FIDC

Finance Industry Development Council

(A Representative body of NBFCs in India)

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

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25th November, 2022

Mr. Sunil Nair,
Chief General Manager,
Department of Regulations,
Reserve bank of India,
Fort, Mumbai.

Dear Sir,

We **thank you** for the kind courtesies extended to our delegation at the meeting held on 22nd November 2022 with yourself and other officials of RBI. We discussed a wide range of matters of interest to NBFCs and we are grateful to the Reserve Bank of India and its officers for the opportunity to place our views for consideration. We give below a summary of the issues raised by us at the meeting:

1. FIDC had prepared and circulated a code of conduct for collection activities in 2009. This booklet has become a benchmark in the industry in establishing a framework for responsible collection activities for recovery of defaulted loans. In view of the elapse of time and the need for reinforcement of responsible collection and outsourcing of work, FIDC has as a proactive and voluntary measure, sent an advisory to all its members so that appropriate norms are followed while outsourcing various activities (especially collections). The copies of the said Handbook and Advisory are ***enclosed*** for ready reference. This submission is only to reassure RBI that FIDC is advising

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its members to strictly adhere to the code of conduct and ensure responsible **collection and outsourcing**

2. FIDC has always appreciated the RBI's efforts at harmonising regulatory norms across banks and NBFCs. However, in order to ensure a fair and level playing field, we request that the minimum loan size norms for invocation of the provisions of the **SARFAESI** Act be made uniform by bringing down the threshold for such invocation by NBFCs from Rs 20 lakhs at present to Rs. 1 lakh as permitted for banks and HFCs. This is important as majority of the NBFC loans are to retail customers and in less than Rs.5 lakhs category and so SARFAESI Act is not currently effectively extended to NBFCs. Bringing down the threshold will reduce the collection costs for the NBFCs and thereby improve their ability to offer more competitive rates for the end customers. It will also bring uniformity in co-lending partnerships between banks and NBFCs, where while for the same loan extended to the customer, the Bank can initiate SARFAESI proceedings whereas the NBFC is not able to do so in view of the threshold limit, resulting in multiple litigation before different fora. This would also facilitate uniformity in case of co-lending arrangements between banks and NBFCs.

3. We would also request the Bank to dispose of expeditiously, applications by NBFCs for CoR under the new **Factoring Act** and guidelines such that platforms such as TReDS could be availed of by NBFCs to provide much-needed working capital to MSMEs. RBI could also consider expediting other applications for newer avenues like

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credit card issuance etc. to enable NBFCs to extend the retail credit penetration to tier 3 & 4 towns.

4. The extent of dependence of NBFCs on banks for long term funding needs to be reduced over time by deepening and widening the NCD market. Putting up effective and robust secondary market making mechanisms for NCDs is crucial. We would request a more liberalised system of placement of **NCDs on a private placement** and harmonising guidelines for listed and unlisted NCD issuance. Specifically, a privately placed unlisted NCDs can be issued to up to 200 subscribers with a minimum lot size of Rs 10000/-, but listed NCDs are mandated to have a minimum lot size of Rs 100,000/-, creating a piquant situation where the retail public do not find a ready and approved market for holdings below Rs 1 lakh.

5. In order to improve flow of funds to the NBFC sector, the current artificial cap of Rs 20 lakhs for onlending to the **priority sector** be removed. We request that all bank loans given to NBFCs for onlending may kindly be treated as PSL up to the loan size treated as PSL in the banks' books.

6. We would also request the RBI to kindly consider introducing **differential risk weights** for various categories/end-uses of loans. It is our humble opinion that treating a secured MSME loan or an SRTO loan (which clearly have the effect of creating productive assets) in the same manner as a loan given against shares or for the purpose of

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speculative real estate purchase is not reasonable. Banks and HFCs do have such a regime and our request would be to extend a similar regime to NBFCs as well. With the introduction of scale-based regulations strengthening the regulatory framework for overall NBFC industry, these disparities should also be duly considered and addressed. This recommendation is also in line with the recommendation of the Key Advisory Group ("KAG") on NBFC regulations set up by the Ministry of Finance. A copy of the said KAG is ***enclosed*** for ready reference.

We at FIDC have always endeavoured to play a positive and supporting role to the RBI's efforts to create a vibrant and sustainable NBFC sector and we commit to contributing in every possible way to ensure good governance standards among NBFCs. We **thank** the RBI for the opportunity to place of views and request your kind consideration of the aforesaid issues.

We hope that our requests shall receive a favourable consideration.

Thanking you,

Yours faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
9820035553

Encls: As above