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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October 16, 2023

Mr. Dilip Asbe,
MD & CEO,
National Payments Corporation of India (NPCI),
1001A, B wing, 10th Floor,
The Capital, Bandra-Kurla Complex,
Bandra (East), Mumbai - 400 051

Dear Sir,

Sub: Restrictions on representation of bounced NACH transactions

Dear Sir,

Finance Industry Development Council (FIDC) is a representative body of NBFCs that are primarily in the business of lending. Over time, the members of FIDC have played a significant role in expanding and deepening last mile credit delivery and enabling small and marginal borrowers to be financially included. Most of our customers tend to be from the semi-organised and unorganised sectors, with inadequate financial management skills. Many of them are contractors or truck operators, who remain out of their homes for substantial part of a month, since their work constrains require them so. Repayment of loans advanced by NBFCs is now mostly in the form of EMIs through NACH mandates.

We refer to the NPCI's circular No. NPCI/2023-24/NACH/007 and 008 dated August 18, 2023, which have mandated certain restrictions on representation of bounced NACH transactions and placing restrictions on the tenure of NACH mandates. While the objective of NPCI to bring in discipline in operations is whole-heartedly appreciated, we would like to submit some of the practical issues faced by our members in the aforesaid matter:

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1. The circular mandates that representations may be restricted to not more than two. In general, most bounced mandates do get honoured in two or fewer bounces. However, there would be a certain percentage of loans where this may be exceeded. We would request that this limit be increased to three to accommodate those cases where the borrower may not be available at home in time to top up his/her bank account in time.

2. The circular mandates a time gap of three days from the date of bounce for a representation. This would adversely affect collection efforts. In a very large number of cases, mandates bounce due to mere timing differences between the time of the bank debiting the account to the time the borrower funds the account. A delay of three days may result in the balance being withdrawn by the customer, thus increasing the incidence of a second bounce.

3. It is perhaps idle to expect a defaulting customer to confirm that his account is funded before the mandate is represented. This provision has the potential to increase loan default rates, resulting in needless recovery actions and lawsuits for loan recovery. We strongly urge that this requirement be withdrawn.

4. Additional charges may be only imposed in cases where more than three representations are made on a mandate.

5. The Circular No. 008 restricts the number of years for a mandate to 30. Home finance companies routinely provide loans for 30 years, which may get extended beyond that period merely due to an increase in policy interest rates by the RBI, over which the lender may have no control. We

would request that this time period be removed or at least extended to 40 years.

NACH representations are a primary a means for soft collection of loans in default. Any restriction on representation is likely to increase the stress on the legal system by increasing the number of litigations and involve needless costs on the society as well.

We request you to kindly consider our request and amend the aforesaid circulars at least for loan transactions.

We thank you for your kind consideration

Thanking you,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKER
DIRECTOR GENERAL
9820035553

CC:
Mr. Giridhar G.M.,
Chief - Customer Success & State Relations,
NPCI