

FIDC

Finance Industry Development Council

(A Self-Regulatory Organization for Asset and Loan Financing NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)

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12th August, 2019

Smt. Nirmala Sitharaman Ji

Minister of Finance

Government of India

North Block

New Delhi - 110 001.

Hon'ble Finance Minister Madam,

**SUB: ISSUES FACED BY NBFCs RELATING TO KYC NORMS – MEETING HELD
ON 9TH AUGUST 2019**

We sincerely thank you for giving us an opportunity to present the concerns of the NBFC sector and suggest the way forward at the Stakeholders Meeting convened by you on 9th August 2019 at North Block, New Delhi.

Finance Industry Development Council (FIDC) is a Self-Regulatory Organization (SRO) cum Representative Body of the NBFCs registered with the Reserve Bank of India. FIDC was formed 15 years ago and is the recognized face of the NBFC sector. We have been engaged in regular interaction both with Reserve Bank of India and Govt. of India, which include pre-budget meetings and also important policy related meetings with RBI. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members

Suggestion Regarding Compliance to KYC Norms by NBFCs

One of the key checks every financial service provider must do is ascertaining the identity of the customer through the KYC process. Every bank, mutual fund, insurance company must ascertain the identity and source of funds of their customers. NBFCs too carry out KYC checks on all their customers. In the absence of common KYC repository, every financial entity goes through the KYC process independently, resulting in duplication of processes and increased cost and avoidable harassment to retail customers. With strengthening of the KYC process through unique mandatory identifiers such as PAN number and Aadhar number and their ubiquitous coverage, such duplication could be avoided and the process of making a deposit or taking a loan could be made smoother.

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An overwhelming majority of customers for loans given by NBFCs consist of truck drivers, small contractors, MSMEs and other economically weaker sections. However, almost all customers have an existing bank account and disbursement of loans and recovery of EMIs happens primarily through bank accounts.

FIDC would like to propose as follows:

- Since almost all NBFC customers have bank accounts (and since their KYC would have been done by the bank while opening the account), NBFCs may be allowed to rely upon the KYC checks carried out by the customers' bank.
- Getting details and evidence of such bank account and maintaining the record of such account should be made sufficient compliance of the KYC requirements under the PMLA Act.
- In the longer run, development of a KYC repository (similar to the NSDL acting on behalf of mutual funds) could be developed for banks and NBFCs to rely upon for KYC checks.

We request your kind consideration of the aforesaid suggestions. Simplification of KYC checks and elimination of duplication of checks would go a long way in making access to financial products to retail customers and contribute significantly in financial inclusion of the deserving sectors.

Other Key Concerns Raised In The Meeting

Need For A Refinance Mechanism

The regulatory regime for NBFCs has evolved to a stage where the regulation relating to the assets side of our balance sheet have been harmonized with that for banks. However, on the liability side NBFCs continue to depend largely on banks. One single default by a NBFC created such a negative sentiment that banks suddenly became very apprehensive and reluctant to lend. This created a liquidity crunch for the sector which in turn had a multiplier effect on important sectors like automobiles, MSMEs and Consumer goods. Therefore, the need of the hour is to develop funding sources outside the banking system. For this a refinancing mechanism on the lines of National Housing Bank (which refinances Housing Finance Companies) is the desired solution. Further, MUDRA can play an important role in refinancing large number of Small and Medium NBFCs.

Need For A Regular Dialogue With Ministry Of Finance

Currently, there is no mechanism available where NBFCs can interact with Ministry of Finance on a regular basis. In a fast changing scenario a structured dialogue on a regular basis is very

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important to ensure proactive measures rather than reactive steps. We therefore request that Department of Financial Services, Ministry of Finance must hold meetings with FIDC as the representative body of NBFCs at least twice a year

We hope that the above said suggestions shall be considered favorably.

Assuring of you of our full cooperation always and thanking in you in anticipation

Yours Faithfully

For Finance Industry Development Council



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Cc:

Shri Rajiv Kumar

Finance Secretary