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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24th May, 2024

Dr. Vivek Joshi
Secretary
Department of Financial Services
Ministry of Finance, Govt. of India
JeevanDeep Building
Sansad Marg
New Delhi – 110 001

Respected Sir,

Reg: **Challenges Faced by NBFCs – Meeting held on 16th May, 2024**

At the outset, we would like to convey our sincere thanks to you for having convened the most awaited meeting with the NBFC sector on 16th May, 2024. We also take this opportunity to convey our sincere thanks to Sh. M. P Tangirala (Additional Secretary), Sh. Sameer Shukla (Joint Secretary) and other officials from the department for sparing their valuable time in organizing this meeting and giving us an opportunity to present the prevailing scenario and challenges being faced by NBFCs.

Finance Industry Development Council (FIDC) is a Representative Body of the NBFCs including HFCs registered with the Reserve Bank of India. FIDC was formed 20 years ago and is the recognized face of the NBFC sector. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members. FIDC is actively working to seek approval from RBI to be the Self-Regulatory Organization (SRO) for the NBFC sector.

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Key Macro Level Concerns

1. **Regulation and Development Must Go Hand in Hand: Need for Regular Engagement of NBFCs with DFS and RBI on Periodical Basis:**

   All the policies framed by the Government and the regulatory framework put in place by the regulator have one common objective which is a healthy development of the sector. In order to achieve this, the basic need is to have a regular engagement on a periodical basis.

   Ministry of Finance and RBI do engage with and meet the NBFC sector, but most such engagements are pursuant to concerns / issues on either side. However, with an increasingly important role being played by NBFCs the need is to have a periodical engagement to ensure a two-way flow of information and areas of concern. It also enables the policy makers to get first hand market report. In a fast-changing scenario, a structured dialogue on a regular basis is an important need of the hour with the objective to be "proactive" as against being "reactive".

   Suggestion:
   We therefore request to have such meetings on a periodical (preferably quarterly) basis with senior officials at DFS and RBI

2. **Harmonization of Regulations of NBFCs with Banks**

   RBI has harmonized the regulation of NBFCs with that for banks and FIs, especially, the prudential norms on income recognition, asset classification and provisioning. However, this harmonization has only resulted in making the regulations "more stringent". Certain regulatory provisions, like differential risk weights on various asset classes, that provide benefits to banks are yet to be harmonized. Further, commensurate harmonization in provisions relating to Recovery and Taxation is also pending.

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Details on these are given in Annexures – A & B.

<u>Suggestion:</u>

<u>Harmonization of Regulations of NBFCs with banks need not be restricted to "tightening" but this must also entail harmonizing benefits enjoyed by banks vis-à-vis NBFCs</u>

3. NBFCs Dependence on Bank Funding

Lately, RBI has voiced their concern on "over dependence" of NBFCs on banks for funding. In this context we would like to highlight the following important facts:

a) <u>Actual Figures may Present a Different Picture</u>

- As per the RBI's Annual Report on Trends and Progress in Banking, as on 30th September, 2024, bank borrowings by NBFCs constituted 37.8% of the total borrowings of NBFCs (excluding Share Capital and Reserves). Borrowings by issuance of Debentures constituted 36.10% and the balance 26.10% are from other sources.
- The RBI figures of bank borrowing by NBFCs include the figures for Government owned NBFCs also, which constitutes a significant portion. Since these are sovereign/quasi-sovereign exposures, these should be excluded from calculation of systemic exposures to the NBFC sector.

b) <u>Overdependence on Banks Must Lead to Diversification and Not Restriction</u>

NBFCs being financial intermediaries need funds to on lend on an ongoing basis. Over the years, various funding sources for NBFCs have been restricted without opening up of any new avenues. This

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has resulted in liquidity challenges, more so, for a large number of small and medium sized NBFCs who cannot access capital markets.

Suggestion:

Funding sources for NBFCs need to be diversified to check over-dependence on banks.
Details of Specific Issues that are Policy related are given in Annexure – A and those of Issues that are Regulation related are given in Annexure – B.

The concerns raised are of prime importance to ensure a healthy growth of NBFCs and enable them to enhance their contribution to the growth of India's economy. We shall be glad to provide any clarification or further information in this regard.

We hereby request you to kindly consider the issues which are "Policy Related" favourably and seek your support and guidance for a favourable consideration of the issues which are "Regulation Related" by RBI.

Assuring you of our full co-operation always and thanking you in anticipation

Thanking you,
Yours Faithfully,

For **Finance Industry Development Council**

MAHESH THAKKAR
DIRECTOR GENERAL
9820035553

Encls.: Annexures – A & B

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Annexure – A: Policy Related Issues

1. **Alternative to Bank Funding – Need for a Refinance Window for NBFCs**

   Over the years liquidity has been a recurring challenge for NBFCs, especially, large number of small and medium sized NBFCs. Sources of funding like public deposits and External Commercial Borrowings (ECBs) have been restricted. With the recent concerns on the over dependence on banks for funding have further added to the liquidity concerns. There is therefore an urgent need to create a dedicated Refinance window for NBFCs to ensure a smooth and sustainable flow of funds that would also help address the concerns relating to asset liability mismatch.
   The Parliamentary Standing Committee on Finance in their 45th Report dt. June, 2003 had also recommended setting up of a Refinance Institution for NBFCs on the lines of National Housing Bank for HFCs.

   Suggestion:

   DFIs like SIDBI and NABARD should provide refinance to NBFCs for on-lending to the priority sector, with special fund allocation from the Govt.

2. **Widening and Deepening of the bond market:**

   A thriving bond market (especially for bonds rated BBB+ to AA) would help in expanding alternate sources of funding for NBFCs and help reduce dependence on banks. At present the primary as well as the secondary market for corporate bonds is limited largely to AAA and AA+ bonds, and even for such bonds there is no organised market making mechanism and so these bonds tend be largely illiquid.

   We request that a suitable mechanism of market making (perhaps on the lines of the Primary Dealers with suitable modifications) be implemented to assist the corporate sector to access public funds in an organised manner with ready retail liquidity.

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3. Loan Amount Threshold for Enforcing Security Interest under The SARFAESI Act to be Reduced from 20 Lakhs to Rs. 1 Lakh for NBFCs

NBFCs have faced challenges due to this limit being set at Rs. 20 lakhs as it takes abnormally longer time for resolution of stressed account in absence of SARFAESI which goes as high as 5 years which not only increases the number of stressed accounts on NBFCs balance sheet but also increases the legal and litigation cost of NBFCs. This cost gets unnecessarily loaded on the good MSME borrowers which are standard and making timely servicing.

The RBI has vide its notification dated November 12, 2021 implemented a key change of recognising delinquencies on a daily basis instead of on a monthly basis, irrespective of the loan size. This would have a significant impact on the level of systemic NPAs reported by the NBFCs. The recognition norms are thus harmonised across banks and NBFCs. Provision of speedier and effective recovery mechanism in the form of SARFAESI Act is critical to manage this additional burden.

It may be relevant to mention here that the average size of loans sanctioned by NBFCs is far lower at about Rs 5 lakhs, implying that most of the customers of NBFCs are out of the present threshold of Rs 20 lakhs. This effectively places the NBFCs at a disadvantage by preventing NBFCs from usage of a legally valid recovery tool available to banks, creating a piquant situation that in respect of the same customer a bank may resort to the provisions of the SARFAESI Act, while an NBFC cannot. There would be another dichotomy in the case of co-lending and it is not clear as to whether the participating bank can invoke the SARFAESI Act for its own share but the partner NBFC is not permitted to do so.

NBFCs are also subject to a fair practice code and other safeguards to prevent misuse of such provisions to harass customers. NBFC ombudsmen have also been appointed to address any customer grievance in this matter, thus minimising risk of recalcitration.

Suggestion:

In view of the above submissions, the said threshold should be reduced from Rs. 20 lakhs to Rs. 1 lakh in order to bring NBFCs at par with HFCs, Banks, SFBs and other financial

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institutions. The same was also recommended by the Expert Committee on MSMEs setup by RBI under the Chairmanship of Sh. U.K. Sinha.

4. TDS On Interest (Section 194A) – Request for Exemption

As per section 194A of the Act, any person making payment of interest is required to deduct tax at source ('TDS') @ of 10%. There are certain exemptions given under this section wherein the person making payment to various institutions like Banking Company, Life Insurance Companies and UTI etc., is not required to deduct TDS. Accordingly, any person making payment of interest to Banks is not required to deduct tax.

However, no such exemption has been provided to NBFCs from the applicability of section 194A. Accordingly, tax is required to be deducted at the rate of 10 percent from interest paid to NBFCs. This creates severe cash flow constraints since NBFCs operate on a thin spread/ margin on interest which at times is even lesser than the TDS on the gross interest. Further, due to enormous transactions running into thousands, NBFCs have to face severe administrative hardship.

RBI has allowed banks and NBFCs to engage in Co-Lending to the priority sector. As per this, a single borrower may be co-funded by bank and a NBFC in a pre-determined ratio. Both bank and NBFC may price the loan independently. However, the borrower shall be offered a single blended rate of interest. All the repayments made by the borrower (including the interest) by way of EMIs shall be made to an escrow account from where the amounts shall be credited to the bank and NBFC in respective proportion. In such a scenario, the borrower shall not be in a position to split the EMI and determine the exact interest component of the NBFC portion and hence TDS deduction shall be practically impossible. It is therefore important to bring both bank and NBFC at par on the TDS provisions.

Suggestion:

There is an urgent need to exempt NBFCs from TDS Deduction u/s 194A in order to ensure harmonization and remove the ambiguity in Co-lending. The same may be done by way of a Notification to be issued u/s 194A (3)(iii)(f)

5. NBFCs Should be Allowed to Offer Credit on UPI and Avail Overdraft Facility from UPI: A Move in Line with RBIs Payments vision of 2025

With the Reserve Bank of India allowing pre-approved credit lines to be extended by banks on the UPI network, consumers can seamlessly access and transact with their pre-approved credit lines through their UPI accounts, providing enormous convenience and instant access to credit.
However, currently credit on UPI both through credit cards and pre-approved credit lines have been reserved for banks and NBFCs have not been allowed to access the UPI payments platform to provide the same facility to its customers.

Considering the fact that the Upper Layer NBFCs are now subjected to regulations akin to banks, it is imperative that NBFCs are also permitted to carry out certain activities which are so far only being restricted to banks. The Reserve Bank of India (RBI) can impose strict guidelines to ensure that NBFCs maintain high standards of data security and customer protection, mitigating potential risks.

a) NBFCs to Offer Credit on UPI

Allowing NBFCs to have membership of the UPI network can significantly benefit the financial ecosystem by promoting financial inclusion, enhancing competition and innovation, expanding the digital payments landscape, leveraging a broader customer base, improving access to credit, ensuring regulatory compliance, supporting governmental digital initiatives, and increasing efficiency in payment services

i) Financial Inclusion - Enhancing transactional volumes and Reach:
NBFCs often serve customers in rural and semi urban areas where banks have limited reach. By integrating with UPI, NBFCs can provide these underserved populations with access to digital payment services, fostering greater financial inclusion. The volume of transactions being generated currently through credit on UPI platform has been minimal so far owing to the difficulty faced by ecosystem players in efficiently utilising this channel of distribution.

It is therefore imperative to allow private players to use this platform as they are usually the drivers of 'small credit' on a massive scale. Allowing NBFCs will also allow more partnerships and co-lending in this space.

ii) Customer centricity and reduced transactions costs:

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Including NBFCs in the UPI network would increase competition in the financial services sector which could lead to better services and lower transaction costs.

iii) Expansion of Digital Payments Ecosystem:
The inclusion of NBFCs would expand the digital payments ecosystem which would play an important role for achieving the goals of a cashless economy. With more players in the UPI network, the adoption of digital payments can accelerate, reaching a broader segment of the population.

iv) Improved Credit Access:
NBFCs often provide credit facilities to individuals and small businesses that do not have access to traditional banking services. By being part of the UPI network, NBFCs can offer integrated payment and credit solutions, making it easier for customers to access loans and repay them digitally.

v) Efficiency in Payment Services:
NBFCs, through their technological adoption and focus on customer-centric services, can bring efficiencies to payment services. Their inclusion can lead to faster and more efficient payment processing, benefiting consumers and businesses alike.

vi) Building robust underwriting models:
Leveraging UPI data can help build robust underwriting models using transition parameters such as declines due to insufficient funds, merchant type, geographical location of customer, etc. to minutely assess a borrower’s creditworthiness.

<u>b) NBFCs Availing Overdraft Facility from UPI</u>

Furthermore, NBFCs should be allowed to avail of overdraft facility from UPI primarily due to the following reasons:

i) Enhanced Liquidity for NBFCs and Strengthening Cash Flow Management:
Access to OD facilities can provide NBFCs with immediate liquidity to manage their operations more efficiently. This is particularly beneficial for NBFCs that cater to small businesses and individuals who often require quick and flexible funding solutions. OD facilities can help NBFCs manage their cash flows better, especially during periods of uneven cash inflows and outflows. This financial flexibility can enable NBFCs to maintain their lending activities and other operations without disruption.

ii) Diversified liability mix and reduced dependence on traditional funding sources:
OD facilities can provide an alternative to traditional funding sources such as bank loans or equity financing. This diversification of funding options can reduce the

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financial vulnerabilities of NBFCs and allow them to respond more dynamically to market needs.

Suggestion:

- ***NBFCs should be allowed to have full membership of UPI and Offer Credit***
- ***NBFCs should be allowed to avail overdraft facilities from UPI***

6. NBFCs Should be Included as Member Lending Institution (MLI) under the Credit Enhancement Guarantee Scheme for Scheduled Castes

NBFCs being key players in financing small borrowers, MSMEs are covered under the Credit Guarantee Scheme for MSMEs by CGTMSE. However, NBFCs are not included as Member Lending Institution (MLI) under the Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC) for financing of entrepreneurs belonging to scheduled castes, which was announced in the Union Budget 2014-15 under the social sector initiatives of Ministry of Social Justice & Empowerment, Govt of India. IFCI Ltd. is the nodal agency for the scheme.

Suggestion:

NBFCs, duly registered with RBI must be included in the list of Member Lending Institutions (MLI) under the CEGSSC scheme.

7. Credit Guarantee Scheme for NBFCs for Financing MSMEs – Need to Relax Profitability Criteria for New NBFCs

The Credit Guarantee Scheme of CGTMSE for NBFCs for financing MSMEs was recently modified on 19th May 2023 vide Circular Number CGTMSE/44/37 (Circular). This is leading to exclusion of several NBFCs from CGTMSE cover and impede flow of credit to MSEs. The revised criteria for NBFCs as per Circular are as below:

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NBFCs with vintage up to 3 years	NBFCs with vintage more than 3 years
NBFC registered with RBI engaged in financing Micro and Small enterprises (MSE) as defined under the MSMED Act, 2020	NBFC registered with RBI engaged in financing Micro and Small enterprises (MSE) as defined under the MSMED Act, 2020
Minimum Capital to risk weighted asset ratio (CRAR) of 20%	Minimum Capital to risk weighted asset ratio (CRAR) of 15%
Net Non-Performing Asset (NPA) is less than or equal to 4 %.	Net Non-Performing Asset (NPA) is less than or equal to 4 %.
Should have completed one full fiscal year of operations and reported profit	Should have reported profit in at least 2 years out of the last 3 years of audited financial statements
Minimum Net Owned funds ₹ 20 crore and minimum asset size of ₹ 50 crore	Minimum Net Owned funds ₹ 50 crore and minimum asset size of ₹ 100 crore

We laud CGTMSE for placing a criterion for Capital Adequacy and NPA which takes into account the (a) capital support and (b) places a premium on underwriting quality which are two important criteria for MLIs who intend to obtain registration. These are key health indicators for any NBFCs and should be a hurdle for considering MLI.

However, we submit that criteria prescribed for profitability is quite tough. Further, a NBFC which is highly capitalized and which has robust credit operations may not necessarily have profitability due to following factors:

(a) Higher expenditure for technology, employees, branch expansion,
(b) Expenditure for new product expansion,
(c) Support of patient capital which has long term view for growth & is sure of profitability.

Suggestion:

We request that:

- ***profitability criteria be tweaked from 3 years hurdle period to 5 years and***
- ***opportunity be allowed to the deserving NBFCs to be considered as MLI through an exception route.***

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8. NBFCs registration under the Factoring Regulation Act – Request for Harmonisation of Regulations with the Factoring (Amendment) Act, 2021

We invite a kind reference to Paragraph 5 (ii) of the Statement of Objects and Reasons of Factoring (Amendment) Act, 2021, which reads as under:

"(ii) amend section 3 to widen the scope of financiers and to permit other nonbanking finance companies also to undertake factoring business and participate on the Trade Receivables Discounting System platform for discounting the invoices of micro, small and medium enterprises;"

The essence of objects and reasons for the amendments to the Factoring Act, in our bona fide opinion, was to widen the number of financiers and to permit other NBFCs, in whatever proportion of their assets and income to do factoring business, except that the assignment of receivables has to be registered through and on the TReDS platform (under payment system)

However, as per RBI Notification No. DOR.FIN.080/CGM(JPS)– 2022 dated January 14, 2022 the eligible NBFCs (classified as Investment and Credit companies – NBFCs-ICC and whose principal business is lending) need to seek fresh registration with RBI for undertaking factoring business. Thus, they have to carry dual registration – both as an NBFC (ICC) and an NBFC (Factor).

Apparently, the prescriptions regarding requirements of separate registration as NBFC (Factor), except for the purpose of eligibility to participate on the TReDS platform are incongruent and inconsistent with the Factoring Regulation (Amendment) Act, 2021.

Suggestion:

We urge upon RBI as under:
(1) For the existing registered NBFCs, factoring should be subsumed by the classification of NBFC (ICC) meaning thereby that the separate classification of NBFC (Factor) should be done away with.

(2) In such cases, all the registered NBFCs may be authorized to commence or carry on the business of factoring under the Factoring Regulation Act by registering itself on TReDS platform. The Certificate of Registration held by the applicant NBFC may also be

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considered as the certificate of registration under the provisions of Section 3 of The Factoring Regulation Act.

9. **Request to Give NBFCs a Payment Aggregator Licence**

RBI requires all non-banks undertaking payments and settlement activities for online merchants to obtain a Payment Aggregator (PA) license. As of today, a range of entities, including much smaller size fintechs, have obtained approval or full PA license.

NBFCs have distribution and customer reach can substantially expand digital payments in tier 3/4+ markets. Since payment aggregation requires settlement funds to be put in escrow, these cannot be co-mingled with other funds including those raised from the public.

Suggestion:

We request that NBFCs should be given automatic approval / permission to obtain a Payment Aggregator license based on the scale-based regulations.

10. **Request for Inclusion of Asset Backed Securities in Approved Investments for Insurance Companies**

Currently, Asset Backed Securities (ABS) with underlying Housing loans or infrastructure assets have already been categorized as Approved Investments. We request to extend this categorization to other ABS categories. For this, we propose for amendment to the current guidelines on Approved Investments as outlined in the IRDAI (Investment) Regulations, 2016. Specifically, we would like to propose the inclusion of Asset Backed Securities (ABS) with underlying Commercial Vehicles, Passenger Vehicles, Two-wheelers, and MSMEs as Approved Investments.

This expansion would not only diversify investment options for insurance companies but also align with the evolving dynamics of the financial industry.

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Suggestion:

We request that the current guidelines on Approved Investments as outlined in the IRDAI (Investment) Regulations, 2016 be amended so as to include Asset Backed Securities (ABS) with underlying Commercial Vehicles, Passenger Vehicles, Two-wheelers, and MSMEs as Approved Investments.

11. Request for Extension of Validity of 194LC and 194LD of Income tax Act, 1961 Giving of Withholding tax to be charged @5%

Extension u/s 194LC for lower Withholding tax of 5%
U/s 194LC withholding tax was applicable at 5% on offshore borrowings through ECB loans / Bonds till June 30, 2023. The same was not extended in the recent amendment bill. Request you to extend the lower withholding tax to 5% as compared to current taxation as per DTAA for loans or 9% for bonds if listed in IFSC.

Foreign currency borrowings have been prominent source for Indian borrowers in recent years. Since the increase in the withholding tax would make these borrowings costlier and unviable.

Suggestion:

***We request you to provide extension to 5% Withholding Tax for all the ECB loans and bonds*.**

12. Request for Waiver of Dis-incentive in the Form of Additional Contribution to the Core SGF

We draw your kind attention to the recent SEBI Circular No. SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/172 dated October 19, 2023 regarding "Ease of doing business and development of corporate bond markets – revision in the framework for fund raising by issuance of debt securities by large corporates". The said circular was brought to deepen the capital market borrowings by large corporates. However, there is not enough market for large corporates rated below AAA to comply with the said circular of raising incremental borrowing upto 25% from capital markets.

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Suggestion:

We request for waiver of dis-incentive in the form of additional contribution to the core SGF shall apply to the large corporates.

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Annexure – B: Regulation Related Issues

1. NBFCs Should be Given the Benefit of Differential Risk Weights

RBI has increased the risk weights on loan given against shares or for the purpose of speculative real estate purchase to more than 100 considering them as carrying a higher risk, and rightly so. However, it is our humble opinion that there is a strong case for treating a secured MSME loan or a Small Road Transport Operator (SRTO) loan or a loan against any movable asset, which clearly have the effect of creating productive assets, as carrying a lower risk.

Banks and HFCs do have such a regime and it is our request to extend a similar regime to NBFCs as well, now that RBI has "harmonized" regulation of NBFCs with banks. 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.

Suggestion:

We would also request the RBI to kindly consider introducing differential risk weights for various categories/end-uses of loans, as is the case with banks.

2. Need to Re-valuate Increase in Risk Weights on Bank Lending to NBFCs

RBI vide circular dt. 16th November, 2023 decided to effect certain measures to curtail the high growth in certain components of consumer credit in order to address the build-up of risks, if any, and institute suitable safeguards, in the interest of the Banks and NBFCs. We welcome the move by the RBI to regulate the growth of consumption-oriented credit and welcome the move to differentiate that from credit intended for industrial and commercial growth and for the purpose of productive asset creation. This we believe would redirect credit flow towards capital expenditure and aid in greater degree of funds flow towards meeting working capital needs especially of the MSME and self-employed sectors.

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However, there is a need to re-evaluate the sharp increase in risk weights assigned to bank loans to NBFCs. While we understand the purpose of the Bank to regulate credit flow to the consumer sector, this measure inadvertently, also has the potential to sharply reduce flow of credit to MSMEs, self-employed and other sectors which rely upon credit from NBFCs. The cost of funds to these critical sectors is also likely to increase sharply, especially at a time when the MSME and self-employed segments are emerging out of the Covid impact and are looking ahead to increase capital expenditure through modernization and expansion of productive capacity.

Suggestion:

We would request the RBI to kindly restore the risk weight on bank loans to NBFCs where majority of the NBFCs' loan book consists of MSME loans, vehicle loans and other categories of loans that have been excluded from the purview of the aforesaid circular.

3. **Bank Lending to NBFCs for On-lending to Priority Sector Treated as PSL by Banks – Need to Re-look at the Caps Imposed**

Since 1999, RBI had allowed all bank lending to NBFCs for on-lending to the priority sector, to be treated as priority sector lending by banks. This gave a huge incentive to banks to lend to NBFCs. While it ensured sufficient bank funding to NBFCs at a reasonable cost, it also facilitated banks to meet their PSL targets. This was withdrawn in 2011 and subsequently re-started by RBI but has been restricted to only 5% of total Priority Sector Lending done by banks. This limit of 5% has been there for more than 5 years now.

Further, there is a cap of Rs. 10 lakhs per borrower for Agri loans and Rs 20 lakhs per borrower for non-Agri loans given to the priority sector. However, no such caps exist for direct lending by banks to these sectors. Further, RBI norms on Credit Concentration have prescribed limits on the total quantum that NBFCs can lend to any single borrower. Thus, these caps seem to have no relevance and simply restrict lending to the priority sector.

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Suggestion:

- ***The cap of 5% should be increased to at least 10% of the total priority sector lending done by banks, in order to ensure a better flow of credit to the priority sector. Moreover, with the overall bank lending to NBFCs being already capped by all the banks, increasing this limit shall not impact on the overall fund flow from banks to NBFCs but instead ensure a greater portion going towards priority sector lending***
- ***The caps of Rs. 10 lakhs per borrower in Agri and Rs. 20 lakhs per borrower in non-Agri priority sector lending, have lost their relevance. They should therefore be done away with***

4. NBFCs Should be Allowed to Issue Credit Cards - Eligibility criteria for NBFCs to Conduct Credit Card Business

RBI has, vide paragraph 4(d) of the Circular dated 21st April 2022 under the head eligibility criteria to conduct credit card business, prescribed as under:
"Non-Banking Financial Companies registered with the Reserve Bank shall not undertake credit card business without prior approval of the Reserve Bank. Any company including a non-deposit taking company intending to engage in this activity shall require a Certificate of Registration, apart from specific permission to enter into this business, the pre-requisite for which is a minimum net owned fund of Rs. 100 Crores and subject to such terms and conditions as the Reserve Bank may specify in this regard from time to time. Without obtaining prior approval from the Reserve Bank, NBFCs shall not issue debit cards, credit cards, charge cards, or similar products virtually or physically."

Some of the NBFCs fulfilling the NOF criteria of Rs. 100 Crores are willing to seek RBI's prior approval. However, for the present, the guidelines and formats for seeking the prior approval and the department to which the application for Certificate of Registration is to be made are awaited.

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Suggestion:

We request RBI to put in place the clarificatory and regulatory guidelines to allow NBFCs conduct the Credit Card business.

5. Incorporation of NBFCs in e Kuber Platform for trading of PSLC

Priority Sector Lending Certificates (PSLCs) are financial instruments that banks in India use to meet their priority sector lending targets. These certificates are issued against priority sector loans and can be traded among banks. The priority sectors typically include agriculture, micro, small and medium enterprises (MSMEs), education, housing for the poor, and other low-income groups that need financial assistance.

Targets for PSL

- The Reserve Bank of India (RBI) mandates that 40 % of ANBC of domestic commercial bank's lending must be to in total priority sector.
- The Reserve Bank of India (RBI) mandates that 40 % of ANBC of Foreign banks with less than 20 branches lending must be to in total priority sector.
- For RRBs 75% of ANBC lending must be to in total priority sector
- For SFBs 75% of ANBC lending must be to in total priority sector

While the trading of PSLCs takes place on the e-Kuber platform, which is the CBS portal of RBI. The platform facilitates the trading of PSLCs, allowing SCBs, RRBs, Local Area Banks, SFBs & Union Co-operative banks that have a surplus in their priority sector lending to sell their excess to other banks that have a shortfall, thus helping them meet their mandatory lending targets.

PSLC mechanism was specifically designed for banks to meet their priority sector lending requirements as mandated by the RBI. The RBI's regulatory framework initially provided this mechanism for banks to ensure a more efficient distribution of credit to the priority sectors of the economy. While NBFCs also contribute to priority sector lending, they do so under different regulations and mechanisms set by the RBI.

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Suggestion:

Allowing NBFCs to trade PSLCs on the e-Kuber platform could offer several benefits to the financial system like:

- ***Improved Liquidity Management: Allowing NBFCs to trade PSLCs provides them with an additional tool to manage their liquidity more effectively.***

- ***Banks and NBFCs often serve similar market segments. Allowing NBFCs to trade PSLCs would create a level playing field, ensuring that both types of financial institutions can operate under similar competitive conditions***

6. SMA Reporting: NBFCs Report to CRILC But Do Not Have Access to CRILC Data

The rationale for reporting Special Mention Accounts (SMA) to the Central Repository of Information on Large Credits (CRILC) is to enable early detection and reporting of financial stress in borrowers' accounts. SMA categories help lenders identify accounts that show signs of stress before they turn into Non-Performing Assets (NPAs).

The CRILC was established by the Reserve Bank of India (RBI) to collect, store, and disseminate credit information on large exposures. Lenders are required to report credit information on all borrowers with aggregate fund-based and non-fund-based exposure of ₹50 million and above.

For access, initially, only banks were mandated to report to CRILC. Over time, Systemically Important NBFCs have also been brought under the CRILC reporting framework. This inclusion aims to bring more transparency and better risk management across the financial sector. However, NBFCs do not have access to the CRILC database.

Suggestion:

- ***NBFCs must be provided with access to the CRILC database to assist in credit risk management, like banks. Else, the purpose of bringing transparency and prevention of frauds gets defeated.***

- ***It is logical and prudent to ensure that NBFCs have full access to a Central Repository to which they report to and thus contribute.***

7. Representation on High Quality Liquid Assets for Liquidity Coverage Ratio Computation

As per RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (Updated as on February 17, 2020):

Annexure III - Guidelines on Liquidity Coverage Ratio (LCR) Page 109
High Quality Liquid Assets (HQLA)

a. Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. They shall be unencumbered. Assets are considered to be high quality liquid assets if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered. Nevertheless, there are certain assets that are more likely to generate funds without incurring large discounts due to fire-sales even in times of stress.
b. The fundamental characteristics of HQLAs include low credit and market risk; ease and certainty of valuation; low correlation with risky assets and listing on a developed and recognized exchange market. The market related characteristics of HQLAs include active and sizeable market; presence of committed market makers; low market concentration and flight to quality (tendencies to move into these types of assets in a systemic crisis).
c. Assets to be included in the computation of HQLAs are those that the NBFC is holding on the first day of the stress period. Such assets shall be valued at an amount no greater than their current market value for the purpose of computing the LCR. Depending upon the nature of assets, they have been assigned different haircuts below, which are to be applied while calculating the HQLA for the purpose of calculation of LCR.

Assets to be included as HQLA without any haircut includes:

- Cash (Cash would mean cash on hand and demand deposits with Scheduled Commercial Banks)
- Government securities etc.

Currently, Cash includes bank Demand deposits as permitted under HQLA without haircut, we request to include Fixed deposits with banks under the same category as deposits with the same banks can be pre-matured anytime. Further, banks which accepts fixed deposits are also required to maintain sufficient HQLA to comply with LCR resulting in maintaining systemic liquidity. As Demand deposits with banks are permitted and also banks maintain LCR for such deposits, we request that NBFCs should be permitted to consider Bank Term Deposits under HQLA without any haircut.

Investment in Collateralized Borrowing and Lending Obligation (CBLO) are collateralised by the Government securities which are generally for overnight to upto one month horizon. As Government securities are considered under HQLA, CBLO investments which are fully collateralised by such securities we request you permit NBFCs to consider CBLO under HQLA.

Suggestion:

- ***Bank Fixed Deposits should be included as part of HQLA without haircut***
- ***Investments in Collateralized Borrowing and Lending Obligation (CBLO) should be included as a part of HQLA without any haircut***

8. **Increase allocation for Capital Market Borrowings by Banks:**

With a view to deepen the corporate bond market, it would be invited if the Capital Market participants are increased. As we have more market participants in the Corporate Bond market like Banks, it would increase the liquidity in the market resulting in increased access to funding for major market participants. It would also help in diversity of borrowings for the companies.

Suggestion:

Accordingly, we request if 10% of bank lending to NBFC rated (AA+ and above) can be in the form of Capital Market Instruments.