

ECONOMIC SURVEY 2019-20

VOLUME 1

CHAPTER 8

NBFC SECTOR (NON BANKING FINANCIAL COMPANIES)

OUR PENDRIVE COURSES

SSC & BANK COURSES

- All Govt Exams
- SSC & Bank Combo
- SSC Exams
- Bank Exams
- Bank SO - IT Officer
- SSC CGL - AAO

UPSC OPTIONAL

- UPSC - Geography
- UPSC - Psychology
- UPSC - Philosophy
- UPSC - Sociology

SSC JE COURSES

- Civil (Tech + Non-Tech)
- Electrical (Tech + Non-Tech)
- Mechanical (Tech + Non-Tech)
- Civil (Tech)
- Electrical (Tech)
- Mechanical (Tech)

TEACHING

- CTET Exams
- DSSSB/KVS

RAILWAY COURSES

- RRB (Non-Tech)
- Asst Loco Pilot - Electrical
- Asst. Loco Pilot - Electronics & Comm.

DEFENCE EXAMS

- All Defence
- CAPF (A.C.)
- CDS Exam
- AFCAT
- NDA EXAM
- SSB Exams

RBI GRADE - B

- RBI Grade - B

NABARD

- Nabard Grade - A

UGC NET

- UGC NET - Paper I
- UGC NET - English (Paper II)
- UGC NET - Hindi (Paper -II)
- UGC NET - Maths (Paper -II)

UPSC/IAS COURSES

- UPSC
- History GS
- Geography GS
- Polity GS
- UPSC CSAT
- International Relations
- Science & Technology
- Ecology & Env
- Economics

LAW EXAMS

- CLAT Exams

STATE PSC COURSES

- Madhya Pradesh
- Maharashtra
- Uttar Pradesh
- Gujrat
- Punjab
- Uttrakhand
- Chattishgarh
- Andhra Pradesh
- Jharkhand
- Karnataka
- Bihar
- Himachal Pradesh
- More.....

PROFESSIONAL COURSES

- MS Excel

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SHADOW BANKING

- Shadow banking comprises a set of activities, markets, contracts and institutions that operate partially (or fully) outside the traditional commercial banking sector and are either lightly regulated or not regulated at al

LIQUIDITY CRUNCH IN THE NBFC SECTOR

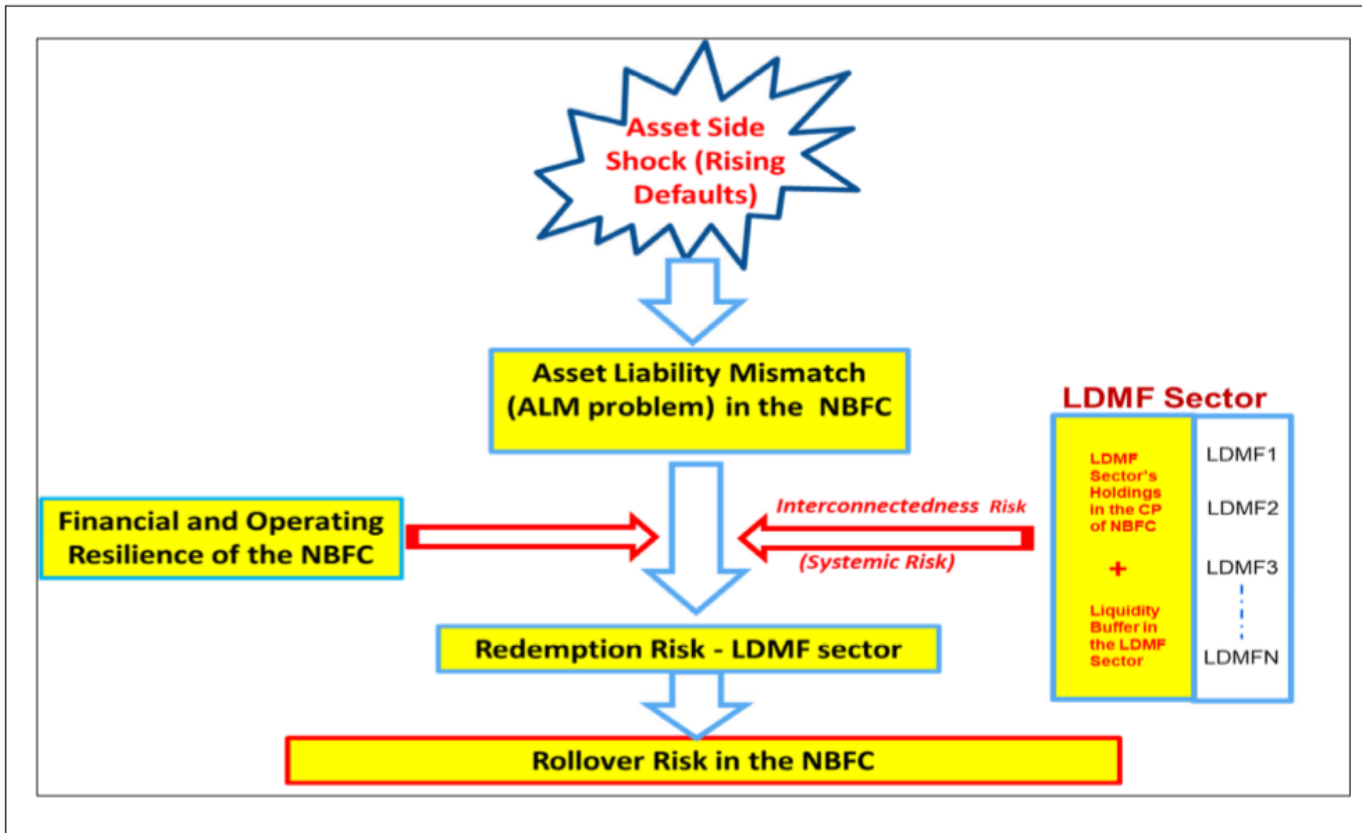
- IL & FS
- DHFL

KEY DRIVERS OF ROLL OVER RISK

- Asset Liability Management (ALM) Risk.
- Interconnectedness Risk.
- Financial and Operating Resilience of an NBFC.
- Over-dependence on short-term wholesale funding.

- Financial institutions rely on short term financing to fund long-term investments. This reliance on short-term funding causes an asset liability management (ALM) problem because asset side shocks expose financial institutions to the risk of being unable to finance their business.

Figure 8: Rollover Risk Schematic (NBFC Sector)



Source: Adapted from V. Ravi Anshuman and Rajdeep Sharma, "Financial Fragility in Housing Finance Companies", IIMB Working Paper, 2020

DIFFERENCE BETWEEN HFCs & RETAIL NBFCs

HFC	NBFC
<ul style="list-style-type: none">• HOLD LONGER DURATION ASSETS	<ul style="list-style-type: none">• HOLD MEDIUM TERM ASSETS
<ul style="list-style-type: none">• FACE A GREATER GAP BETWEEN THE AVERAGE MATURITY OF THEIR ASSETS & LIABILITIES	<ul style="list-style-type: none">• SMALL GAP
<ul style="list-style-type: none">• ASSETS SIDE SHOCKS CAUSE SIGNIFICANT DETERIORRATION	<ul style="list-style-type: none">LESS ADVERSE IMPACT ON ASSET LIABILITY MISMATCH

HEALTH SCORES

- The HFC sector exhibited a declining trend post 2014 and overall health of the sector worsened considerably by the end of FY2019.
- The Score of the Retail-NBFC sector was consistently below par for the period 2014 -19.
- Larger Retail-NBFCs had higher Health Scores but among medium and small Retail- NBFCs, the medium size ones had a lower score for the entire period of 2014-19.

SUGGESTIONS

- Survey suggests that the Health Score provides an early warning signal of impending liquidity problems.
- Equity markets react favourably to increase in Health Score of individual HFCs and Retail-NBFCs.
- The Survey prescribes this analysis to efficiently allocate liquidity enhancements across firms (with different Health Scores) in the NBFC sector, thereby arresting financial fragility in a capital-efficient manner.