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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ADVISORY

Dear FIDC Members,

GUIDANCE NOTE ON FAIR BUSINESS PRACTICES

Our industry has been performing a phenomenal task of furthering financial inclusion in the country by providing last mile credit delivery to unserved and under-served segments such as agriculturists, MSMEs, contractors, transporters, small vendors and so on. Being an important part of the financial ecosystem, it is but natural that we carry a large onus on us to ensure prevention of money laundering, adequate end use monitoring and complete transparency and fairness in dealing with customers. Time and again, our regulator, the RBI has promulgated several guidelines and directives to ensure these objectives are met and to help our industry grow in a healthy and sustainable way and to remain viable.

Members might have noticed that wherever an entity amongst us deviate from the desired path, the regulator steps in to ensure that the entity is brought back on track for fair conduct towards their customers. Members may also have noticed that severe penal action including cease & desist orders, financial penalties and warnings have been issued to a few NBFCs and some other regulated entities by the RBI in the recent past. We at FIDC are deeply committed to ensuring healthy growth and development of the NBFC sector and believe that the best way to ensure this would be through exercise of self-regulation. Many a times, an entity may commit an error due to inadequate knowledge or awareness of regulations. Our attempt therefore would be to educate our members aimed at avoidance or minimising such errors.

Pursuant to the cease & desist order passed by RBI against some NBFCs, The Chairman, a Co-Chairman and the Director General of FIDC met the Executive Director of RBI, Shri S C Murmu recently to understand the events triggering such action and consequently to share the same with our members. This advisory is

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being issued as a follow up of the meeting to create better awareness amongst members so that they can conduct their business in an appropriate manner.

Key Points for members to note:

1. The industry must take note of and manage three key factors – business risks, regulatory compliance and fair customer dealings. In general, our industry has a very good track record in the first factor, which is evidenced by the fact that very few business failures have happened in the past three decades. Over a period of time, regulatory compliance has also improved significantly owing to greater awareness and development of a "compliance culture" among us. The key area of concern in the recent past relates to fairness in dealing with customers, which has, in the opinion of the RBI arisen at least partly due to increased unhealthy competition for rapid growth in the number and complexities of NBFCs' business models.

2. Some of the issues, members need to be aware of and ensure would include:

    a. Transparency in communication of loan terms and conditions to customers. Members must communicate all important terms and conditions to the customers including charges, fees, effective interest rate etc. in an unambiguous manner to customers. No hidden charges shall be levied. Extra care must be taken to ensure that the documentation is easy for customers to understand and preferably in a language which the customer understands.

    b. Ensure that the Key Facts Statement (KFS) as directed by the RBI is comprehensive and in line with the RBI directions. The same to be shared and explained to the customer and acknowledgement kept on record.

    c. Loan documentation copies must be shared with customers completely and comprehensively.

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d. Customer service standards (including turnaround times) must be documented, disclosed through the NBFC's website/otherwise and adhered to. There must be an internal mechanism to monitor adherence and for escalations in case of failures.

e. Grievance redressal process must be defined clearly and communicated to customers. Escalation mechanisms must be in place for complaints not closed in time as well as to manage complaints closed without adequate and satisfactory resolution.

f. Members must have mechanisms to conduct root-cause analysis for complaints to enable corrective and preventive actions on customer complaints.

g. Members must ensure that internal awareness is created as far as maintaining customer satisfaction levels and complaints handling mechanisms through periodic staff training programmes.

h. Loan pricing policies must be made logically, having regard to the cost of operations, funding costs, expected credit losses and reasonable profits and must be approved by the Boards of Directors of the members. Wherever the need is felt for deviations from the stated policy, a proper delegation matrix may be put in place. Members must stay away from usurious pricing policies – while there cannot be a fixed framework for determining what "usurious pricing" would mean, the policy must stand the test of reasonableness. This may vary from company to company and therefore the Board of Directors of each entity may collectively decide what is "reasonable", having regard to the actual cost incurred for all pricing components mentioned at the beginning of this point.

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We at FIDC would encourage all our members to consider the aforesaid guidance and put in necessary governance mechanisms in place to the satisfaction of their Boards. We are also deeply aware that any negative practice followed by any member would cast the entire industry in a poor light and hence, it is imperative that all of us must ensure adequate governance mechanisms having regard to the size and complexity of our respective businesses.

FIDC would also endeavour to organise periodic workshops to educate and update members on these matters.

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL