

FIDC

Finance Industry Development Council
(A Representative Body of Assets and Loan Financing NBFCs)

PRESENTATION
TO THE GROUP OF ADVISORS TO REGULATIONS
REVIEW AUTHORITY 29TH MAY, 2021

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We are the representative Body of **Asset and Loan Financing NBFCs** registered with the RBI .

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Set up 17 years ago we have been regularly representing and acting as bridge for the industry before various fora, i.e., RBI, Fin Min, MSME ministry, trade & Industry bodies on key policy issues including Pre-budget meetings, policy announcements, recent pandemic measures etc.

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Our membership includes almost all the leading NBFCs and regional associations across the country for small and mid sized NBFCs.

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We **welcome** the constitution of the Group of Advisors to the Regulations Review Authority by Reserve Bank of India.

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It is heartening to note the following RBI observations in the Bulletin for May 2021:

- ✔ NBFCs play an important role in the Indian Financial Intermediation space by complementing bank credit, undertaking niche financing and promoting financial inclusion.
- ✔ NBFCs in the retail loan sector stayed ahead of the curve aided by their relative low delinquency.

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It is well recognised that NBFCs are financing productive assets (mainly to MSMEs), creating employment, supporting livelihood and contributing to economic growth of the country. The NBFCs are playing a complementary role to the banking system and have become an integral part of the Indian Financial System and furthering financial inclusion.

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While the regulatory standards for the NBFCs are being frequently tightened to harmonise with those applicable to banks, there is an imminent need for the resolution of some of their long standing and developmental issues.

PRODUCTIVE ASSETS CREATION NBFCs NEED A SEPARATE RECOGNITION

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There are numerous instances that whenever an announcement is made by Government / RBI for any banking related services, while securities companies, insurance companies are included but the Retail NBFCs get left out; There are times when the announcement tries to categorise NBFCs i.e. some NBFCs based on their asset size are excluded, while sometimes NBFCs based on their debt portfolio are left out, etc.

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RBI has clubbed the NBFCs providing finance against productive assets under the classification of Investment and Credit Companies (ICC) – there is a need to segregate these productive assets creation NBFCs and their role in economic growth of the country is taken note of alongwith MFIs and HFCs; and treated alike for various announcements, reliefs, relaxations, regulations etc.

- > NBFCs enable financial inclusion by providing last mile connectivity to micro enterprises and lower-end of small enterprises.
- > Until March 31, 2021, Udyam Registration Number could be obtained on the basis of self-declaration. However, from April 1, 2021, GSTN is mandatory, unless the MSME is below GST threshold.
- > As per MSME Ministry's Notification and subsequent RBI circulars, Udyam Registration Number is mandatory for MSME classification. RBI has also adopted this requirement. During pandemic it is impossible to reach out to all individual borrowers to seek Udyam Registration.
- > **Considering the pandemic, RBI may make the requirement of Udyam Registration Number optional till March 31, 2022.**
- > Small businesses, such as retail and wholesale traders are also excluded from MSME classification under RBI circulars.
- > **While there is a need for synchronization of MSME definition across various platforms, we request that the retail and wholesale trading community be specifically included in various RBI circulars.**
- > It is well known that substantial portion of Tractor loans provided by NBFCs have their end-use towards other small business operations. These borrowers too have been severely impacted by Covid-19 pandemic.
- > **We request the RBI to allow restructuring of tractor loans where the end-use is commercial in nature.**

-> NBFCs provide last mile connectivity to micro enterprises and lower-end of small enterprises, which are under-served by the formal banking channels.

-> Usually the target MSME segment customers of NBFCs are new to credit, lower ticket size and based out of tier towns.

-> Due to higher operating costs and higher credit risks, banks avoid direct lending to these vulnerable segments.

-> NBFCs business model provides stable and regular funding source for this segment and in turn needs regular refinance window/funding arrangements to cater their credit needs effectively.

-> The Parliamentary Standing Committee on Finance in their 45th Report dated June 2003 (relating to The Financial Companies Regulation Bill, 2000) had recommended setting up of a new refinance institution for NBFCs.

-> Various measures like TLTRO, Special Refinance window, on-lending limits, co-lending arrangements etc have met with limited success and are adhoc measures announced by RBI and these limits remain under-utilized while the NBFCs particularly small and medium sized crave for liquidity support.

-> **A dedicated “Refinance Window for NBFCs”, on the lines of NHB (for HFCs) has been a long-standing demand of the NBFC sector, with separate limit carved out for smaller NBFCs.**

KYC NORMS : PARITY FOR NBFCs WITH BANKS AND OTHER INTERMEDIARIES

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- > Vide circular dated May 9, 2019, Ministry of Finance, Department of Revenue laid down guidelines for entities other than Banks to apply to the Central Government for using e-KYC authentication facility (Section 11A of PMLA, 2002).
- > While Banks were already allowed to undertake Aadhaar based e-KYC authentication of customers, SEBI and IRDAI issued circulars during 2019 and 2020, allowing SEBI registered intermediaries and listed insurance companies to undertake Aadhaar based e-KYC authentication.
- > However, NBFCs have till date not been allowed the said facility, leading to cumbersome process of KYC and delay in customer on-boarding.
- > **NBFCs also may be allowed to register themselves as KYC User Agency (KUA) or utilize the services provided by existing KUAs to undertake Aadhaar based e-KYC authentication.**
- > Banks are allowed to do Aadhaar OTP based e-KYC for non face-to-face customers with lending limit of Rs. 60,000 which needs upward revision.
- > **NBFCs may be allowed to use Aadhaar OTP based e-KYC for non face-to-face customers and the lending limit using Aadhaar OTP based e-KYC be increased for both Banks and NBFCs to at least Rs. 5,00,000 to enable deeper and effective outreach of NBFCs towards financial inclusion.**



RBI has mandated all NBFCs to report the performance status of all their exposures of Rs. 5 Crs and above on the CRILC platform. It would be fair to permit the NBFCs access to the platform, for their own credit administration.



We urge upon RBI to provide to the NBFCs full access to the CRILC platform to start with to all Systemically Important NBFCs.



The measure will go a long way in further improving the vitality and viability of the NBFCs by assisting in credit risk

✓ Qualitative Credit Appraisal and Underwriting

✓ Monitoring Credit Discipline

✓ NPA Review & Determining Non-cooperative borrowers

✓ Request to other lenders for formation of Joint Lenders Forum

✓ Early warning relating to impending delinquencies especially in co-lending or joint lending.

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

-> RBI may advise banks that the restriction on current accounts is not applicable to NBFCs insofar as they are required for collection and remote cheque issuance for loan disbursements so as to facilitate flow of credit to the remote places and efficient management of funds.

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Mid-Year change in auditors is disruptive for the NBFCs requiring to prepare quarterly results; Challenge of finding eligible audit firms with right skills given various restrictions such as cooling period, number of audits, partner strength of audit firm, audit / non audit services for the group to which an NBFC belongs to, within short span of time. There are a few other operational issues on which RBI clarifications are requested.

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Taking into account the avowed objective of the independence of auditors – Our prayers are for

- ✔ **Keeping the guidelines in abeyance at least for the current FY**
- ✔ Transitional period and calibrated implementation
- ✔ Setting up a Committee, with a mandate to give their report within three months, to deliberate on the issues and suggest measures for the smooth implementation of the guidelines.

APPEAL : MATCHING STRICTER REGULATIONS AND SUPERVISION WITH OPERATIONAL CONVENIENCE AND FUNDING SUPPORT

- > Welcome move by RBI to bring NBFCs in the main stream through stricter regulation and supervision and recognize the importance of the sector in servicing the under-served and credit-deprived segments of society.
- > It has led to greater discipline and faster growth of the sector compared to banking system over the years.
- > NBFCs embraced successfully Ind-AS while banks continue with IGAAP and have raised more capital due to higher CRAR in comparison to banks while still growing credit faster than banks.

However, many instances of NBFCs being deprived of required regulatory support in lending and customer service in comparison with banks :

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|---------------------------------------|---|-------------------------------------|
| ✓ E-KYC authentication | ✓ Stable refinance sources and limited funding avenues | ✓ Lack of access to CRILC data base |
| ✓ Delayed coverage under SARFAESI Act | ✓ Recent instance of NBFCs not being treated at par with banks, Ins Cos, Mutual Funds and even stock brokers as essential services during lock downs. | |

We request that a level playing field be provided to NBFCs, considering the increased regulatory supervision and oversight.

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There is a growing need for due, deserving and desired attention to the need for widening the funding avenues, availability of institutional refinance, smoothening out regulatory difficulties, periodical consultations for other developmental plans and ease of doing business.

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RBI may please restore a platform like Informal Advisory Group for **regular dialogue and interaction on NBFC issues.**

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Thank You