

Representation to IBA made on 10 08 21

Respected Sirs,

NBFCs and HFCs business model require

- **Deep regional presence in tier towns III-VI.**
- **Personal touch with the customers for loan disbursements and instalment collections**
- **Local banking for remote cheque facility and banking for cash collection of instalments**

Most banks have regional presence requiring NBFCs to tie up with multiple banks to service its customers in chosen states.

Most NBFCs and HFCs have borrowing limits from a number of banks and many of them having strong regional presence have exposures of less than 10% share and it restricts the usage of facilities for local cheque issuance and cash collection and remittance.

NBFCs and HFCs having pan-India geographical presence need to have bank accounts across locations to facilitate collections – both cash as well as cheques.

Post the RBI circular on current accounts, while it has been our endeavour to shift our collections to the Banks which have provided Credit facilities to us, there are multiple locations where those banks do not have a presence or are quite far from our branches. This has resulted in many practical difficulties as outlined below:

- **Safety of Cash:** As mentioned above there are many locations where banks which have provided credit to us do not have presence. This leads to our branch executives needing to travel upto 50 kms to deposit cash, which creates safety issues for both executive as well as cash. In some locations, we have tried cash pickup facility but the same leads to an increase in cost. Further, cash pickup is not available for all branches.
- **FD/OD:** In order to enable collections at those remote locations, we were earlier opening FD/OD with local banks, but a recent clarification given by RBI has removed that option. From our side, we have even approached

certain local banks to sanction a credit facility just to facilitate collections, but due to capital requirements at their end, banks are not willing to sanction a credit facility which will not be utilised.

- **Local cheques:** Similarly for local cheques, branches now need to send the same to nearest CMS branch by courier, leading to increase in collection time.
- **CMS Products/Technology:** From our side, we have proposed converting all collections accounts into CC; however most banks do not have the technology support to do the same. Further, many banks are insisting on depositing cash/cheques in the centralised CC accounts, which is leading to reconciliation issues. Most banks do not have virtual account solutions for cash.
- **Cost Implications:** Ultimately, all measures (cash pick-up/CMS) are leading to increase in cost of collection for NBFC/HFC. In many locations, we have no choice but to select a non-bank aggregator for cash (despite local banks being available for collections) - the cost structure of these aggregators is at least 3X of banks. Similarly as compared to typical local cheque clearing charges of Rs 500/- per month, the CMS charges range between Rs. 2,000/- to Rs. 10,000/- per month.

Suggestion:

We request IBA to advise banks that the restriction on current accounts is not applicable to NBFCs, as already confirmed by RBI in their guidelines, insofar as they are required for collection. The collections can then be pooled in the CC/OD account of NBFC. Further, in order to maintain credit discipline, payments can continue to be routed through the CC/OD accounts.