FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

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

Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in Website: www.fidcindia.org.in

5th January 2021

Shri Manoranjan Mishra,
Chief General Manager,
Reserve Bank of India,
Department of Regulations (NBFCs),
Main Office Building, 1st Floor,
Shahid Bhagat Singh Road,
Fort, MUMBAI 400 001

Respected Sir,

Ref: RBI/2020-21/20 DOR.No.BP.BC/7/21.04.048/2020-21 dated 6th August, 2020
Sub: Joint representation of NBFCs and HFCs on opening of current Accounts by Banks

Here is wishing you a very Happy and prosperous New Year to you.

The group of NBFCs and HFCs welcome RBI's intent to enhance the visibility of trail of funds and reducing possibilities of fraud and siphoning of funds.

In this regard, we would like to bring to the notice of your good office that certain aspects of this circular, in its current form will make it extremely difficult for NBFCs banking operations to function seamlessly. We request you to evaluate the potential difficulties and their solutions that we have cited.

The proposed modifications, if accepted, will help us in preserving the efficient automated processes we have built. At the same time, the modifications will not hamper the purpose of the RBI circular, which is to have better visibility and control by the lending banks on the fund flow of its borrowers.

We would be glad if we can meet and discuss these issues with you in person. We seek your appointment at a mutually convenient date and time.

Please find enclosed herewith:

Annexure A – Joint representation of the requested modifications

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL
98200 35553

ANNEXURE A – Modifications Requested

Request 1

Allow continuance of status quo for disbursement of loans by NBFCs and HFCs

NBFCs and HFCs to be entitled to continue making loan disbursements through existing arrangements irrespective of whether the banker concerned meets the exposure threshold

Customer loan disbursements should be exempted from the ambit of the circular for the following reasons:

- Customer loan disbursements directly result in creation of loan assets for the NBFC/HFC and would not affect the interests of any lenders and are not strictly 'outflows' that require the same level of monitoring or oversight by the lenders.

- Being able to effect such disbursements seamlessly and efficiently is core to the business of NBFCs and HFCs and given the volume of disbursement transactions requires significant system and technological integration between the NBFC/ HFC and its banker. Any change of existing

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

Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in Website: www.fidcindia.org.in

arrangements is a herculean task and could disrupt smooth operations of the NBFC/ HFC to the detriment of the NBFC/ HFC as well as its customers.

- Additionally, given the criticality of the disbursement activity and dependence on the banker and their systems, it is submitted that NBFCs/ HFCs should be entitled to choose the most suitable bank which could meet its requirements to ensure real time and efficient disbursements for such NBFC/ HFC.

Request 2

Allow Current Accounts with certain restrictions -

The Current Account to be linked to designated CC Accounts of the borrower and Sweep in/sweep out from specified CC accounts only which meet the exposure threshold.

Current Accounts are integral to the operations of NBFCs and HFCs where they are opened for various specific purposes like

- **Loan Disbursements**
- **Collections**
- **Escrow accounts for various purposes**
- **Accounts for salary, vendor and other opex payments**
- **Statutory purposes like – IPA Account for CPs, NCDs, Equity Issuance, Dividend Account, G-Sec trading etc.**

Why Current Accounts are of utmost importance for NBFCs?

- Disbursement and collection accounts have lakhs of entries every month

- Having designated accounts for Disbursements, collections, vendor payments helps in -
    - Linking IT systems with the designated Account to automate accounting entries, thereby preventing any risk of accounting frauds
    - Having a different Authorization matrix since they are operated by a completely different team than the team that operates a normal CC account.
    - Having clear visibility of usage of funds

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077
Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in Website: www.fidcindia.org.in

Request 3

Reduce threshold of 10% of banking exposure to 5%
Threshold test to be done annually at the end of each FY

Very few banks would meet the threshold of 10% set by RBI and those who do, it is barely over 10%.

Problems that this may lead to –

- Most efficient banks may not be available to the borrower for transaction banking
- Setting up an automated transaction banking process takes 4-6 months. If the relationship size falls below the threshold during the year, it will have the entire operations in disarray.
- It could force borrowers to have their main operating account with banks who may not be strong on transaction banking side. Many banks with large exposures having not invested enough in staff or technology to deal with high volume of transactions. In fact, certain automated services are either completely unavailable with some banks or the service levels are not anywhere close to their peers.

We hence request RBI to lower the threshold to 5% to make it easier for borrowers to choose the most efficient banker from a slightly larger set of bankers. We also request RBI to conduct the threshold test once at the end of every financial year

Request 4

Not to restrict borrowers to only 1 bank for pooling of funds

As per the Notification, if there is more than one bank having greater than 10% of the exposure in the borrower, the bank to which the funds are to be remitted may be decided mutually between the borrower and the banks.

This indicates that entities would be overly dependent on ONE bank for their transactions. There would *be no flexibility or back up available in case of any unforeseen issues* or technical glitches with that bank. This would automatically *result in a freeze of all the transactions* of the borrower till the time the glitch is not sorted.

We hence request the RBI to allow all banks meeting the exposure threshold for pooling of funds so that unforeseen circumstances in 1 bank does not halt Borrower's operations.

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077
Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in Website: www.fidcindia.org.in

Request 5

Allow multiple CC/OD accounts with the same bank

The circular intends to transact with only those banks who would be offering CC facility. This would mean closure of operations with a number of banks and accounts. In order to ease the operational challenges, we request the RBI to clarify and allow borrowers to have multiple CC/OD accounts in each bank who have extended CC facility to the Borrower. This will help in segregation and automation of different kinds of transactions for different products and different nature of transactions. At the same time this will also ensure protection of RBI's intent of the circular that the transactions are taking place with only those banks that have an exposure with the borrower.

Request 6

RBI should direct banks to accept NACH /Auto Debit mandates issued by a customer from his/her/its CC account

Currently, many banks do not register NACH mandates if issued through CC account. In light of the Circular, we request RBI to provide directions to the banks to accept NACH /Auto Debit mandates issued by a customer from his/her/its CC account.

Request 7

Allow funding of term loans into CC/OD accounts

RBI has mandated that the funds from the term loans should be remitted directly to the supplier of goods and services. However, ***for NBFCs where the end use of funds is to the individual accounts of lakhs of customers every month***, this regulation is impossible to comply because –

- Setting up of automated disbursement system from one particular account requires a months of effort to set-up the same.
- **Term loan account is not an operating account. Hence disbursement system cannot be set-up for every new term loan sanction.**

Request 8

Allow time till Mar-21 to meet the guidelines as a Borrower

Allow time till Jun-21 to get fresh mandates from our customers if their current account is getting closed

Since this would be a big change in the manner all organizations operate, we request the RBI to consider giving time till Mar-21 to implement the same. As mentioned above, given the quantum and velocity of transactions undertaken by NBFCs and HFCs, significant system integration is required to implement any change of banker. The process for NBFCs to integrate their systems with the systems of the bank which comply with the exposure requirement and de-linking their systems from their existing banks is a time-consuming process and hence the additional time is requested.

Further, in the event our customers' current accounts are getting closed, given the pandemic, we would require time till J un-21 to get fresh mandates from them.

Clarifications required

1. **Does exposure exclude portion of Term Loan repaid?**

2. **Does exposure include NCD and CP investments by Banks? If yes, would it also include secondary purchase / sale of NCDs and CPs by banks?**

3. **Does exposure include ECB exposure by Banks' offshore entities?**

****