is doing at its own risk.

Collective Investment Schemes

- A Collective investment scheme is any scheme or arrangement, which satisfies the conditions, referred to in sub-section (2) of section 11AA of the SEBI Act. Any scheme or arrangement made or offered by any company under which the contributions, or payments made by the investors, are pooled and utilised with a view to receive profits, income, produce or property, and is managed on behalf of the investors is a CIS. Investors do not have day to day control over the management and operation of such scheme or arrangement.
- A registered Collective Investment Management Company is eligible to raise funds from the public by launching schemes. Such schemes have to be compulsorily credit rated as well as appraised by an appraising agency. The schemes also have to be approved by the Trustee and contain disclosures, as provided in the Regulations, which would enable the investors to make informed decision. A copy of the offer document of the scheme has to be filed with SEBI and if no modifications are suggested by SEBI within 21 days from the date of filing then the Collective Investment Management Company is entitled to issue the offer document to the public for raising funds from them.



Activities of NB-NFCs and UIBs (contd.)

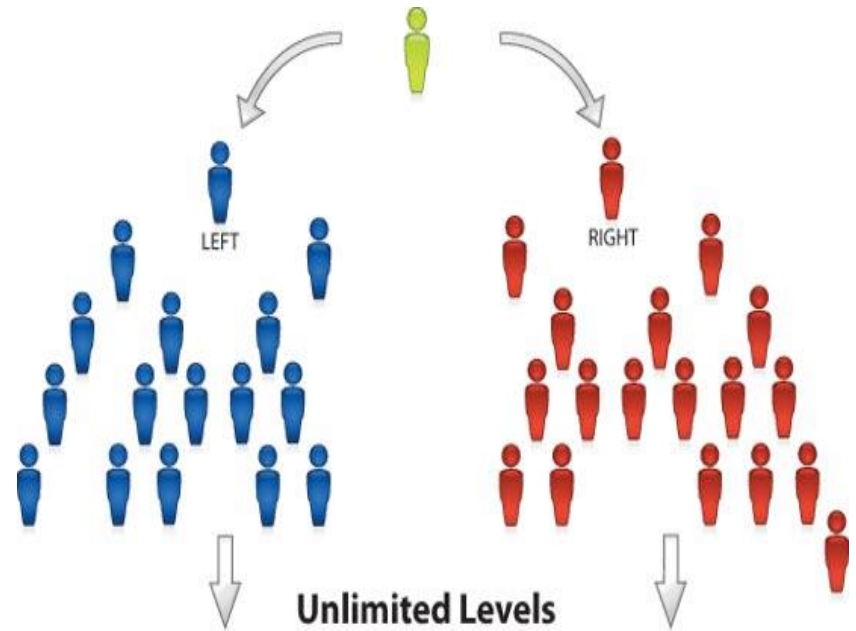
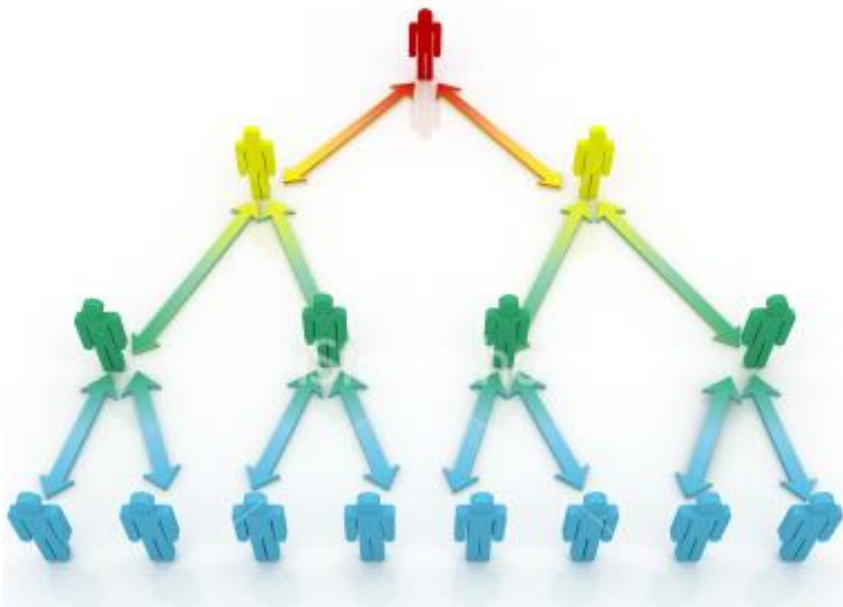
Ponzi Schemes

- ❑ The scheme is named after Charles Ponzi, who became notorious for using the technique in 1920.
- ❑ Ponzi's original scheme was based on the arbitrage of international reply coupons for postage stamps; however, he soon diverted investors' money to make payments to earlier investors and himself.
- ❑ Typically extraordinary returns are promised on the investment, and vague verbal constructions such as "hedge futures trading," "high-yield investment programs", "offshore investment" might be used. The promoter sells shares to investors by taking advantage of a lack of investor knowledge or competence, or using claims of a proprietary investment strategy which must be kept secret to ensure a competitive edge.
- ❑ A wide variety of investment vehicles or strategies, typically legitimate, have become the basis of Ponzi schemes.



Activities of NB-NFCs and UIBs (contd.)

Pyramid Schemes





Activities of NB-NFCs and UIBs (contd.)

Pyramid Schemes

- ❑ A successful pyramid scheme combines a fake yet seemingly credible business with a simple-to-understand yet sophisticated-sounding money-making formula which is used for profit.
- ❑ The essential idea is that a "con artist" Mr. X, makes only one payment. To start earning, Mr. X has to recruit others like him who will also make one payment each. Mr. X gets paid out of receipts from those new recruits. They then go on to recruit others. As each new recruit makes a payment, Mr. X gets a cut. He is thus promised exponential benefits as the "business" expands.
- ❑ Favorite model is 'Binary registrations'.



Money Circulation Scheme

IF IT'S TOO GOOD TO BE TRUE



Image: Wikipedia

The schemes are named after Charles Ponzi, who duped thousands of Americans into investing in a postage stamp scheme in the 1920s.

IT USUALLY IS

What is a Ponzi Scheme?



An investment scheme that lures new investors by offering unusually high payouts.

Older investors get payouts from new investors, rather than from profits earned.



The scheme collapses and everyone loses their money when it becomes difficult to lure new investors, a number of investors cash out or the promoter runs off with the money.

Investors receive payouts and encourage other investors to invest or invest more themselves.

HOW TO SPOT A SCHEME

Compare the scheme's interest rate to the country's official rate (Repo Rate).

5% - 6%

Average interest rate in a country



30%

Unusually high rate

VS

Don't be comforted if the scheme has paid out regularly to family and friends.



"My husband did not want to invest initially, because he was very conservative. The monthly statements showed very impressive growth. This convinced us to use some of our other investments to live off." *Ponzi victim*

WHAT TO ASK BEFORE INVESTING



How long have you been in the investment business?
What are your qualifications?



Do they require me to introduce other investors?

"We heard about it from friends, they all invested and received great returns. All our friends and family were invested and now have nothing to live off." *Ponzi victim*



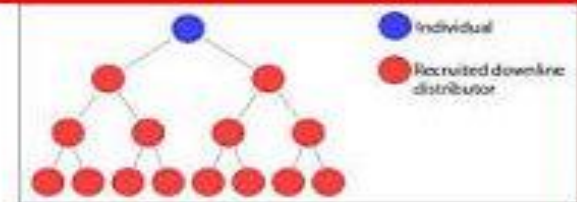
Are you registered with the Financial Services Board?
Can you show me proof?



★ **Trust your instincts!**

RBI Cautions against MLM

Multi-Level Marketing (MLM) is a marketing strategy in which the sales force is compensated not only for sales they generate, but also for the sales of the other salespeople that they recruit. This recruited sales force is referred to as the participant's "downline", and can provide **multiple levels** of compensation.



RBI cautions against multi-level marketing firms

Reuters | Jan 2, 2015, 06:17PM IST



MUMBAI: The Reserve Bank of India (RBI) on Thursday cautioned investors against multi-level marketing firms that promise high returns and run on hefty member subscription fees, warning such offers could result in direct financial losses.

Multilevel marketing structures work on the principle of enrolling more members and a part of the subscription amount is distributed among members at the top of the marketing pyramid.

"Any break in the chain leads to the collapse of the pyramid, and the members lower down in the pyramid are the ones that are affected the most," the RBI said in a circular on Thursday.



Multilevel marketing structures work on the principle of enrolling more members and a part of the subscription amount is distributed among members at the top of the marketing pyramid.



Chit Example

How chit funds work

1 member = 1 month



Some chit funds start bidding at 95% of the chit value as shown in this example, while others may start bidding at 100% of the chit value as shown in the table on page 2.

50 people
x
₹10,000



The amount collected from the members in the group is called the pot.

BIDDING STARTS AT 95% OF CHIT VALUE



The member who agrees to take the lowest amount gets the pot.

₹5 lakh [-] ₹1.75 lakh [=]

The pot

35% of chit value



The lowest bidder gets this amount.

5% of ₹5 lakh

₹25,000

This is the foreman's commission.



This amount is distributed equally among all members.



Each member gets ₹3,000 in the first month

Effective contribution is only ₹7,000



Misleading advertisements in Newspapers - some examples

<p>✓ चाहिए लोन हमें मिलाएं फोन, आफिस अवश्य देखें। NBFC रत्रि. अवश्य चैक करें। S.S. Financial, Tollfree-76796-10003. (A.ADVERTISING/16)</p>	<p>✗ अवतार फाइनांस घर बैठे लोन पाएं कम किस्तों पर कम समय में मार्कशीट, प्रॉपर्टी, पर्सनल, एग्रीकल्चर, बिजनैस, होम लोन। 93129-51179, 93129-06854. (RIGHT/21)</p>
<p>✓ फाइनेंस कंपनी और सरकारी बैंक से लोन चाहिए, हमें फोन मिलाइए। S.S. Financial, Tollfree-76796-10003. (A.ADVERTISING/14)</p>	<p>✓ दीवाली धमाका, नो फाइल चार्ज/ नो गारंटर समस्त पर्सनल, मार्कशीट, बिजनैस, होम लोन मात्र 530 रु. में पाएं घर बैठे। Shri Lakshmi Finance. 95993-17569, 78330-59387. (SHRAMAN/25)</p>
<p>✗ हम देंगे पहले लोन का D.D. फिर लेंगे खर्चा, धोखे से बचें 3 दिन में लोन। JPS Financial Services. 95178-65693. (RIGHT/20)</p>	<p>✓ लोन धमाका लोन Dhanlaxmi Finance कम्पनी द्वारा घर बैठे पाएं मार्कशीट, प्रापर्टी, पर्सनल, Online Group Loan कम समय, आसान किस्तें। 95177-28742, 70879-99747. (SHRAMAN/22)</p>
<p>✗ लोन धमाका, फोन घुमाओ लोन पाओ "सिटी फाइनांस" कंपनी से प्रापर्टी, आधारकार्ड, मार्कशीट, ग्रुप लोन, एग्रीकल्चर सभी लोन कम समय, कम किस्तों में। संपर्क: 096586-67532, 098534-88245. (SHRAMAN/25)</p>	<p>✗ गुरुदेव फाइनांस घर बैठे कम समय में लोन पाएं, मार्कशीट, पर्सनल, एग्रीकल्चर, बिजनैस, होम लोन। 90536-13342. (RIGHT/16)</p>
<p>✗ श्रीराम फाइनेंस घर बैठे कम समय मार्कशीट, प्रॉपर्टी, पर्सनल, एग्रीकल्चर, बिजनैस समस्त हैल्पलाइन। 93120-05088. (KESHAVKUMAR/14)</p>	<p>✗ कृष्णा फाइनेंस घर बैठे लोन पाएं मार्कशीट, प्रॉपर्टी, पर्सनल, एग्रीकल्चर, बिजनैस, होम लोन कम समय कम किस्तों में पाएं। 84679-89136, 82877-54467. (RIGHT/21)</p>

Fake Website



- It has come to the notice of the Reserve Bank of India that a fake website of the Reserve Bank of India has been created with the URL www.indiareserveban.org by some unknown person(s).
- The layout of the fake website is similar to the original RBI website.
- The members of public are also cautioned about existence of websites such as www.rbi.org, www.rbi.in etc.
- These URLs may appear similar to the website of RBI. However, these websites have no affiliation with the Reserve Bank of India. Members of public are advised to be cautious while accessing or when providing any information on such sites.
- RBI Press Release dated : Feb 08, 2018



Virtual Currencies

- The Reserve Bank of India has cautioned the users, holders and traders of Virtual currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to.
- The Reserve Bank of India advises that it has not given any licence / authorisation to any entity / company to operate such schemes or deal with Bitcoin or any virtual currency. As such, any user, holder, investor, trader, etc. dealing with Virtual Currencies will be doing so at their own risk.
- RBI Press Release dated **Dec 24, 2013, Feb 01, 2017 & Dec 05, 2017**



Activities of NB-NFCs and UIBs (contd.)

Emu Farming

- ❑ **Tamil Nadu**
- ❑ **Now moving to Punjab, Haryana, WB & Maharashtra**
- ❑ Buying 10 pairs of three-month-old emu birds will cost Rs 150,000. There is a cost of fencing Rs 35,000 (one-time) and a feed cost of Rs 1,20,000
- ❑ “The total one-time investment will Rs 305,000. Income from this model project is projected as Rs 300,000 for every year (Today’s market value per egg is Rs 1,500-1,600. This income will continue for 30 years as emu will lay eggs for more than 30 years,” one website projects. The same is available in as little as one pair (Rs. 30,500/- investment)
- ❑ When an interested customer comes to these farms, he is often promised that the farm will buy back Emus if he wants money back.
- ❑ **Rs. 1000 Crore + fraud**
- ❑ Promoters escaped, Birds turn cannibals



Activities of NB-NFCs and UIBs (contd.)

Real Estate Business

- ✓ Money is collected promising high rate of return
- ✓ Sale of Flat promised - possession in 3 to 5 years sometimes plot promised after 3 to 5 years
- ✓ Sample Flats given on rent
- ✓ No documents or fake documents handed over to customers
- ✓ Flat rents are used for paying interest to customers
- ✓ Returns are paid with money collected from next customers
- ✓ When business slows down - company defaults - promoters abscond



Activities of NB-NFCs and UIBs (contd.)

Email or SMS fraud

- ❑ Fraudulent Offers
- ❑ Contact thru' emails saying huge money can be inherited or big prize won or winning lottery
- ❑ Interested people contact – give A/c numbers
- ❑ Ask them to deposit money (in rupees or forex) in to an account or send money thru agents
- ❑ extract maximum and vanish

The Haryana Protection of Interests of Depositors (In Financial Establishments) Act, 2013 - Highlights

- ❖ Monitoring of Financial Fraud and Implementation (MOFFI) Cell in Haryana Finance Dept. - Nodal office for receipt of complaints to be booked under HPID Act.
- ❖ A nodal officer in the MOFFI Cell to monitor complaints received under HPID Act.
- ❖ A committee under chairmanship of ACS (Finance & Planning) for review and monitoring on a monthly basis.
- ❖ DM will forward cases to SP/CP of concerned district to conduct investigation.
- ❖ Investigating officer to forward the investigation report to the competent authority.
- ❖ Competent authority to apply to the designated court within 30 days.
- ❖ Value of deposit liabilities and assets of entity would be assessed within 30 days.
- ❖ Issue of public notice within expiry period of one month, inviting claims by secured creditors, if any.
- ❖ Competent authority to apply to the designated court seeking permission to make payment to the depositors from the money realised.



The Haryana Protection of Interests of Depositors (In Financial Establishments) Act, 2013

Section - 2 (Imp. Definitions)

Financial Establishment - an individual, an association of individuals, a firm or a company registered under the Companies Act, 1956 or a LLP registered under the LLP Act, 2008 accepting deposit under any scheme or arrangement or in any other manner but **does not include** a corporation or a cooperative society owned or controlled by any State Government or the Central Government or a banking company as defined under the Banking Regulation Act, 1949 (Central Act 10 of 1949);

Types of Receipts - Money or acceptance of any valuable commodity in cash or in kind or specified service with or without any benefit in the form of interest, bonus, profit

Exclusions - *Share capital/debenture/bond/contributed as capital, money received from scheduled/co-operative bank/PFI; security deposits; dealership deposits; earnest money; advanced against order for goods or services;*



The Haryana Protection of Interests of Depositors (In Financial Establishments) Act, 2013

Section - 3: Fraudulent default by Financial Establishment

- Default in repayment or deposit on maturity along with interest, bonus, profit or service as assured.
- Every person including the promoter /partner / director / manager /management employee responsible
- Imprisonment up to seven years and fine of two lakh rupees and also fine of Rs. 5 lakh or twice the amount involved in such default, which is more

Section - 4 - Attachment of properties on default

District Magistrate may pass an order (suomoto or on receipt of complaints) for attachment of properties, to Competent Authority. Competent Authority to be appointed by District Magistrate



The Haryana Protection of Interests of Depositors (In Financial Establishments) Act, 2013

Section - 7 - Assessment of assets and deposit liabilities

- Competent Authority within 30 days of appointment, shall submit report of assessment of deposit liabilities and assets to the Designated Court
- Issue notice inviting claims by secured creditors/depositors to submit claims

Section - 8 - Report by the Competent Authority

After making assessment report, the Competent Authority shall make an application to the Court for permission to make payment to the depositors from out of the money realized

Section - 9 - Designated Court

One or more Designated Courts in the cadre of District Judge including Additional District Judge

Section - 10 - Power of Designated Court regarding attachment

- Issue Show Cause notice to Financial Establishment;
- If no cause shown, pass order for making it absolute for realization of assets and distribution amongst depositors
- If cause is shown, proceed to investigate and follow the procedure as contemplated under the Code of Civil Procedure, 1908
- After investigation, the Designated Court shall pass an order preferably within one year, either making the order of attachment absolute/varying/ canceling the order of attachment



The Haryana Protection of Interests of Depositors (In Financial Establishments) Act, 2013

Section - 11

Attachment of Property of Malafide Transferee

Section - 12

Statement in lieu of attachment

Any Financial Establishment whose property has been attached may **apply to the Designated Court for permission to give security in lieu**. If security is satisfactory, the order of attachment may be cancelled.

THE PRIZE CHITS AND MONEY CIRCULATION SCHEMES (BANNING) ACT, 1978



□ Definitions:

- **"conventional chit"** means a transaction whether called chit, chit fund, kuri or by any other name by or under which a person responsible for the conduct of the chit enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or certain quantity of grain instead) by way of periodical installments for a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the chit agreement, be entitled to a prize amount. Explanation.-In this clause "prize amount" shall mean the amount, by whatever name called, arrived at by deducting from out of the total amount paid or payable at each installment by all the subscribers,
 - (i) the commission charged as service charges as a promoter or a foreman or an agent; and
 - (ii) any sum which a subscriber agrees to forego, from out of the total subscriptions of each installment, in consideration of the balance being paid to him;



THE PRIZE CHITS AND MONEY CIRCULATION SCHEMES (BANNING) ACT, 1978 (contd.)

□ Definitions:

- **"money circulation scheme"** means any scheme, by whatever name called, for the making of quick or easy money, or for the receipt of any money or valuable thing as the consideration for a promise to pay money, on any event or contingency relative or applicable to the enrolment of members into the scheme, whether or not such money or thing is derived from the entrance money of the members of such scheme or periodical subscriptions;

□ Definitions:

"prize chit" includes any transaction or arrangement by whatever name called under which a person collects whether as a promoter, foreman, agent or in any other capacity, monies in one lump sum or in installments by way of contributions or subscriptions or by sale of units, certificates or other instruments or in any other manner or as membership fees or admission fees or service charges to or in respect of any savings, mutual benefit, thrift, or any other scheme or arrangement by whatever name called, and utilizes the monies so collected or any part thereof or the income accruing from investment or other use of such monies for all or any of the following purposes, namely :-



THE PRIZE CHITS AND MONEY CIRCULATION SCHEMES (BANNING) ACT, 1978 (contd.)

- ❑ specified number of subscribers as determined by lot, draw or in any other manner, prizes or gifts in cash or in kind, whether or not the recipient of the prize or gift is under a liability to make any further payment in respect of such scheme or arrangement;
- ❑ not won any prize or gift, the whole or part of the subscriptions, contributions or other monies collected, with or without any bonus, premium, interest or other advantage by whatever name called, on the termination of the scheme or arrangement, or on or after the expiry of the period stipulated therein, but does not include a conventional chit;
- ❑ No person shall promote or conduct any prize chit or money circulation scheme, or enroll as a member to any such chit or scheme, or participate in it otherwise, or receive or remit any money in pursuance of such chit or scheme
- ❑ Penalties even for publishing, promoting, providing premises for such activities which are considered as offences under the Act



THE CHIT FUNDS ACT, 1982

- ❑ “chit” means a transaction whether called chit, chit fund, *chitty*, *kuri* or by *any other name* by or under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of grain instead) by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement, be entitled to the prize amount.
- ❑ No chit shall be commenced or conducted without obtaining the previous sanction of the State Government within whose jurisdiction the chit is to be commenced or conducted or of such officer as may be empowered by that Government in this behalf, and unless the chit is registered in that State in accordance with the provisions of this Act




How to verify whether the entity is registered as a company or not? (www.mca.gov.in)

Ministry Of Corporate Affairs

www.mca.gov.in/mcafoportal/viewCompanyMasterData.do

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How to verify whether the company is an NBFC or NOT? (www.rbi.org.in)



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NON BANKING FINANCIAL COMPANIES (NBFCs)

[List of Asset Finance Companies \(AFCs\) registered with RBI \(As on August 31, 2017\)](#)

[List of Companies whose Certificate of Registration has been cancelled \(As on August 31, 2017\)](#)

[List of Core Investment Companies \(CICs\) registered with RBI \(As on August 31, 2017\)](#)

[List of Deposit accepting NBFCs registered with RBI prohibited from accepting deposits under Section 45MB of RBI Act, 1934 \(As on June 30, 2017\)](#)

[List of IDF-NBFCs registered with RBI \(As on August 31, 2017\)](#)

[List of NBFC IFCs registered with RBI \(As on August 31, 2017\)](#)

[List of NBFC-Factors with RBI \(As on August 31, 2017\)](#)

[List of NBFCs not accepting Public Deposits \(As on August 31, 2017\)](#)

[List of NBFCs holding CoR for accepting Public Deposits \(As on August 31, 2017\)](#)

[List of Non-Deposit taking Systemically Important \(NBFC-ND-SI\) companies registered with RBI \(As on August 31, 2017\)](#)

[List of the Non-Banking Financial Companies - Micro Finance Institutions \(NBFC-MFIs\) \(As on August 31, 2017\)](#)

[List of Securitisation Companies/Reconstruction Companies \(SC/RCs\) registered with the Bank \(As on August 31, 2016\)](#)



Action To be Taken by Police - UIBs

Illegal acceptance of deposits by UIB:

- ❑ Understand the tricks of nomenclature - UIBs using Pvt. Ltd., Bank, Trust, etc.
- ❑ Take searches of premises of UIBs under Sec. 45T of RBI Act and initiate criminal action under Section 58B(5A).
- ❑ Remember that powers of State Govt. are concurrent with that of RBI as far as UIBs are concerned.
- ❑ State Govt. have better information network or the reach to tackle UIBs.



What are UIBs

- ❑ Individual
- ❑ Firm
- ❑ Unincorporated Association of individuals
- ❑ Trust
- ❑ Hindu Undivided Family
- ❑ Club etc.
- ❑ Any entity which is not incorporated



Nature of offence - warranting action against UIBs

- ❑ accepting deposits without permission from RBI
- ❑ deposits accepted from public but not returned
 - ❑ Offence under Sec 45 IA (1) – Sec 58B(4A) imprisonment of not less than 1 year but may extend to 5 years & fine of not less than 1 lakh but may extend to 5 lakh rupees
 - ❑ or 45 S of the RBI Act – Sec 58B(5A) imprisonment up to 2 years- minimum one year - Fine up to twice the amount of deposit collected
 - ❑ Sec 45 T - Powers to Issue Search warrants: RBI or state Govt. to obtain search Warrants from Court
 - ❑ Offence under IPC - Intention to cheat -
 - ❑ false statement that there is RBI permission
 - ❑ fake Registration No.
 - ❑ not returning of deposit – default



Does RBI regulate Money Circulation / Multi-level Marketing / Pyramid structured scheme?

- No.
- Prize Chits and Money Circulation Schemes are banned under the [Prize Chit and Money Circulation \(Banning\) Act 1978](#).
- The Reserve Bank has no role in implementation of this Act, except advising and assisting the Central Government in framing the Rules under this Act
- Regulated by state governments



RBI is concerned with NBNFCs/UIBs taking deposits and other financial activities with unethical/illegal methods

Activities of NB-NFCs and UIBs

- ❑ Deposit taking business
- ❑ Money Circulation
 - ❑ Ponzi Scheme - Ponzi
 - ❑ Pyramid schemes (Multi-Level Marketing business without products)
- ❑ Car Rentals
- ❑ Time Sharing business (Hotels, Resorts etc)
- ❑ Real Estate business
- ❑ Lending including Money Lenders
- ❑ Forex Dealing without registration
- ❑ Agro/Animal Farming Activities



Activities of NB-NFCs and UIBs (contd.)

Deposit Taking business

- ❑ Rate of interest – very attractive
- ❑ Vide publicity – notices in public places, newspapers, magazines
- ❑ Fake Registration No. of RBI and ROC
- ❑ Operating through many branches in many places
- ❑ Payment to few customers for few months
- ❑ Changing place of operation from time to time
- ❑ Vanishing after collecting money

SLCC (State Level co-ordination Committee)



- ❖ State Level Coordination Committee (SLCC) is the joint forum formed in all States to facilitate information sharing among the Regulators with the objective to control the incidents of unauthorized acceptance of deposits by unscrupulous entities
- ❖ SLCC Meetings are convened for the purpose of taking concerted efforts / coordinated action in association with the other Regulatory Authorities / Agencies against the delinquent NBFCs and UIBs and also for monitoring the compliance with the orders passed by CLB against some of the NBFCs
- ❖ SLCCs were reconstituted in May, 2014 with renewed focus on the illegal activities of the unauthorised entities. In the last 2 years, the regular discussion among the Regulators and Enforcement Authorities has led to increased awareness & co-ordination and Standard Operating Procedures are being evolved for effective handling of such matter.



SLCC (contd.)

Chaired by Chief Secretary of the State

Invitees / members

- Ministry of Home Affairs
- Ministry of Finance
- Police Administration
- Police Administration (Training)
- Economic Offences Wing
- Regional Director, Ministry of Corporate Affairs
- Securities & Exchange Board of India
- Registrar of Cooperative Societies
- Company Law Board
- National Housing Bank
- Official Liquidator attached to Bombay High Court
- Institute of Chartered Accountants of India
- Income Tax officials



Role of the Bank

Steps taken so far:

- Providing necessary support to the reconstituted SLCC
- Market Information structure has been reinvigorated
- Training programmes for Police Officials and CAs
- Preliminary analysis of Complaints before forwarding to the concerned Regulator



Role / Expectation from State Governments

- Enactment/Strengthening of the PID Act and framing of Rules thereunder
- Creation of Dedicated EOW and Cyber Cells
- Training to the Police Officials in financial crimes
- Appointment of Nodal Officers for better co-ordination
- Creating Public Awareness
- Action against UIBs u/s Sec 58B of the RBI Act, 1934



SLCC Experience so far

- Participation of high-level officers, and seriousness assigned to the meeting
- Improvement in the quality of deliberations
- Effective and better coordination among various agencies
- Coordinated action against unscrupulous elements
- Better information sharing and protection for public
- Early identification of regulatory and supervisory gaps
- Sub-Committees are getting formed
- Nodal officers being designated

SACHET website (www.sachet.rbi.org.in)

- For information sharing and handling of complaints regarding unauthorized collection of money.
- Members of public can lodge their grievances against any entity which has defaulted in repayment of deposits/money collected under any scheme or has collected money illegally.
- Members of public can obtain information about regulated financial activities and provide information about unauthorised financial activities which comes to their notice at one place in a convenient manner.
- SLCC members are provided with User ID and password for logging in to the website.
- The members can view the upcoming meetings, minutes and the pending action points pertaining to the SLCC meeting of the States, agenda, minutes and action taken report of the Committee and the Sub-Committee meetings, relevant information like Central and State Acts, Important Decisions taken by the SLCC, Awareness programmes and cases discussed pertaining to the States across the country

NBFC's Taking Deposits

- All NBFC's are not authorized to accept Public Deposits
- List of NBFC's eligible to accept deposits can be checked from RBI website (www.rbi.org.in).
- Presently the maximum rate of interest a NBFC can offer is 12.5% p.a.
- RBI does not guarantee repayment of deposits to customers of NBFCs.
- Public Deposits with NBFC's are not insured by DICGC.
- In the case of brokers/agents collecting public deposits on behalf of NBFs authorized to accept public deposits, the depositors should satisfy themselves that the brokers/agents are duly authorized by the NBFC.

Non-Banking Ombudsman

- Non-Banking Ombudsman has been established at four metro centers (Chennai, Kolkata, Mumbai and New Delhi) for redressal of complaints against deficiency in services concerning deposits, loans and advances and other specified matters
- The scheme is applicable to all deposit taking NBFCs and all other NBFCs having public interface and assets size of Rs 100 crore.
- The complainant, before making a complaint to the Ombudsman, had made a written representation to the respective NBFC and the NBFC had rejected the complaint or the complainant had not received any reply within a period of one month after the NBFC received his representation or the complainant is not satisfied with the reply given to him by the NBFC
- The Ombudsman shall not have the power to pass an Award directing payment of an amount which is more than the actual loss suffered by the complainant as a direct consequence of the act of omission or commission of the NBFC, or one million rupees whichever is lower.

लालच बुरी बला है

Thank you !!!

