

PRESS RELEASE

SEC Chairman asks NBFCs to Comply with NBFC Rules, Prudential Regulations

Islamabad – 23 September 2004: The Chairman Securities and Exchange Commission of Pakistan (SEC) Dr. Tariq Hassan has asked the Non-Banking Finance Companies (NBFCs) to ensure due compliance with the NBFC Rules and Prudential Regulations so as to create a well-organised and well-monitored NBFC regime.

Dr. Hassan was addressing the 9th Annual General Luncheon meeting of the Leasing Association of Pakistan (LAP) at Karachi today. He appreciated the recent amendments in by-laws of LAP, allowing memberships of NBFCs engaged in other businesses like investment banking, and said that it was an excellent move towards consolidation of the non-banking financial sector.

The Chairman SEC emphasized that the importance and significance of a strong equity base could not be ignored and that gradual enhancement of the capital adequacy limits needed to be re-assessed particularly when the minimum capital for commercial banks had been rising steadily. "The current trend of consolidation of financial sector is encouraging with a view to achieve better capital adequacy and pooling of operational capabilities. This would also ensure improvement in net margins and enhance business handling capacity of institutions. In my view, various members of the NBFC Sector should seek to amalgamate so as to become a financial supermarket, rather than remaining fragmented", he added.

Dr. Hassan stressed the need for improving the internal governance and monitoring operations of NBFCs, particularly for leasing companies when venturing into unorganised sectors and Small and Medium Enterprises. "NBFCs should watch out for any mismatch of interest rate as most of their borrowings are based on floating KIBOR plus rates while the leasing rate is mostly determined on fixed rate basis. In case of an adverse movement in interest rates, some of the leasing companies would be placed in a disadvantageous position," he said.

He urged NBFCs to develop niche strengths by specializing in various products and sectors. "The SEC, as the regulator, is willing to facilitate the transition but the initiative must come from those who have the requisite expertise and financial resources so that the growth and diversification is based on prudent and solid grounds," he said.

"The future belongs to strong diversified financial institutions. It would be difficult for a single product institution to survive and grow in the environment that is reacting positively to a universal banking regime. Like universal banks, there is a scope for universal NBFCs to provide a one window operation for all non-bank financial services. I think you would agree that diversification into other permissible areas of business, which belong to the same risk class, rather than remaining restricted to single business activity should be a major strategic move for NBFCs", he said.

Dr. Hassan commended LAP's role over the years in promoting and enhancing the stature and scope of the leasing sector as well as providing strategic guidance to its members to address the challenges emerging in our rapidly developing economy.