

Mint Street Memo No. 02

Financialisation of Savings into Non-Banking Financial Intermediaries

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Abstract

An important positive impact of demonetisation has been to induce a shift towards formal channels of saving by households. During demonetisation and the subsequent period, there has been a distinct increase in saving flows into equity/debt oriented mutual funds and life insurance policies. Apart from this, non-banking financial companies (NBFCs) seem to have been positively impacted in terms of collections and disbursements. The challenge, going forward, would be channelising these funds into productive segments of the economy.

Introduction

Demonetisation impacted various financial intermediaries differently. As explained in the *Mint Street Memo No. 1: “[Demonetisation and Bank Deposit Growth](#)”*, consolidated balance sheet of Scheduled Commercial Banks (SCBs) experienced ‘excess’ deposit growth in the post-demonetisation period. Non-banking financial intermediaries, such as, debt/equity oriented mutual funds and insurance companies also gained, and the aggregate balance sheet of the NBFC sector expanded by 14.5 per cent during 2016-17. This note provides a detailed breakup of the financialisation of saving into three non-banking financial intermediaries: mutual funds, insurance companies and non-banking financial companies (NBFCs).

1. Mutual Funds

Reduction in interest rates on bank deposits after demonetisation and decline in gold price enhanced the relative attractiveness of both debt and equity oriented mutual funds. Reflective of this, assets under management by mutual funds (AUM) touched an all-time high of more than ₹ 17.5 trillion by end-March 2017 and further increased to ₹ 20 trillion at end-July 2017. The buoyant equity market also improved the attractiveness of equity-oriented mutual funds. Resource mobilisation under equity schemes more than doubled during this period. There were also net

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inflows in the income/debt schemes in November 2016-June 2017 in contrast to net outflows in November 2015-June 2016. This was reflected in a sharp increase in the overall resources mobilised by mutual funds during November 2016-June 2017 compared with the same period last year (Table 1). Higher resource mobilisation by mutual funds after demonetisation has mainly been driven by retail and high net worth individual (HNI) investors.

Table 1: Net inflows/outflows in mutual funds

(₹ billion)

Category	Nov 2015 - June 2016	Nov 2016 - June 2017	2015-16	2016-17	April-June
					2017-18
Income / Debt Schemes	-328.6	386.2	330.1	2131.5	407.4
Equity Schemes	235.7	670.7	740.3	703.7	283.3
Balanced Schemes	111.4	436.5	197.4	366.1	222.6
Exchange Traded Fund	75.5	203.8	78.2	232.8	21.9
Fund of Funds Investing Overseas	-2.4	-1.9	-4.2	-3.6	-1.1
Total	91.6	1695.5	1341.8	3430.5	934.0

Source: Securities and Exchange Board of India

2. Life Insurance Companies

Premia collected by life insurance companies more than doubled in November 2016 (Table 2). Premia collected by Life Insurance Corporation (LIC) of India increased by 142 per cent (y-o-y) in November 2016; collection by private sector life insurance companies increased by nearly 50 per cent. About 85 per cent of the total collections by LIC of India in November 2016 were under the ‘single premium’ policies, which are paid in lump sum, unlike the non-single premium policies that can be paid monthly, quarterly or annually. LIC of India revised downward the annuity rates of its immediate annuity plan *Jeevan Akshay VI* purchased from December 1, 2016, which might have created a spurt in collections in the month of November 2016 for LIC of India. The cumulative collections during November 2016 to January 2017 increased by 46 per cent over the same period of the previous year. Despite subsequent slowdown in the growth rate, the premium collections still witnessed double digit growth during May-June 2017.

Table 2: Life insurance premia*

(₹ billion)

Month	Private Insurance cos.	y-o-y growth (%)	LIC	y-o-y growth (%)	Grand Total	y-o-y growth (%)
Nov-2016	35.3	48.9	125.3	141.9	160.6	112.7
Dec-2016	47.5	28.4	82.6	12.8	130.1	18.1
Jan-2017	44.1	23.8	87.2	29.8	131.4	27.8
Feb-2017	39.4	13.0	68.5	-12.3	107.9	-4.5
Mar-2017	93.8	17.8	253.0	7.5	346.8	10.1
Apr-2017	25.6	22.3	44.3	-24.7	69.9	-12.3
May-2017	33.9	4.5	84.1	14.2	118.0	11.2
Jun-2017	40.2	16.2	104.5	11.7	144.7	12.9
Nov-2016 to Jan-2017	126.9	31.8	295.1	53.5	422.1	46.3
Nov-2016 to Jun-2017	359.8	20.4	849.5	16.1	1209.4	17.4

* Data pertain to 'first year premium'

Source: Insurance Regulatory and Development Authority of India

3. Non-Banking Financial Companies (NBFCs)

Loans disbursed by all categories of NBFCs declined significantly in November 2016 compared with the monthly average disbursements during April-October 2016, especially by micro finance companies (NBFC-MFIs) whose business is more cash intensive (Table 3a). Disbursements by Asset Finance Companies (AFCs) and Loan Companies (LCs) continued to contract up to February 2017. Disbursements turned positive from March 2017 and grew at a higher rate than the monthly average disbursements recorded during April-October 2016. In the case of MFIs, however, disbursements continued to contract in comparison with the monthly average of disbursements during April-October 2016, possibly in view of the prevalent uncertainty of loan waivers by state governments.

Table 3a: Disbursals by non-bank finance companies in India

Category	Monthly average disbursement (April-Oct 2016) in ₹ billion	% Change over monthly average disbursement of April-October 2016							
		Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Asset Finance Companies (12)	186.8	-14.6	9.2	-6.9	-2.5	48.7	-10.4	1.1	22.8
Loan Companies (13)	611.6	-24.7	-22.5	-19.3	-12.6	39.9	4.5	7.1	13.0
Micro Finance Companies (12)	94.1	-63.2	-71.4	-56.5	-42.3	-5.8	-47.8	-11.3	-15.3

Note: Figures in parenthesis pertain to number of companies covered
Source: Reserve Bank of India

In contrast, loans and collections (*i.e.*, repayments of loans due) of AFCs and LCs during November 2016-June 2017 grew significantly over the monthly average collections during April-October 2016 (Table 3b). Collections by NBFC-Micro Finance Companies (MFIs) declined during November 2016-February 2017 *vis-à-vis* April-October 2016, but witnessed an improvement during the months of March, May and June 2017.

Table 3b: Collections by non-bank finance companies in India

Category	Monthly average collection (April-Oct 2016) in ₹ billion	% Change over monthly average collection of April-October 2016							
		Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Asset Finance Companies (12)	123.2	-4.3	7.7	5.5	5.1	19.4	5.3	13.1	7.7
Loan Companies (13)	355.8	3.9	14.9	4.5	6.4	58.9	24.9	21.0	38.9
Micro Finance Companies (12)	74.9	-8.8	-0.8	-3.7	-8.7	7.9	-3.8	5.2	1.4

Note: Figures in parenthesis pertain to number of companies covered
Source: Reserve Bank of India

Finally, bank credit to NBFCs decelerated from 5.1 per cent (y-o-y) in October 2016 to 1.3 per cent in November 2016, but subsequently improved to 10.9 per cent in March 2017. In terms of the returns submitted by the reporting NBFCs, loans and advances by NBFCs increased broadly at the same rate in the year ending March 2017 (16.4 per cent) as in the year ending March 2016 (16.6 per cent) (Table 4).

Table 4: Consolidated balance sheet of NBFC sector: Y-o-Y growth

(Per cent)

Items	Mar-16	Mar-17
1. Total Borrowings	15.3	15.0
2. Current Liabilities and Provisions	31.8	16.0
Total Liabilities / Assets	15.5	14.5
1. Loans & Advances	16.6	16.4
2. Investments	10.8	11.9
Income/Expenditure		
1.Total Income	15.8	8.9
2. Total Expenditure	15.8	9.6
3. Net Profit	15.6	-2.9

Source: Reserve Bank of India

Going Forward...

Demonetisation appears to have led to an acceleration in the financialisation of savings. In parallel, there is a shift towards greater formalisation of the economy in the near term aided by the introduction of goods and services tax (GST) and regulations such as the Real Estate (Regulation and Development) Act, 2016 (RERA) and the Benami Transactions (Prohibition) Amendment Act, 2016. These developments may also incentivise greater shift from physical to financial savings. The continuing weakness in real estate activity and moderation in housing prices are also likely to further help channel funds away from physical assets into financial savings. Finally, the recent deceleration in inflation, as also, inflation expectations, has had the effect of raising real incomes and returns for households, which may provide further impetus to financial savings.