FIDC NEWS

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

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WE HAD ENVISIONED THE RELATIONSHIP BETWEEN BANKS AND NBFCS TO BE THAT OF 'WHOLESALER' AND 'RETAILER.'

T T Srinivasaraghavan
Chairman Emeritus and Fonder Chairman, FIDC

A robust banking and financial sector are critical prerequisites for developing and developed economies alike, as they provide the vital fuel for the engines of economic growth. Within this, financial intermediaries such as Non-Banking Finance Companies (NBFCs) have a very definite and important role to play, especially in last mile credit delivery. They are a vital link in the system, especially in a country as diverse as India.

But first, it is vitally important to appreciate the role played by NBFCs in the growth and development of the large unbanked and underbanked segments of our economy, over the past eighty years. MSMEs are often referred to as the backbone of the Indian economy and are estimated to contribute 37.5% to the India's GDP. There are over 6 crore MSME units in India, employing over 10 crore people, half of which are in rural India. As per Government estimates, nearly 45% of India's exports are contributed by MSME's.

NBFCs, due to their inherent strengths of local knowledge, credit appraisal skills, well trained collection machinery and personalised customer service, have been able to cater to the needs of this vital ecosystem, over the decades. In many ways, it is the NBFCs who wrote the original script on financial inclusion!

For long, it was erroneously believed that Banks and NBFCs are in competition. While there may be a small overlap of competition, for the large part they are complementary in nature. Over the years, NBFC's have relied quite heavily on bank finance to fund their operations. Banks' lending to NBFCs, has largely been safe and profitable. Happily, with the advent of Business Correspondents and Co-lending, there is increasing recognition that the relationship is collaborative rather than competitive. Given their well-established customer relationships, flexibility, speed, and outstanding customer service, NBFC's have carved a special niche for themselves in the lending ecosystem.

Decades ago, we had envisioned the relationship between banks and NBFCs to be that of 'Wholesaler' and 'Retailer' and going by the recent developments, as mentioned above, we seem to be moving towards that ideal. But much remains to be done. Unfortunately, NBFCs by their very nature, are a heterogeneous lot, unlike the banks. While the larger players are more akin to banks, the medium and small sized companies require strong institutional support to access funding, so as to help them on-lend to the 'non- bankable' segments. This would go a long way towards furthering financial inclusion.

A country as diverse as ours cannot depend only on the banking system to deliver credit to those who most need it. Notwithstanding the dramatic technological advancements and the rapid digitalisation that we are witnessing, there are large swathes of our population who still need to be serviced at their doorstep, by people who understand their needs and appreciate their unique challenges. Technology is undoubtedly a great enabler, but not yet a substitute for the human dimension.

As India moves towards the cherished dream of becoming the 3 rd. largest economy in the world, it must harness the power of the vibrant and innovative NBFC sector in order that the financial needs of every Indian, howsoever humble, are addressed. It is only then that Financial Inclusion would have been truly achieved.

T T Srinivasaraghavan, Founder Chairman, FIDC

Dear Shri Mukhi

It gives me great pleasure to greet you as FIDC NEWS enters its 15th year! It is no exaggeration to say that you have provided a ringside view of the NBFC sector, through these columns, while capturing the trials and the triumphs of a turbulent journey! FIDC, and the NBFC sector at large, owe you a huge debt of gratitude.

T T Srinivasaraghavan

Respected Thiru T T Srinivasaraghavan,

'FIDC NEWS' is named by you, framed by you and you laid down its contours in an online chat with me as back as in 2009. You also nourished it from time to time with enriching contributions. FIDC had given freehand in developing and expanding its horizons. The support of Editorial Committee was immense. A small story in this issue: 15 YEARS OF EVENTFUL JOURNEY OF FIDC NEWS-SOME MILESTONES lays down how vivid, fascinating and lively journey it was! As the NBFC Sector grew in its dimensions, depth and glowing respect and admirations from all the Newsletter too expanded its wings and had trod at times beyond boundaries.

Many thanks to you and FIDC,

N M Mukhi, Editor, FIDC NEWS

AT A GLANCE

- We had envisioned the relationship between banks and NBFCs to be that of 'Wholesaler' and 'Retailer.' ... T T Srinivasaraghavan, 1
- 15 years of eventful journey of FIDC News-Some Milestones ... 2
- Regulatory Perimeter ... 10
- Financial risks due to climate change: RBI report ... 16
- Co-Lending volumes may hit Rs. 1 trillion in FY24 ... Piyush Shukla & Anushka Sengupta 18
- RBI releases master direction to regulate outsourcing of it services ... Vidushi Gupta, Supratim Chakraborty 20
- Digitalization and Iinnovation: The driving forces behind NBFC growth in India ... Srajan Agarwal 21
- Is India's household debt really low? Yes, and No: Motilal Oswal study ... 22
- Crackdown on lending apps may raise competitive heat for NBFCs ... Jinit Parmar 25
- 'Misalignment of product offerings and customer needs is greatest challenge,' believes NBFC leaders ... Navya Menon 26
- 'Need to break down processes through digital': NBFCs path for scaling up business ... Vikas Kumar 26
- No longer shadow banks; overshadowed banks in many segments: NBFC honchos ... 27
- The Dawn of India's age ... Michael Debabrata Patra, Deputy Governor, Reserve Bank of India 28
- Strengthen regulations, examine licensing requirements: RBI's agenda for NBFCs in FY24 ... 30
- Moves ... 31
- Legal Eagle ... 34
- State of NBFC sector ... 37
- Challenges & progress of new-age MSMES in accessing affordable credit support in India ... K. V. Srinivasan 41
- SEBI Moves ... 42
- Periscope ... 45
- FIDC IN ACTION ... 49

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15 YEARS OF EVENTFUL JOURNEY OF FIDC NEWS

SOME MILESTONES

A compilation on Milestones of 15 Years Journey is prepared for the members/readers who may not have seen/passed through this whole adventurous expedition. While I was preparing it I re-lived it! -Editor

"As always, you have meticulously captured the highlights of our often turbulent journey! Like you, I too re-lived those moments!" - T T Srinivasaraghavan, Chairman Emeritus, FIDC

Message for maiden issue of FIDC NEWS from T T Srinivasaraghavan, Chairman, FIDC

"FIDC NEWS seeks to build up a line of communication with all stakeholders in the Asset Financing NBFC sector (NBFC- AFCs) as also Regulatory Authorities, officials of State and Union Government Departments and our well-wishers. It will endeavour to bridge the information gap not only about happenings in the sector but also act as a forum for airing members' expectations. Let this become a medium for close interaction." Said T. T. SRINIVASARAGHAVAN, Founder Chairman of FIDC in his message for the maiden Issue released in July, 2009.

Shyamala Gopinath, Deputy Governor, RBI graced this Issue with her Speech:

"Paradoxically the origins as well the severity of impact of the crisis were concentrated in the most heavily regulated institutions. However, in my view, the real issue lay in not recognizing and addressing the dynamic inter-connectedness between entities across regulated, unregulated and lightly regulated domains perpetuated through high leverage."[Quote from her speech titled: "Addressing the Regulatory Perimeter Issues - Indian Experience "delivered at the Ninth Annual International Seminar on Policy Challenges for the Financial Sector, co-hosted by The Board of Governors of the Federal Reserve System, The IMF, and The World Bank on "Emerging from the Crisis – Building a Stronger International Financial System", June 3-5, 2009, Washington, D.C.] **(June-July 2009)**

FIDC Handbook on repossession of assets

A function to release FIDC Handbook on Repossession on Sept. 3, 2009 at New Delhi. Seen in photo are [from R to L] Mr. Raman Aggarwal, Co-Chairman, FIDC; Mr. K V Eapen, Jt. Secretary, Deptt. of Financial Services, Ministry of Finance, GoI, Guest of Honour; T T Srinivasaraghvan, Chairman, FIDC; Dr. Jastice A R Lakshmanan, Chairman, Law Commission, Chief Guest and Mr. Mahesh Thakkar, Director General, FIDC **(2-10-2009)**

A case for NBFCs to be empanelled as business correspondents to banks

Presenting a strong case for empanelling Non-Banking Finance Companies [NBFCs] as business correspondents [BC] to the banks in response to a discussion paper placed by the Reserve Bank of India, FIDC said in its representation to RBI, "We believe that NBFCs can contribute significantly in achieving RBI's goal of financial inclusion." FIDC chairman T. T. Srinivasaraghavan added that "over their long history, NBFCs have been providing financial services precisely to these segments of people that are not covered by banks. FIDC, an industry body representing Asset Management Companies elaborated on the "inherent strengths of NBFCs which match the requirements of BC model, thus making NBFCs an ideal collaborator for banks as BCs". **(July-September 2010)**

Continue priority sector status for NBFCs

Bank Loans to NBFCs-continue priority sector status: T. T. Srinivasaraghavan, Chairman, FIDC

The withdrawal of Priority Sector Status accorded to bank loans to NBFCs for on-lending to SMEs, Small Road Transport Operators (SRTOs), agri. based activities, SSIs etc. by the RBI with effect from April 1, 2011 as a part of Monetary Policy Statement for the year 2011-12 has come as a rude shock to the NBFC sector, particularly, the Asset Financing NBFCs (NBFC-AFCs). **(22-6-2011)**

Nasty Shock NBFCs didn't deserve: SUSHILA RAVINDRANATH

The non-banking financial (NBFC) sector got a nasty shock last month. The priority sector status accorded to bank loans to NBFCs for lending to SMEs, small road transport operators, agri-based activities and SSIs was withdrawn by RBI. This has come at a particularly unfortunate time for the asset financing NBFCs (NBFC-AFCs). **(April-June 2011)**

GLOBAL NEWS OF NON-BANKS

- Impact of Interest rate restrictions in Europe
- Allow NBFCs to access global market for borrowings: ASSOCHAM
- Fraud intelligence sharing system of FLA of UK
- Debt collectors ask for respect-in USA
- Illegal hiring contributes to rise in car fraud-UK's FLA
- Central bankers agree on bank capital surcharge plan

(in April-June 2011 Issue-Some Items' Headlines)

BEYOND BOUNDERIES (in July-Sept. Issue-Some Items' Headlines)

- Size of Global Finance
- EU, US 'dangerously close' to recession
- Govt debts crossed $41 trillion globally in 2010: McKinsey
- GDP recovery since the recession
- Indian, Chinese middle class could lead global consumption: ADB
- Fraudsters using false information to dupe car dealers- in UK

(April-June 2011)

NEW ROAD MAP FOR NBFCs

RBI's Working Group lays down a road map for appropriate Regulatory and Supervisory measures for NBFCs with an aim to create strong and resilient financial sector.

- Mrs. Usha Thorat, Director, Center for Advance Financial Research and Learning, RBI
(July-September 2011)

RBI-Pulling every lever

India's Central Bank is one of its best institutions-(from the Economist, London) **(April-June 2012)**

Gujarat High Court on Gujarat Money Lenders Act (GML Act)

"If a bank is excluded from the operations of GML Act, there is no reason why an NBFC, which is also controlled by the RBI in the same way a Banking Corporation is controlled, should not be excluded from its operation." **(July-Sept. 2012)**

Governance in Banks and Financial Institutions

"Over the years, the NBFC Sector has not only grown in size but also in terms of interconnectedness and systemic importance.

Anand Sharma, Dy. Governor, RBI
(April-June 2013)

ROAD MAP FOR NBFCs INTO BANKING-NACHIKET MOR COMMITTEE REPORT

"While NBFCs in their current format play a useful role and will continue to do so, and every effort needs to be made to ensure that they are able to perform that role effectively."

"the NBFC sector remains very small, does not have the ability to garner public deposits, and in aggregate has performed at a very high level of quality. The sector as a whole therefore does not constitute a source of systemic instability. It has instead been playing the role of extending the reach of the banking system to the more difficult parts of the economy."

"Entities that start out as a niche NBFC may over time acquire the profile of a Bank, and would need to be able to transition smoothly into either a Full Service Bank or a Wholesale Consumer Bank or a Wholesale Investment Bank.

Currently there are specific barriers that prevent several of those entities that already have the character of Banks from becoming one." **(April-June 2014)**

Shadow Banking and Indian Economy

"The type of entities which are called Shadow banks elsewhere are known in India as the Non-Banking Finance Companies(NBFCs). Are they in fact shadow banks? No.

NBFCs bring much needed diversity in the financial sector.

R. Gandhi, Dy. Governor, RBI
(July-Sept. 2014)

"We need true parity with banks"

T T Srinivasaraghavan
Chairman, FIDC

The core preamble [in new guidelines] talks about harmonizing and removing regulatory arbitrage. The intention is to drive convergence among various players in the financial system. And, they have sought to plug the regulatory arbitrage. In doing so, they have done what I call 'reverse arbitrage'.

Repossession has become an arduous task. We are not allowed to exercise even our contractual agreement in terms of repossession. We need to be extended the rights under the SARFAESI Act, which is available to both banks and housing finance companies. Why are we alone being denied that?

Also, deposit ceiling has been reduced from 4 to one-and-a-half times. In the past, a very good and attractive source for NBFCs was external commercial borrowings (ECBs), where we could get long-term funds at reasonable costs subject to conditions on minimum tenor and the maximum spread. But NBFCs were shut off from ECBs several years ago. We need to be given as many options for raising funds, especially given the deposit ceiling. Why shut a window of borrowing for us? This is not convergence but divergence.

We are clearly competing on an unequal footing.

T T Srinivasaraghavan, former Chairman, FIDC
(October-December, 2014)

"Extending a helpline of SARFAESI ACT to NBFC is welcome but not enough-Equity in taxation too is needed"

Raman Aggarwal
Past Co-Chairman, FIDC

It is a matter of great satisfaction that at last the Hon'ble Union Finance Minister in his recent budget announcement empowered NBFCs registered with RBI and with asset size of Rs. 500 crore or more to initiate proceedings under Sarfaesi Act against their defaulting borrowers.

But this is only a partial measure. There is an utmost important and urgent need to bring parity between banks and NBFCs in areas of taxation. We, therefore, look forward to the Finance Minister to address these issues relating to the taxation of income on NPAs and tax benefits against provisions made for NPAs as also the provisions relating to TDS.

Raman Aggarwal, past Co-Chairman, FIDC
(January-March 2015)

MUDRA Bank offers a New Deal to NBFCs

MUDRA Bank has emerged as refinancing agency for all NBFCs a long awaited window for replenishing their resources. It's recently announced eligibility criteria for availing Refinancing by Banks, MFIs and NBFCs makes all RBI registered NBFCs eligible. More over small NBFCs not having external credit rating but possessing satisfactory borrowing arrangements with any Scheduled Commercial Bank for a minimum of 2 years; and net NPA not higher than 3% are eligible. Thus it frees small NBFCs from burden of seeking credit ratings.

Mukesh Gandhi, Member, Editorial Committee, FIDC News

Mode of Funding NBFCs for on lending to Small Businesses

Direct refinancing by way of term loans/cash credit limits as well as securitization by way of bilateral assignments shall be the most preferred mode of funding NBFCs. Further in case of small NBFCs providing equity support on an assured return basis, similar to the private equity model may also be considered.

Mahesh Thakkar, Director General, FIDC
(April-June, 2015)

Enormous Potential in Non-Bank Finance and Ways to Make it Happen

"Success of NBFCs is attributed to very sharp focus on product lines leading to better cost control, bad debt control, better customer service and consequently faster growth at higher profitability as compared to banks."

"NBFCs have to embrace digital to dramatically enhance internal productivity (sales, operations and pricing) and to reimagine the end to end customer experience."

"Despite the perception of higher cost of funds disadvantage, on an average, NBFCs have outperformed banks on "Return on Equity (ROE)" by 1.5-2.0%... NBFCs' business models have had unique strengths and thus are able to deliver such performance consistently."

Saurabh Tripathi,
Partner & Director Boston Consultancy Group &
Jitesh Shah, Principal Boston Consultancy Group
(January-March 2016)

Why small finance faces a big wipe-out

The RBI must immediately relax its rules for financial provisioning, and create ample space and time for small businesses and small finance to recover. What look like defaults should be formally recognised as exceptional events arising out of demonetisation, not as inability to pay. Existing RBI rules will kill small finance, so an immediate relaxation of rules is essential.

SWAMINATHAN S ANKLESARIA AIYAR

PS: Soon after this forceful plea appeared in Times of India on 20th Nov. mercifully RBI came to rescue of lenders on very next day. See item titled: "Lenders allowed more time to classify defaults as NPAs"

(October-December 2016)

Apex National and International Bodies Collaborate with FIDC as the Torch Bearer of the NBFC Sector

Opportunities to grow for NBFCs have risen exponentially with attitudinal change towards NBFCs by the Regulator, Government authorities and Markets. With FDI norms being further relaxed, it has attracted foreign participants to come in this sector with new range of products. GST is likely to reopen the doors for Leasing and Hire Purchase which was a main stay for NBFCs few years back. FIDC has

therefore, undertaken an image building exercise for NBFC sector last year which is bearing fruits. I am sure this would lead the NBFC sector to carve its respectful place in Financial Sector of the Country. We as a sector player have also a responsibility to follow the regulation guidelines prescribed by the Regulator not only in letter but spirit as well and should scrupulously avoid reputational risk.

Raman Aggarwal, Chairman, FIDC

(January-March 2017)

FIDC ENGAGING IN 3 BIG EVENTS ON A SINGLE DAY AT MUMBAI

1. With Shri K K Jalan, Secretary, Ministry of Micro, Small and Medium Enterprises, Government of India, Shri S N Tripathi, A S & D C, Ministry of MSME, Shri Ajay Kapur, DMD, SIDBI and the top executives of CGTMSE (CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES) on Credit Guarantee Scheme to NBFCs. *
2. With MUDRA (MICRO UNITS DEVELOPMENT & REFINANCE AGENCYLIMITED) for re-finance to NBFCs under PMMY (Pradhan Mantri Mudra Yojana)
3. With World Bank Group on discussion on "Commercial Credit Reporting"

Moreover: FIDC engaging in discussion with GST Working Group on Banking, Insurance and Financial Sector under the Chairmanship of Mr. Upendra Gupta, Commissioner, GST on 8th April 2017 at Air-India Building, Nariman Point, Mumbai.

(April-June 2017)

NBFCs need to adapt to the new realities

The main drawback on our side has been the collection, dissemination and analysis of industry data, which puts us on the defensive, while talking with RBI and other government authorities. In advanced countries like USA and UK, organisations of Finance Companies have built up sound data bases of their members' businesses and activities thus making them a credible and respected voice of the industry. There is a lot we can achieve as a cohesive group, but it will take commitment from all stakeholders and statesmanship on the part of industry leaders if this is to happen. I hope the momentum generated in recent months is carried forward, in order that the NBFC sector receives the due credit and recognition that it deserves.

TT Srinivasaraghvan, Founder Chairman, FIDC

(July-September 2017)

FIDC MESSAGE TO HON'BLE PRIME MINISTER

Respected Sir,

We are honored by your acknowledgement and appreciation of the growth of NBFCs in your speech at ICSI function yesterday. NBFCs over the years have played a vital role in the development of the economy, be it in financial intermediation in rural and semi urban areas or financing activities that are engines of growth, such as transport sector, MSMEs, agriculture and infrastructure. For more than 70 years now, NBFCs have been in the forefront of catering to the segment of customers who are un-bankable masses in the rural and semi–urban areas. Through strong linkage at the grassroots level, ability to take quicker decisions and highly personalized customer service, they have created a medium of reach and communication and are very effectively serving this segment that were forced to approach unorganized money lenders for all their credit needs. NBFCs have transformed a borrower, who is "unbanked" into "bankable". The Economic Survey, Volume – 2 for 2016-17 mentions that the total balance sheet size of the NBFC sector as on 31 March, 2017 stood at Rs. 12.56 lakh crores which is about 200 bn USD. We stand fully committed to realize your vision of New India by 2022 by providing credit to the unbanked in urban and rural areas, and promote entrepreneurship by financing MSMEs. **[Sent by FIDC on Oct. 5, 2017 through Prime Minister's Office, New Delhi]**

FIDC EMBARKS UPON HUMAN RESOURCE DEVELOPMENT FOR NBFCs

FIDC has taken a major initiative for development of human resources for new areas of business opportunities opening up for NBFC sector and increasing complexities due to new technologies and fin-tech to enable to become a world class sector and to take a leap forward with sound foundation.

Training program for FIDC members on Movable Asset-Based Lending at Mumbai World Bank Group and FIDC – Commercial Credit Reporting Information Workshop at SREI, Kolkata Human Resources development for NBFCs World Bank Group had signed 2 MoUs with FIDC in February this year, to conduct Training Programmes for FIDC members on: Commercial Credit Reporting and Movable Asset Financing. **(October-December 2017)**

"NBFCs CAN BE VERY POWERFUL VEHICLE FOR DELIVERING LOANS" FINANCE MINISTER PROCLAIMS IN HIS BUDGET SPEECH-2018

Pre-budget meeting of heads of banks and financial institutions are held with finance minister Arun Jaitley. Raman Aggarwal, chairman, FIDC is one of the invitees to such meetings where he puts forth suggestions on behalf of FIDC.

"Non-Bank Finance Companies (NBFCs) stepped up financing of MSMEs after demonetization. NBFCs can be very powerful vehicle for delivering loans under MUDRA. Refinancing policy and eligibility criteria set by MUDRA will be reviewed for better refinancing of NBFCs". [Para 74 of Budget speech]

In the Budget Speech-2018 Hon'ble Shri Arun Jaitley, Union Finance Minister was the first ever Finance Minister going on record in a national document annually being presented in Parliament since last seventy years to recognize the capability, strength and importance of the NBFC sector. He paid glorious tribute to the sector by acknowledging that "NBFCs can be very powerful vehicle for delivering loans under MUDRA." In fact, NBFCs "suo moto "stepped up financing of MSMEs after demonetization when the MSMEs and the economy were suffering the effects of demonetization.

Thankfully, this helping hand extended by the NBFC sector during the crisis-like situation threw much needed light on the real and much larger role that the sector is playing. In fact, the sector's contribution to the Indian financial system was first highlighted by the first chairman of FIDC Shri T. T. Srinivasaraghavan as far back as in Sept. 2010 by stating, "Much before the Jargon came along, it is the NBFCs who took credit to the unbanked, unserved sections of the society. In many ways, we were the guys who wrote the book on Financial Inclusion - over 6O years ago". Amplifying the jargon, Shri Raman Aggarwal, then Co-Chairman had explained, "Financial Inclusion is providing accessibility of financial services to the poorest of the poor at an affordable cost in every part of the country."

(January-March 2018)

NBFC means: "New Benchmark For Credit": Mr. Ramesh Iyer coined New Meaning at FIDC-IMC Chamber Seminar on NBFCs

Mr. Ramesh Iyer, Vice Chairman and MD Mahindra Finance and Co-Chairman IMC NBFC Committee, pointed out how the quality of NBFC balance sheets are in a much stronger state than banks and attribute it to stronger risk management and close understanding of the customers' needs. He in fact described the term NBFC as "New Benchmark For Credit". Mr. Raman Aggarwal, Chairman FIDC

highlighted several facts and figures to underscore the increasing importance of the sector and pointed out that NBFCs' share of loans had reached about 17% compared to single digit numbers in the past. He stated that technology has started to revolutionise the finance sector and NBFCs were at the forefront in adopting technology in lending. **(April-June 2018)**

Recognisiton by Leading International Bodies

The impressive growth of the NBFC sector over the last few years has not only ensured recognition by the regulator and the government but also leading international body like International Monetary Fund (IMF). IMF in their report on The Financial System Stability Assessment (FSSA) for India, issued in December 2017, have made the following important observations/statements relating to NBFCs:

1. The Indian financial system is undergoing a gradual structural shift, with a greater role for nonbank intermediaries and higher recourse to market funding for large corporates.
2. The financial system is diversifying, with market shares of nonbank intermediaries (notably, mutual funds and nonbank financial companies—NBFCs) and private sector players increasing gradually—albeit from a low base.
3. Risks from NBFCs are limited, but concentrations and growing reliance on debt financing should be monitored closely
4. The entry of foreign capital could be enhanced by allowing the application of the SARFAESI regime to all investors acquiring secured claims. Loosening the NBFCs' concentration limit on investment into one target would support future investment. Tax rules and practices could also be enhanced to ensure tax neutral treatment of NPA restructuring.

Rating Agency Moody's Observations:

During the year, India's sovereign rating was upgraded by Moody's. Moody's have stated that one of the important factors for this rating upgrade has been the government's effort to formalize economic activity. NBFCs have played a significant role in this effort by providing financial services to the unbanked segment of the population in the rural, semi urban and urban areas across the country. This has enabled these people to move away from the money lenders and become a part of the formal economy.

FIDC Endeavour:

During a brief span of 14 years FIDC has with ceaseless efforts and imaginative programmes with Regulatory and other Government Authorities and with all concerned /related agencies like banks, credit rating agencies, Indian Banks Association, Society for Indian Automobile Manufacturers, Chambers of Commerce and Industries as well as International agencies and media has successfully created new positive image for NBFCs. It has earned the respect as a growing, dynamic, healthy and nation building sector caring for down trodden with financial inclusion endeavors. This has brought a respectful place for the NBFC Sector in the mainstream of financial community of India, entrepreneurial communities and Government authorities facilitating rapid strides for the sector in recent years. **(July-September 2018)**

Ensure there are no defaults by NBFCs, Arun Jaitley tells top PSBs

Arun Jaitley
Finance Minister

Finance Minister Arun Jaitley told the bankers to ensure there are no defaults on payments obligations by NBFCs. The bankers, in turn, are learnt to have told the minister and his officials that they have 'sufficient liquidity", and that while there are sectoral stresses, not many NBFCs have approached them even after they were provided higher lending room.

Executives of six large public sector banks on October 26 assured Finance Minister Arun Jaitley and officials that they have enough financial firepower to support the NBFCs plagued by liquidity crisis.

The video conference with the bankers comes days after the board of Reserve Bank of India (RBI) held discussions on liquidity situation in the NBFC market. According to sources, the government had raised concerns related to liquidity crises among housing finance companies and smaller NBFCs.

However, the RBI felt that there is no systematic cash crunch and was not ready for a special refinance window for NBFCs, sources said.

Last week, the RBI had announced regulatory relaxations and incentives, giving banks room to lend more to NBFCs and HFCs to increase liquidity. The measures were in the wake of the lending freeze witnessed following the IL&FS crisis, which also caused jitters in the stock markets. **(October-December 2018)**

THE FIRST EVER MEETING WITH HON'BLE PRIME MINISTER

The First Ever Meeting with Hon'ble Prime Minister Shri Narendra Modi on 26 12 18 on NBFC issues, as part of ASSOCHAM delegation. "The Meeting historically first of its kind was well-received and the Hon'ble Prime Minister asked the authorities to solve all genuine problems of NBFC Sector at the earliest". Raman Aggarwal, chairman, FIDC."

(January-March 2019)

We are "very closely" monitoring NBFC situation & will take every step to ensure financial stability: RBI Governor

Shaktikanta Das
RBI Governor

"So far as RBI is concerned, it remains committed to ensuring we have a robust well-functioning NBFC sector." RBI Governor

"Whatever liquidity is generated has to percolate to the NBFC levels; this needs to be corrected by special window through banks as a temporary measure." Raman Aggarwal, chairman, FIDC

"We have been closely monitoring the activity, performance and the developments in the NBFC sector including that of the housing finance companies [HFCs]. We are also monitoring major entities in this universe of the NBFCs and HFCs… So far as RBI is concerned, it remains committed to ensuring we have a robust well-functioning NBFC sector, and the RBI will not hesitate to take whatever steps are required to ensure that financial stability is not adversely impacted in any manner by any development," RBI Governor Shaktikanta Das told.

His remarks on the NBFCs came against the backdrop of the continued troubled situation facing the non-bank financiers. On June 5, DHFL, a major non-bank lender, saw rating downgrade in all of its papers to D (Junk rating) after it announced its decision to delay servicing its repayments. The scenario, especially in the housing finance sector, is casting shadow on the health of the entire financial sector.

Das also pointed that the system level liquidity is in surplus mode now adding the RBI will infuse about Rs 15,000 crore on June 13 through its Open Market Operations (OMOs). "Other instruments are available. As and when we take decisions will keep on infusing liquidity, again based on requirements," he said. **(April-June 2019)**

'NBFCs ARE PLAYING AN EXTREMELY IMPORTANT ROLE' SAYS FINANCE MINISTER IN HER BUDGET SPEECH

Nirmala Sitharaman
Finance Minister

The Centre has "comprehensively" dealt with the NBFC crisis, Finance Minister Nirmala Sitharaman said soon after presenting her maiden Budget. Also, in a well thought out approach through the Finance Bill, the government has strengthened the regulatory authority of RBI over NBFCs, she said. Sitharaman earlier announced a slew of measures to help NBFCs come out of the current morass.

The crisis in NBFC sector seems to have bottomed out, although woes of some players still persist, finance minister Nirmala Sitharaman said on

Saturday, a day after the Budget announced a raft of measures to fix issues faced by NBFCs. "We shall be closely monitoring with RBI to see how it's moving. So strictly speaking, I feel the NBFC issue has been addressed," she said. While presenting the Budget, the Finance Minister did recognise the fact that NBFCs play an important role in sustaining consumption demand as well as capital formation in the small and medium segments. In this context, the FM mentioned that NBFCs that are fundamentally sound should continue to get funding from banks and mutual funds without being unduly risk averse. **(July- September 2019)**

THERE IS NO ASSET-LIABILITY MISMATCH FOR MAJORITY OF NBFCS'

TT Srinivasaraghavan
The founder chairman of FIDC

TT Srinivasaraghavan, the founder chairman of FIDC and Managing Director of Sundaram Finance, feels elated as NBFCs' role has been acknowledged for the first time by a Finance Minister in Budget speech. He welcomed the measures put forth by Finance Minister Nirmala Sitharaman to address some of the burning issues facing the sector. He spoke to Business Line about the liquidity scenario, slowdown in the automobile sector and near term challenges.

Have liquidity constraints eased now in the NBFC sector?

Liquidity is better. For some of the larger NBFCs, liquidity has eased. Actually, for many of the bigger players, liquidity was always available but it came at a higher cost after the IL&FS issue flared up in Q3 of last year. In the last month or so, the cost of funds has eased which, I believe, is reflective of the fact that liquidity too has started easing. From Q3 of FY19 to Q1 of this fiscal, we are definitely in a better place. However, for medium and small players, I don't think liquidity has eased. They were actually untouched by the capital market happenings and were largely dependent on bank borrowings. With banks tightening the screws on lending to the smaller players and also increasing the rates, they have been badly hit. Numerically, they are large and it is they who deliver much of the last mile credit. If there is a greater push by the government/RBI and if banks free up the funds a little bit, the situation with the medium and small NBFCs will improve. **TT Srinivasaraghavan**

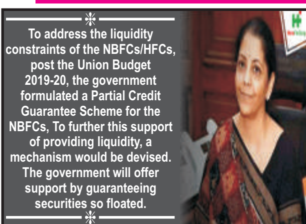
(July-September 2019)

The NBFC sector pivotal to making the USD 5 trillion economy aspiration a reality: Ramesh Iyer, Chairman FIDC

In the 2019 budget, the Government announced its aspiration of achieving a USD 5 trillion economy over the next five years. We are an important constituent of the financial services sector and the economy and have played a key role in funding first-time borrowers, the unbanked and unbankable customers, thus contributing to Financial Inclusion in its true sense. We also play a fundamental role in improving social indicators such as employment rate, per-capita income and percentage of population below poverty line. Thus hastening India's journey towards achieving the status of a developed nation. A healthy and growing NBFC sector is therefore crucial to achieving the USD 5 trillion aspiration and this has been well-acknowledged on various platforms. ***- Ramesh Iyer, Chairman, FIDC***

(October-December 2019)

Budget 2020 reforms for the NBFCs sector, Its impact & other key takeaways



In the second budget of the second term of the Prime Minister Narendra Modi-led government, Finance Minister Nirmala Sitharaman has had a tough job of striking a balance between meeting fiscal deficit targets and shaking up economic growth. Though the budget has primarily focused on areas like agriculture, infrastructure, individual taxpayers, foreign investors and domestic manufacturing, it has also announced reforms to boost liquidity for the NBFC sector and enable it to provide extra support to other sectors that can drive growth.

Here are the main reforms announced in Budget 2020 for the NBFC sector.

Reform 1: Reduced Limits for NBFCs under SARFAESI Act

Giving more power to NBFCs, the budget has reduced the asset size of NBFCs from Rs 500 crore to 100 crores to become eligible for debt recovery under the SARFAESI Act.

Reform 2: Sovereign Credit Guarantee for the NBFC

Nirmala Sitharaman's 2019 budget had formulated a partial credit guarantee scheme to tide over the liquidity crisis in the NBFC sector. Her 2020-21 budget further supports this by guaranteeing securities on stressed assets of NBFCs.

Reform 3: Invoice Financing by NBFCs

Another move that is expected to massively help the micro, small and medium sector is the proposal to make amendments in the Factor Regulation Act 2011, which will enable NBFCs to extend invoice financing to MSMEs through TReDS.

MOREOVER: In order to boost Agri finance, Sitharaman has proposed to **expand the NABARD refinance scheme to cover NBFCs**

An extension of Rs 1.5 lakh interest benefit on affordable housing loans, by another year to March 2021.

(January-March-2020)

They [NBFCs] have been able to raise funds in international markets, they have been able to raise funds in equity markets

Rajnish Kumar
Chairman of the State Bank of India

"My assessment is ... we're much more confident than we were six months ago."

"In the last two years, we have been doing clean-up and clean-up. So we are coming out of that," Kumar told CNBC's Karen Tso at the World Economic Forum in Davos, Switzerland earlier this week.

"Some (NBFCs) which may be weak or facing solvency issues, that may still be a cause of concern and that needs to be washed out. But today, we're in a much better position," he said. **(January-March 2020)**

Finance Minister announce measures for relief and credit support related to businesses, especially MSMEs and NBFCs to support Indian Economy's fight against COVID-19

Prime Minister Shri Narendra Modi had laid out a comprehensive vision in his address to the nation on May 12 announcing Rs. 20 trillion stimulus packages to restore the health of Indian economy hit by Covid-19 pandemic. "Essentially, the goal is to build a self-reliant India that is why the Economic Package is called AatmaNirbhar Bharat Abhiyaan."

Finance Minister Smt. Nirmala Sitharaman as a part of it following Measures for NBFCs:

Efforts to strengthen Non-Banking Finance Institutions (NBFCs), Housing Finance Companies (HFCs), and Micro Finance Sector were also unfolded:

1. Rs 30,000 crores Special Liquidity Scheme for NBFC/HFC/MFIs

Government will launch Rs 30,000 crore Special Liquidity Scheme, liquidity being provided by RBI. Investment will be made in primary and secondary market transactions in investment grade debt paper of NBFCs, HFCs and MFIs. This will be 100 percent guaranteed by the Government of India.

2. **Rs 45,000 crores Partial credit guarantee Scheme 2.0 for Liabilities of NBFCs/MFIs***

Existing Partial Credit Guarantee scheme is being revamped and now will be extended to cover the borrowings of lower rated NBFCs, HFCs and other Micro Finance Institutions (MFIs). Government of India will provide 20 percent first loss sovereign guarantee to Public Sector Banks.

Will provide funding to NBFCs via SPV: Economic affairs secretary Tarun Bajaj

A special purpose vehicle will be set up to provide liquidity support to NBFCs, economic affairs secretary Tarun Bajaj told ET. "An SPV would be created and liquidity pushed in... government of India will stand guarantee," Bajaj said. **(January-March 202)**

FIDC - A CRUSADER FOR CAUSE OF NBFCs IN TIMES OF COVID-19 CRISIS

"The global economy is inexorably headed into recession… Domestic economic activity has been impacted severely by the 2 months lockdown due to Covid-19," said Shri Shaktikanta Das, Governor, Reserve Bank of India on May 22 in his statement. FIDC had sensed it almost in last week of March. That perception was reflected in SOS like call to the Finance Minister saying 'CORONA VIRUS AND IMMEDIATE RELIEF FOR NBFCs' in its letter's title addressed to Her and further added "as the country emerges from the shock and starts to rebuild itself…" No other organization of finance entities, as reflected in media, had perhaps taken it as seriously as FIDC the task of Protecting NBFCs, their borrowers and Nation Rebuilding after this devastating impact on Health and Wealth of Nation due to Covid-19 and longest lockdown affecting largest number of human beings in the world. FIDC wasted no time and all possible alarm bells it started ringing loud and clear as NBFC Sector was hoping to come out from Liquidity conundrum and expecting better days ahead after the shock of IL&FS fiasco of 2018.

SPIRIT OF A CRUSADER: Even Lockdown did not deter FIDC's Top Brass and FIDC's Director General. With spirit of crusader FIDC Top Team moving all related and concerned authorities [Government-FM, Home Ministry, MCA; Regulatory and other authorities-RBI, SEBI, ICAI, SIDBI] with what is the need of hour, even foreseeing mid-term requirements due to consequences and impact of Covid-19 and Lockdown on economy with humble, polite but firm demands persistently. The flurry of persuasive Representations to authorities, virtual interactions and cogent and fact-studded communications and pleas with the authorities supported with newly build up techno-media of Tweeter, Facebook and LinkedIn as well as refurbished website FIDC obviously attracted the attention of media and analysts as well as financial columnists. Media support and Credit Rating Agencies' forewarning reports helped building conducive case for NBFC sector's requirements of liquidity, Government Guarantee, moratorium and funding especially for smaller and medium sized NBFCs for which pleas made by FIDC as well as business leaders of NBFCs in their interviews, webinars etc.

FIDC's these endevours and their outcome were aptly articulated by Sa-Dhan, SRO of MFIs recognized by RBI in a letter to FIDC noted that "We appreciate the substantial contribution of FIDC to tide over the impact of COVID 19, on NBFCs. These efforts are reflected in the decisions of regulators and Ministry of Finance. COVID 19 also brought together the industry associations/ SROs to work in tandem." **(April-June 2020)**

NON-BANKS WELL GEARED TO HANDLE SECOND COVID-19 WAVE, THOUGH NORMALISATION COULD GET EXTENDED

- Jinay Gala, India Rating and Research

Ind-Ra opines non-banks are better prepared to manage as they have ramped-up defences in form of stronger capitalisation buffers and better on-balance sheet liquidity buffers. Moreover, as of now, the lending environment remains subdued. Ind-Ra also notes the tested systems of non-banks to reach out to customers as well as benefits of operational efficiency would provide further support.

Ind-Ra believes non-banks had built adequate COVID provisions (150-200bp) during the first wave, where collection efficiency across major asset classes had normalised near pre-COVID levels. **(April-June 2021)**

COVID LEARNINGS FOR SMALL AND MEDIUM NBFCs

✦ **First**, the only ally of an NBFC is the fundamental strength of its business. Businesses that are built on solid fundamentals are more likely to survive.

✦ **Second**, NBFC business is not just an asset-side business, but is very much a liabilities-side business.

✦ **Third**, size matters. Even in these times of crises, larger NBFCs have managed to withstand adversities than small entities.

✦ **Fourth,** there is no substitute to high standards of governance.

Mr. K V Srinivasan, Co-Chairman, FIDC and Executive Director & CEO Profectus Capital Services Pvt. Ltd.

MESSAGE FROM CHAIRMAN FIDC MR. RAMESH IYER

As the Unlocking has slowly commenced, we need to interact and discuss not only on these problems, but also the Business opportunities and prospects and newer ways of getting funds, fighting liquidity constraints and Rating downgrades, Eligibility criteria for various GOI schemes, Collections, Recovery, New loans disbursements, demand pickup, economy, staff salary and welfare, work from home, migration and the special technological upgrades required under the "new normal".

RBI should consider infusing liquidity into NBFCs

SS Mundra, former Deputy Governor of the RBI said that the central bank should consider infusing liquidity into NBFCs as they have become cash-starved in the wake of the Covid-19 pandemic. "I am baffled as to why the RBI has been so reluctant to the NBFC sector. We should be conscious that the sector is very important, particularly to MSMEs. They can look at infusing liquidity in the sector." He also felt that the central bank should not hesitate in extending greater regulatory forbearance if a need arises. [Business Line, Sept.15] **(July-September 2020)**

NBFCS – THE KEY TO ECONOMIC REVIVAL AND BUILDING AN ATMANIRBHAR BHARAT

Ramesh Iyer, Chairman, FIDC & MD, Mahindra Finance

The Covid-19 pandemic, successive lockdowns and job losses have taken a toll on the economic growth of the country. But the good news is, economic recovery is already taking place. The dust over the pandemic-induced slowdown and funding crunch is settling. This provides the perfect opportunity for financial institutions and NBFCs in particular to once again play a pivotal role in further firing up growth engines, supply credit and spearhead economic recovery. **(January-March 2021)**

OVER 9,000 NBFCs GET A NEW FINANCING MARKET AS GOVERNMENT OPENS FACTORING GATES

Nirmala Sitharaman, Finance Minister

Parliament on July 29 passed the Factoring Regulation (Amendment) Bill, 2021, to bring changes in the legislation aimed at helping the MSME sector. "It is a very important Bill which will benefit the MSMEs of this country because a difficulty is constantly expressed by the MSME that their receivables are getting delayed.

Finance Minister Nirmala Sitharaman said the amendments will help the MSMEs. "Presently, there are only seven NBFCs which can extend this factoring benefit for MSMEs. Now by amending the Act, we will bring in 9,000 NBFCs — all of them can reach MSMEs," Sitharaman said. Currently, seven non-bank finance companies called NBFC factors do the majority of the factoring through the principal business condition. **(July-September 2021)**

THE ROLE OF THE FINANCIAL SECTOR ON THE GROWTH PATH AFTER THE PANDEMIC

As we tread ahead on the growth path after the pandemic, India's rightful place in the global economy will be built on a sound, stable and resilient financial system. Banks and NBFCs, being the power engines of our economy, must undergo continual metamorphosis to accelerate this transformational journey.

Shri Shaktikanta Das, Governor, Reserve Bank of India

The edifice of growth and development in modern societies is built on the foundation of a vibrant, resilient and well-functioning financial sector. I would now reflect on the strengths and challenges in our financial sector as we emerge from the pandemic.

Building Buffers for the Future: Banks have weathered the COVID-19 shock better than expected. As per the early trends, the GNPA and Capital Adequacy ratios of SCBs have further improved in September 2021 from their levels in June 2021. Banks have also been prudent in raising capital. Profitability metrics of several banks are also at highest levels in several years. The improved parameters partly reflect regulatory relief provided to banks during COVID-19 as well as fiscal guarantees and financial support given by the Government. Going forward, there are risks and challenges which require serious introspection and action on the part of the banking system.

First, the COVID-19 episode provides a real-life experience to take a fresh look at certain aspects of existing prudential and regulatory norms for financial entities regulated by RBI. Certain concerns have re-emerged from the crisis which warrant our attention. Most importantly, we are faced with the question of capital and provisioning buffers of banks, their adequacy and resultant usability during a crisis. I would thus strongly urge the banks to focus and further improve their capital management processes with a forward-looking, scientific and prudent approach.

(October-December 2021)

PM MODI ASKS FINANCIAL INSTITUTIONS TO COME UP WITH FUTURISTIC IDEAS TO MEET THE EMERGING ECONOMIC NEEDS

Narendra Modi
Prime Minister

"Our Financing Sector will also have to consider innovative financing and sustainable risk management of new futuristic ideas and initiatives," stressed Prime Minister

"We have done many fundamental reforms and made new schemes to strengthen MSMEs. The success of these reforms is dependent on strengthening their financing"

The Prime Minister, Shri Narendra Modi on March 8 addressed a webinar on 'Financing for Growth & Aspirational Economy'. He said that the government has taken many steps to maintain the momentum of high growth in this budget. "By encouraging foreign capital flows, reducing tax on infrastructure investment, creating institutions like NIIF, Gift City, new DFIs, we have tried to accelerate financial and economic growth", he said. "The country's commitment to the widespread use of digital technology in finance is now reaching the next level. Be it 75 Digital Banking Units or Central Bank Digital Currency (CBDCs) in 75 districts, they reflect our vision", he added

The Prime Minister stressed the link between India's aspirations and strength of MSME. "We have done many fundamental reforms and made new schemes to strengthen MSMEs. The success of these reforms is dependent on strengthening their financing", he said.

The Prime Minister insisted that Industry 4.0 is not possible till the country moves ahead in the fields like fintech, agritech, meditech and skill development. Help of financial institutions in such areas will take India to new heights in industry 4.0, said the Prime Minister.

The Prime Minister asked whether India can emerge among top 3 countries in the sectors like constructions, start-ups, recently opened up sectors like drones, space and geo-spatial data. For this, he said, it is imperative that our industry and start up get full support of the financial sector. The expansion of entrepreneurship, innovation and search for new markets among the start-ups will happen only when there is deep understanding of these ideas of future among those who finance them. "Our Financing Sector will also have to consider innovative financing and sustainable risk management of new futuristic ideas and initiatives", Shri Modi emphasized.

He said India's aspirations are also linked with natural farming and organic farming. "If someone is coming forward to do new work in them, then it is necessary to think about how our financial institutions can help him", he added.

Referring to the work and investment in the health sector, the Prime Minister emphasized that in order to tackle the challenges relating to medical education, it is critical to have more and more medical institutions. "Can our financial institutions and banks can prioritize this in their business planning", the Prime Minister asked.

The Prime Minister touched upon environmental and ecological dimension of the budget. He reiterated India's goal of net-zero by 2070 and said that the work in this direction has already started. "To speed up these works, it is necessary to accelerate environment friendly projects. Study and implementation of green financing and such new aspects is the need of the hour today", he said. [PIB 8 March, 2022] **(January-March 2022)**

NEED FOR BORROWER CENTRIC REGULATIONS FOR LENDING

With the growth of Indian economy and the economic reforms brought in by the Govt in recent times, India witnessed a surge in demand for credit. This led to overlaps in the type of lending done by each of the lender categories and this resulted in RBI actively getting into the act of "harmonization" of regulations for these lenders. As a result of this change in regulatory approach, we have witnessed greater convergence and harmony in the norms, especially, the prudential norms prescribed for banks, NBFCs and FIs. In order to do this, RBI has also shifted focus to an "activity" based as against "entity" based regulation.

Lending, especially, retail lending is undergoing a major transformation in Modern India, with technology giving it a big boost. New age Digital lending has forced the regulator to not only setup an expert committee but also setup the first regulatory sandbox. With Financial Inclusion taking shape in our country, we are witnessing a surge in demand for credit. While, the regulator is working on the design and structure of the regulatory framework for digital lending, it is also the time to change the whole approach towards regulation of lending business in a diverse country like India.

Raman Aggarwal Director at FIDC and Area Head - NBFCs at CIEU (April-June-2022)

INDIA INC PLANS GREATER CAPEX PUSH IN FY23, SAYS CEO SURVEY BY BUSINESS STANDARD

More than half the CEOs surveyed say they plan to increase investment by over 25% Companies in India are planning to accelerate investment in adding capacities in 2022-23 as consumer demand is showing signs of a pickup after two years of slowdown due to the pandemic and lockdowns, a dipstick survey of chief executive officers (CEOs) this month shows.

FY22 while 10.5 per cent said they would invest less than they did in the previous financial year. **(April-June 2022)**

VEHICLE FINANCING

SECULAR OPPORTUNITY MEETS CYCLICAL TAILWINDS: HDFC SECURITIES

With green shoots in the underlying PV and CV segments, the Indian vehicle financing disbursals (FY22: ~US$ 42bn) is poised to ride a secular 15%+ CAGR over the next 4 years. New PV financing (US$ 20bn; +17% CAGR) is benefitting from rising premiumisation; yet remains thin on profitability due to elevated competitive intensity, especially in salaried class. Used car financing (US$ 4bn; +32% CAGR) is emerging as a sunrise sector, offering potential for high growth as well as high profitability (>2% ROA), benefitting from rising formalisation and increasing finance penetration. New CV financing is poised for a strong cyclical rebound, led by sustained recovery in fundamentals while the used CV financing market remains NBFC-dominated, translating into superior pricing power.

Rising cost of funds to keep improving spreads under check: The increasing interest rate environment with sharp repo rate hikes of 90bps (and expected further rate hikes) as well as increasing yields in the bond market are likely to drive cost of funds of vehicle NBFCs under coverage higher by ~50-70bps. NBFCs competing with banks such as Sundaram Finance are likely to witness higher pressure on NIM compared to NBFCs with relatively benign competitive intensity in their respective segments such as SHTF, CIFC, etc. **(July- September 2022)**

NBFCS BUILT UP FINANCIAL SOUNDNESS DURING 2021-22: RBI

The growing importance of the NBFC sector in the Indian financial system is reflected in the consistent rise of NBFCs' credit as a proportion to GDP as well as in relation to credit extended by scheduled commercial banks (SCBs) During 2021-22, NBFCs' balance sheet grew at a subdued pace driven by deceleration in their loans and advances. The sector, however, continued to show resilience in terms of sound capital position, improved asset quality, adequate provisioning and higher profitability.

Non-Banking Financial Companies (NBFCs) NBFCs' Balance Sheet Non-banking financial companies (NBFCs) weathered the pandemic supported by various policy initiatives. They built up financial soundness during 2021-22, marked by balance sheet consolidation, improvement in asset quality, augmented capital buffers and profitability. In the second wave of the pandemic during H1: 2021-22, the disruption to economic activity was limited due to adoption of localised and region-specific containment policies and the steady pace of vaccination. Contact-intensive segments and smaller businesses in the NBFC sector were however, hit hard and faced asset quality and liquidity stress. As the impact of the second wave waned and the third wave turned out to be short-lived, the NBFC sector regained momentum, cushioned by pro-active policy measures announced by the Reserve Bank and the government. The growing importance of the NBFC sector in the Indian financial system is reflected in the consistent rise of NBFCs' credit as a proportion to GDP as well as in relation to credit extended by scheduled commercial banks (SCBs).

OVERALL ASSESSMENT: NBFIs exhibited remarkable resilience in the face of the COVID-19 shock. During 2021-22, their operations gained traction notwithstanding the divergent speed of recovery in different sectors of the economy and cash flow disruptions faced by borrowers. Strong capital buffers and adequate provisioning in this unsettling environment are reassuring. The asset quality of NBFCs is expected to further improve in the near term, aided by strengthening economic activity. Sharper regulatory oversight, realignment in asset quality classification and prompt corrective action norms will further entrench stability. [Extract from the Reserve Bank of India Report "Trend and Progress of Banking in India" released on Dec. 27] **(October-December 2022)**

AN IDEA WHOSE TIME HAS COME: WILL NFIR BE A GAME-CHANGER FOR INDIA?

The proposed financial registry will kill information asymmetry, and change the dynamics for every stakeholder in the economy for the better.

Finance Minister Nirmala Sitharaman made a major announcement in her Budget speech: "A national financial information registry (NFIR) will be set up to serve as the central repository of financial and ancillary information. This will facilitate the efficient flow of credit, promote financial inclusion, and foster financial stability."

When operationalised, the NFIR will be a game-changer in ways not imagined. Sitharaman has given life to a long overdue idea flagged by the high-level task force on a Public Credit Registry (PCR) for India (2018), headed by the late Y M Deosthalee (ex-chairman and managing director of L&T Finance Holdings). The NFIR will do away with the current information asymmetry even as it betters visibility on all matters — financial and beyond.

While it's too early to speculate on the shape the NFIR will take, the structure mooted by the Deosthalee Committee was to have a PCR The strategic aspect that will centralise all credit information reporting, and then allow stakeholders to access information, per the allowed access level.

The long-term view is for the PCR to be a single window for lenders to access all factual credit information stored within and other linked sub-systems. It's time we have an entity which gives a complete view on the risks throughout the life-cycle of customers, from onboarding to exit for credit, saving, payments, or any financial product or service," says Navin Surya, founder, FinTech Convergence Council, and chairman emeritus of the Payments Council of India. He believes that the NFIR "can not only mitigate risks under the PMLA (Prevention of Money Laundering Act, 2002) and fraud, but also drive sustainable growth and financial inclusion".

UNIQUE FACTORS AT WORK TO ENSURE INDIA BECOMES 3RD-LARGEST ECONOMY

Digital competitiveness, mega public investment in infrastructure, a concerted effort to ensure development of a dominant manufacturing base, steps to reduce dependence on external energy supplies and political stability.

Two additional drivers are India's continued dominance as a food basket to the world and its resilient banking system. It is the largest producer of milk, pulses, and spices, and second largest in fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, and rice, supporting 17.8% of the world's population. India's financial institutions have shown resilience with a substantial decrease in NPAs (11% in FY18 to 5% currently) and capital adequacy (17%) to support credit growth.

India is a strong investment destination due to its diverse economy, growing middle class, and stable political environment. Its expanding technology sector and economic liberalisation offer many opportunities for businesses and investors. The nation's democratic institutions also provide a reliable foundation for longterm investment and hope for a prosperous future.

(January-March 2023)

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Guidelines on Default Loss Guarantee (DLG) in Digital Lending: RBI/2023-2024/41 DOR.CRE.REC.21/21.07.001/2023-24; 08.6.2023; Department of Regulation. [All Commercial Banks (including Small Finance Banks), Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks; and Non-Banking Financial Companies (including Housing Finance Companies)]

Framework for Compromise Settlements and Technical Write-offs: RBI/2023-2024/40; DOR.STR.REC.20/21.04.048/2023-24; 08.6.2023; Department of Regulation. [Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks All-India Financial Institutions Non-Banking Financial Companies (including Housing Finance Companies)]

Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 01 Entry: RBI/2023-2024/34; DOR. AML. REC. 16/14.06.001/2023-24; 05.6.2023; Department of Regulation; [The Chairpersons/ CEOs of all the Regulated Entities]

LIBOR Transition: RBI/2023-2024/30; CO. FMRD. DIRD. 01/ 14. 02.001/2023-24; 12.5.2023; Financial Markets Regulation Department. [The Chief Executive Officer/ Chairman/Managing Director, All Commercial and Co-operative Banks / All India Financial Institutions / Non-Banking Financial Companies including Housing Finance Companies and Standalone Primary Dealers]

Formalisation of Informal Micro Enterprises on Udyam Assist Platform: RBI/2023-2024/27; FIDD.MSME & NFS. BC. No. 09/ 06. 02.31/2023-24; 09.5.2023; Financial Inclusion and Development Department. [The Chairman/ Managing Director/Chief Executive Officer All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks / District Central Co-operative Banks All-India Financial Institutions All Non-Banking Financial Companies]

Amendment to the Master Direction (MD) on KYC – Instructions on Wire Transfer: RBI/2023-2024/25; DOR. AML. REC. 13/ 14. 01. 001/2023-24;04.5.2023; Department of Regulation. [The Chairpersons/CEOs of all the Regulated Entities]

Amendment to the Master Direction (MD) on KYC: RBI/2023-2024/24; DOR.AML.REC.111/14.01.001/2023-24; 28.4.2023; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of two entries: RBI/2023-2024/23; DOR. AML.R EC. 107/ 14.06.001/2023-24;27.4.2023; Department of Regulation. [The Chairpersons/CEOs of all the Regulated Entities]

Framework for acceptance of Green Deposits: RBI/2023-2024/ 14;DOR.SFG.REC.10/30.01.021/2023-24;11.4.2023; Department of Regulation. [All Scheduled Commercial Banks including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks) All Deposit taking Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs)]

RBI issues norms for acceptance of green deposits by banks

The Reserve Bank of India (RBI) released comprehensive instructions for banks and non-banking financial companies (NBFCs) regarding the acceptance of 'green deposits'. These deposits can be utilized for financing ventures such as renewable energy, energy efficiency, clean transportation, climate change adaptation, water and waste management, pollution prevention and control, green buildings, Sustainable management of living natural resources and land use, Terrestrial and aquatic biodiversity conservation.

Effective June 1, 2023, the Reserve Bank of India (RBI) has introduced a framework to encourage Regulated Entities (REs) to offer green deposits to customers, protect depositors' interests, aid customers in achieving their sustainability objectives, address greenwashing concerns, and boost credit flow to green activities/projects.

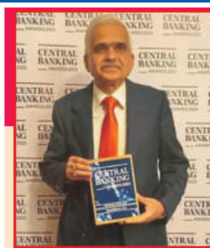
The proceeds from green deposits should be allocated based on the official Indian green taxonomy. As an interim measure, REs should channel the proceeds to a specified list of green activities/projects that encourage energy efficiency, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation, and enhance natural ecosystems and biodiversity.

Nuclear power generation, direct waste incineration, landfill projects and hydropower plants larger than 25 MW are among the uses that are prohibited using funds raised via green deposits.

However, there is a list of exclusions for REs, such as projects involving fossil fuel extraction, nuclear power generation, and direct waste incineration. Banks and NBFCs will need to implement a comprehensive board-approved policy on green deposits.

Need of these norms: Recognized as one of the most pressing challenges globally, climate change has prompted diverse efforts to reduce emissions and promote sustainability. In India, green finance is gaining momentum and the financial sector can play a crucial role in mobilizing resources and allocating them towards green initiatives.

As such, the Reserve Bank of India (RBI) has issued a framework for regulated entities to accept green deposits. Some regulated entities are already providing green deposits to finance green projects and activities. [Adda-Current Affairs, April 13]



Shaktikanta Das honoured with 'Governor of the Year' by Central Banking in London.

The award recognised his role as the RBI chief in managing inflation and skilfully handling India's banking system during crisis situations like Covid-19 and global turmoils.

Fair Lending Practice. Lenders will have to operationalise 'penal charges' in place of 'penal interest': RBI draft circular

Lenders cannot levy penalty for default/non-compliance of material terms and conditions of loan contracts by a borrower in the form of 'penal interest' that is added to the rate of interest charged on the advances, according to the RBI.

In its draft circular on 'Fair Lending Practice - Penal Charges in Loan Accounts, the RBI said penalty in the aforementioned case should be treated only as 'penal charges'.

The operationalisation of the 'penal charges' in place of 'penal interest' will be subject to appropriate review during supervisory examination by the RBI.

The RBI addressed the draft circular to all Commercial Banks, Urban Co-operative Banks, NBFCs (including HFCs) and All India Financial Institutions.

"There shall be no capitalisation of penal charges — that is, no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account," said the RBI.

The central bank noted that many REs use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned.

RBI emphasised that the intent of levying penal interest/ charges is essentially to inculcate a sense of credit discipline among borrowers through negative incentives and to ensure fair compensation to the lender.

Penal interest/charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest, it added.

"It needs to be recognised that the rate of interest on a loan includes appropriate credit risk premium reflecting the credit risk profile of the borrower. If the credit risk profile of the borrower undergoes change, REs will be free to alter credit risk premium as per the contracted terms and conditions...," the circular said.

RBI underscored that the quantum of penal charges should be proportional to the defaults/ non-compliance of material terms and conditions of loan contract beyond a threshold. This threshold is to

be determined by the REs and cannot be discriminatory within a particular loan/product category.
The penal charges in case of loans sanctioned to individual borrowers, for purposes other than business, cannot be higher than the penal charges applicable to non-individual borrowers.
Penal charges and the conditions precedent therefor, should be clearly disclosed by REs to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.
RBI said whenever reminders for payment of instalments are sent to borrowers, the applicable penal charges, should also be communicated.
The central bank said REs have to ensure that there is a clearly laid down Board approved policy on penal charges or similar charges on loans. RBI said stakeholders can submit their comments on the 'Draft Circular' by May 15, 2023. [Business Line, April 12]

RBI asks REs to ensure outsourcing doesn't diminish their ability to fulfil obligations to customers

Regulated Entities (REs) have to periodically review the financial and operational condition of IT and IT-enabled service providers to assess their ability to meet outsourcing of IT services obligations, according to the Reserve Bank of India (RBI).
In its Master Direction to REs (Banks, non-banking finance companies, credit information companies and all-India financial institutions) on outsourcing of IT services, the RBI said such due diligence reviews shall highlight any deterioration or breach in performance standards, confidentiality, and security, and in operational resilience preparedness.
The RBI emphasised that the underlying principle of its Master Direction is to ensure that outsourcing arrangements neither diminish REs ability to fulfil its obligations to customers nor impede effective supervision by the RBI.
With a view to provide REs adequate time to comply with the requirements, the RBI said the Directions shall come into effect from October 1.
The RBI said REs shall be responsible for the confidentiality and integrity of data and information pertaining to the customers that is available to the service provider.
Access to data at REs' location / data centre by service providers shall be on need-to-know basis, with appropriate controls to prevent security breaches and/or data misuse.
In instances where a service provider acts as an outsourcing agent for multiple REs, care needs to be taken to build adequate safeguards so that there is no combining of information, documents, records and assets, per the Directions.
RE has to ensure that cyber incidents are reported to it by the service provider without undue delay, so that the incident is reported by the RE to the RBI within 6 hours of detection by the Third-Party Service Provider.
Concentration risk: REs have to effectively assess the impact of concentration risk posed by multiple outsourcings to the same service provider and/or the concentration risk posed by outsourcing critical or material functions to a limited number of service providers
In establishing a viable contingency plan, REs have to consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency, and the costs, time and resources that would be involved.
REs have to ensure that service providers are able to isolate the REs' information, documents and records and other assets. This is to ensure that, in adverse conditions or termination of the contract, all documents, record of transactions and information with the service provider and assets of the RE can be removed from the possession of the service provider, or deleted, destroyed or rendered unusable.
A RE can outsource any IT activity/ IT enabled service within its business group/ conglomerate, provided that such an arrangement is backed by the Board-approved policy and appropriate service level arrangements/ agreements with its group entities are in place.
To manage the risk arising from engagement of a service provider based in a different jurisdiction, RBI asked REs to closely monitor government policies of the jurisdiction in which the service provider is based and the political, social, economic and legal conditions on a continuous basis, as well as establish sound procedures for mitigating the country risk.
This includes, inter alia, having appropriate contingency and exit strategies. Further, it has to be ensured that availability of records to the RE and the RBI will not be affected even in case of liquidation of the service provider. [Business Line, April 10]

Welcome Shri Swaminathan Janakiraman

New RBI Deputy Governor
Amongst various portfolios he is assigned are Department of Supervision as well as Financial Inclusion and Development Department.

Focus is on strengthening financial institutions: Patra

Patra said the future of cross-border payments will be characterised by setting up of payment rails for instantaneous payment transfers.

The Reserve Bank of India (RBI) is focusing on strengthening the ability of financial institutions to manage third-party risks and outsourcing, arising from Big Tech and fintech, deputy governor Michael Patra said on Wednesday.
"We aim to expand the narrative beyond financial stability and financial integrity concerns to capture the cross-sectoral and macro-financial implications and risks," Patra said. He was addressing the RBI-promoted Indira Gandhi Institute of Development Research's maiden alumni meet.
Patra said the future of cross-border payments will be characterised by setting up of payment rails for instantaneous payment transfers.
"India is also gearing up for the launch of the digital rupee. Internationalisation of home-grown payment modes is being enabled through tie-ups with payment service providers that allow QR code-based merchant payments in Bhutan and Singapore," he said. [Financial Express, May 11]

RBI's digital guidelines created a level playing field between players, say NBFCs captains

The biggest benefit of digital lending has been the improved reach and efficiency for lenders, say NBFC honchos at the ETBFSI NBFC Connect conference in Chennai.

Non-banking finance companies feel the RBI's digital lending guidelines have bridged the gap between the material and the regulated players and see the space evolving.
"RBI's digital lending guidelines have levelled the playing field for the material players and the regulated players," said Souparno Bagchi, COO, Balancehero India at the ETBFSI NBFC Connect conference held in Chennai.
An evolution in terms of the ecosystem is coming up in the NBFC space. Bagchi said, adding that collaboration would be the keyword and the players to focus on it will be the winners.
Anil Pinapala, Founder & CEO, Vivifi Finance, said digital lending is the biggest boon for all lenders including banks, which themselves are all digital today.
"The biggest benefit of digital lending has been the improved reach and efficiency for lenders. The ultimate goal is to increase financial inclusion," he said.
Manish Bhatia, President-Technology, Analytics & New Capabilities, LendingKart, said, "Understanding the risk factor is the most important thing while lending. Signals like whether the customer has the right intent, if they are accessible, etc must be watched out for."
"We were rattled when RBI came out with digital lending guidelines but it clarified a lot of things making business much more easier," he added.
Prashant Muddu, MD & CEO, Jocata, said the shrinkage of ticket size has opened up a big opportunity for digital lenders as it is easier to provide small ticket loans. "The way underwriting models are evolving with alternative data flowing in, digital lending processes will get better," he said. [ETBFSI Research, ETBFSI, May 2]

RBI to banks: Treat GST-exempted informal units with Udyam Assist certificate as micro units for priority loans

Credit and finance for MSMEs: The Reserve Bank of India (RBI) has informed all financial institutions including banks and NBFCs to treat informal micro enterprises (IMEs) not covered under the Goods and Services Tax (GST) regime or exempted from the CGST Act, 2017, but having the Udyam Assist Certificate (UAC) as micro enterprises for classification under the priority sector lending (PSL) norms.

"IMEs with an Udyam Assist Certificate shall be treated as Micro Enterprises under MSME for the purposes of PSL classification," the central bank said in a notification on May 9 to all lenders.

The government has clarified to RBI that IMEs are those enterprises which are unable to get registered on the Udyam Registration Portal (URP) due to a lack of mandatory required documents such as Permanent Account Number (PAN) or Goods and Services Tax Identification Number (GSTIN). Hence such enterprises are unable to avail the benefits of government schemes or programmes, RBI said in the notification.

The central bank added that it has been clarified the turnover of enterprises exempted from filing returns under the provisions of the CGST Act, 2017 shall be the sole criterion to be defined as IMEs for the purpose of UAP. Accordingly, IMEs are those enterprises not covered in the GST regime.

Importantly, the MSME ministry's Development Commissioner Office in an order in December last year, ahead of the launch of the Udyam Assist Platform (UAP) in January this year, had said that the certificate issued on the UAP would be treated at par with Udyam Registration Certificate for IMEs for availing the PSL benefits, FE Aspire had reported.

UAP is essentially a formalisation project by the MSME ministry and SIDBI to bring informal micro units, which don't have necessary documents such as permanent account number (PAN) or GST identification number, into the formal ambit and enable them access to formal bank credit.

However, promoters of these IMEs are well banked and their transaction history helps banks understand their liquidity and repayment capacity for loans raised. This surrogate data is helpful in providing these units loans.

To register IMEs, UAP requires banks and other financial institutions — known as Designated Agencies (DAs) under this formalisation project — to share data of their IME customers for registration. The platform then validates the data, registers IMEs on the Udyam registration portal, and generates the registration number along with UAC.

According to the data from the Udyam registration portal as of Thursday, out of 1.73 crore MSMEs registered on the portal, 13.32 lakh units were IMEs registered through the assist platform. [Financial Express, May 11]

Customers to receive compensation for delayed updation/rectification of credit information: RBI

The Reserve Bank of India (RBI) on Thursday announced that it will put in place a comprehensive framework for strengthening and improving the efficacy of the grievance redress mechanism and customer service provided by the credit institutions (CIs) and credit information companies (CICs).

This move comes in the wake of an increase in customer complaints regarding credit information reporting and the functioning of CICs.

In addition, RBI is also planning to put in place measures such as compensation mechanism for delayed updation/ rectification of credit information; a provision for SMS/ email alerts to customers when their credit information is accessed from CICs.

Further, the central bank will prescribe a timeframe for ingestion of data received by CICs from credit institutions and disclosures relating to number and nature of customer complaints received on the website of CICs.

The RBI will shortly issue detailed guidelines in this regard. The CICs have been brought under the aegis of the Reserve Bank Integrated Ombudsman Scheme (RB-IOS). [Business Line, April 06]

RBI approves expanding UPI transactions to allow credit payments

Individuals with pre-approved credit lines from banks will soon be able to use it to make payments over the Unified Payments Interface (UPI), the Reserve Bank of India (RBI) said on Thursday, setting the stage for new credit products over the home-grown payments platform.

Currently, UPI payments can be done between deposit accounts, sometimes intermediated by pre-paid instruments including wallets. Last June, the RBI also approved the use of Rupay credit cards on UPI, stoking hopes that it would eventually allow delivery of credit products through the payments mechanism.

On Thursday, RBI permitted transfer of funds to and from pre-sanctioned credit lines. "In other words, UPI network will facilitate payments financed by credit from banks. This can reduce the cost of such offerings and help in development of unique products for Indian markets," RBI said in a statement. Pre-sanctioned credit lines or pre-approved credit refers to credit that banks approve for customers after analysing internal data.

UPI currently accounts for 75% of retail digital payments volume in India. In March alone, it recorded 8.7 billion transactions worth Rs. 14.1 trillion, showed data from the National Payments Corp. of India (NPCI).

Lauding the move, bankers and industry experts said the move would push lenders to come up with newer products to cater to this. "Allowing the operation of pre-sanctioned credit lines through UPI could help broad-base credit delivery and promote the development of new UPI-based revolving credit products," said Zarin Daruwala, cluster CEO, India and South Asia markets (Bangladesh, Nepal and Sri Lanka), Standard Chartered Bank.

Shivaji Thapliyal, head of research and lead analyst at Yes Securities said letting pre-sanctioned credit lines from banks opens up a new avenue of monetizing the UPI platform.

Banks, Thapliyal said, will now be able to offer credit products and, essentially, mimic credit card offerings from a credit perspective, without actually issuing a physical credit card or requiring bulky and expensive physical acceptance infrastructure.

"However, this may also include non-customers whose credit bureau and other information may have been analysed by the banks," he said.

Others said the cost of disbursing credit would reduce once this is operationalized. [Mint, April 6; Shayan Ghosh]

RBI set to add Sentiment Index to boost Supervision beyond financials

The Reserve Bank of India is developing a "sentiment index" to assess aspects beyond financial, such as organisational culture, governance standards, and management behaviour, in order to strengthen its supervision over regulated entities such as banks and non-bank lenders, according to a person aware of the development. The RBI has access to lots of data, both structured and unstructured, from the entities it regulates, the above-mentioned person told BQ Prime on the condition of anonymity as he is not authorised to talk to the media. The central bank will use that to come up with a sentiment index for aspects that go beyond the financials, he said. The sentiment index, along with the supervisory data, will also capture possible risks in the system, cues for which may emerge while sifting through data from public filings, media reports, and especially social media, the person said. As part of the process to come up with a sentiment index, the RBI even called on consultants—Boston Consulting Group, McKinsey, PwC, KPMG and EY—to do a proof of concept for a sentiment index.

These consultants used data from Twitter handles, news reports, social media, local-level news reports, and other sources to create a version of the sentiment index, the above-mentioned person said. One consultant went on to track Twitter more granularly, including well-known influencers, and how their comments impacted sentiment for an institution, the person said.

The sentiment index is to provide the department of supervision team with cues on whether there are any kinks in the system and why such noises are being created against such an entity on any platform, the above person said. The process of generating the sentiment index will involve parsing such external data into specific departments depending on whether the concerns raised are about governance, mis-selling, fraud, employee conduct, service standards, or even technology outages.

Even as the intention behind the RBI's sentiment index is to look at

non-financial data for supervision, the fact that the central bank will now track complaints data, and social media handle responses is important. Financial institutions have focused more on complaints submitted via formal systems, but complain submitted via formal systems, but complaints raised on social media platforms end up not getting resolved or receiving only template replies. This will aid redressal of such complaints in a timely manner.

This external data can then be used by the RBI to understand and verify submissions made by the regulated entity as part of supervision, ombudsman data, fraud complaints, and so forth.

The sentiment index will not only help supervision go beyond reported numbers, the person said, adding that the RBI will keep such an index as an internal data point and will only share it with concerned regulated entities when seeking improvements as part of the supervisory process. [BQ Prime, April 17]

First Loan Default Guarantee: The RBI's FLDG fillip to borrowing

The Reserve Bank of India (RBI) has allowed the use of Digital Lending Guarantees (DLG) or FLDGs as they are popularly known, for commercial banks, co-operative banks, NBFCs and HFCs. This means they can work with fintechs to lend to customers they have not reached so far.

A first loan default guarantee, or FLDG, is a legally-enforceable contract, typically between an RBI-regulated entity (RE) and a fintech. The fintech promises to compensate the lender for a pre-determined loss incurred in the event of a loan default. The RBI has capped this guarantee at 5%. Any other similar implicit guarantee linked to the performance of the loan portfolio of the RE and specified upfront, would also be covered under the definition of DLG.

An RE can enter into such an agreement only with a Lending Service Provider (LSP) or another RE with which it has entered into an outsourcing arrangement; the LSP providing the DLG must be incorporated as a company under the Companies Act, 2013.

Before the regulator banned FLDGs last year—when it felt lenders were taking on too much risk on their balance sheets—some fintechs were offering huge guarantees that, on occasion, were 100% of the loan value. On average, however, the size of the guarantee was 25-30%. Much will depend on how the Account Aggregator mechanism takes off; with high-quality data at their disposal, helping them to appraise borrowers better, NBFCs and banks may be content to lend with only a 5% FLDG.

Fintechs providing the FLDG must furnish an audited statement on the total value of guarantees provided, the numbers of entities to which they have been provided as also the respective loan portfolios. They must also declare the historical default rates on similar loan portfolios. [Financial Express, June-10]

Banks knock RBI door with plan to curb online frauds

One fraudulent transaction occurred for every 55,653 digital transactions in the last quarter of FY22-23. According to the Reserve Bank, in January, 10 billion retail digital payment transactions worth Rs. 51 trillion were processed.

A threshold for transactions in new accounts, a Central 'negative registry' of the accounts of known fraudsters and a standard operating procedure to stop the downstream flow of funds once a fraud is reported—these are some of the measures suggested by Indian banks to stop online frauds, which are on the rise, according to data from the Reserve Bank of India.

According to a note by RBI, which has been reviewed by Hindustan Times, one fraudulent transaction occurred for every 55,653 digital transactions in the last quarter of FY22-23, up from one in 59,000 transactions in Q3 of 21-22.

"During the quarter ended March-2023… for every Rs. 1 lakh of digital payment value processed during the said quarter, Rs. 1.45 was fraudulent," the note said.

The volume and value of digital transactions highlights the magnitude of the problem—according to the Reserve Bank, in January, 10 billion retail digital payment transactions worth Rs. 51 trillion were processed.

The central bank said it has launched a web-based workflow system called DAKSH on 6 October 2022 to share threat intelligence obtained from the cyber incident reporting mechanism.

The portal, according to RBI, "apart from the incident details, (also) captures impact assessment, stakeholder communication, root cause analysis, Indicators of Compromise (IP addresses, signatures, etc), recovery mechanism and the RBI's assessment of the incident."

The central bank added that based on market intelligence and incidents reported by REs (regulated entities), "confidential advisories are issued to them for sensitising them about the threat and to enable them to take prompt preventive/corrective action."

Both RBI and the Indian Banks Association (IBA)—a council of 229 banks and financial organizations—have argued that a number of measures have already been put in place.

But the Indian Banks Association, in a note (also reviewed by Hindustan Times) pushed for more safeguards as online frauds are evolving with the advent of newer technologies.

The banks have suggested a negative registry of fraudsters' accounts to allow all banks access to the data base.

"Reserve Bank of India has an exhaustive data base for the Fraud/attempted fraud in the form of CFR/CPFIR. Further, this RBI database can be enriched by MHA (Cyber Police) who have the end-to-end data of the complaints," said the note.

It further suggested that "in the case of newly opened CASA (current and savings) accounts, banks could fix threshold limit of transaction "on the basis of the "financial soundness" of account holders and also monisot "frequent transactions to high-risk merchants Paytm, Phone pe, Airtel money etc. "

Another measure proposed was creation of a "robust SOP to stop the downstream flow of funds once a fraud is reported."

And if a bank comes to know that "any customer has received proceeds of any fraudulent /theft amount in their account," it should block the account immediately and take "further steps" according to law, the note from IBA added.

It also suggested a more effective interface with law enforcement.

"A state-wise centralized contact centre can be establish to send and receive information and update about cyber fraud between banks and law enforcement agencies for faster and uniform resolution." [Live Mint, 10 May; Saubhadra Chatterji]

Banks, lenders wary as RBI tags centralised KYC as high risk

This has put off banks and other large lenders as they may now have to use video KYC or physical KYC, which are costlier, to authenticate their customers.

Centralised Know Your Customer (c-KYC) database, which was conceived as a solution to all the KYC challenges for financial institutions, has been tagged as high risk by the Reserve Bank of India (RBI). This has put off banks and other large lenders as they may now have to use video KYC or physical KYC, which are costlier, to authenticate their customers.

"Such customers (onboarded through c-KYC and DigiLocker) shall be categorised as high-risk customers and accounts opened in non-face-to-face mode shall be subjected to enhanced monitoring until the identity of the customer is verified in face-to-face manner or through V-CIP (video-based customer identification process)," the RBI said in its April 28 update to the master direction on KYC.

C-KYC had attained quick popularity in the financial services sector given its utility and customer convenience.

As per records from Central Registry of Securitisation Asset Reconstruction and Security Interest of India (Cersai), which manages the registry, there are around 5,000 institutions using the database that contains around 700 million KYC records.

So, even if a bank uses c-KYC to onboard a customer, it will eventually have to use video KYC or physical check to authenticate the person. Two senior bankers said the regulator's move will push up the eventual cost of doing KYC on these customers.

Industry estimates suggest that a video KYC can cost anywhere between Rs 15 to Rs 30, depending on the complexity of the process. In comparison, searching data on the c-KYC registry is free and downloading the data costs around Rs 1.10.

A high-risk customer needs to be re-KYCed every six months, which will be a recurring cost for the lenders.

Interestingly, the directive declaring c-KYCed customer as high-risk ones has only come from the RBI that regulates banking. Regulators

of insurance and broking, for example, have not yet issued any such directions.

For lenders, the ideal scenario would have been to do a c-KYC check and be done with it. But given the regulatory diktat, now they have to eventually do a video verification, which will push up costs.

Look for simplicity: Before offering any service, every financial institution is mandated to undertake a due diligence on the customer. Historically, they have taken physical copies of their identity cards, PAN cards, etc. to validate them. Now, with entire systems going digital, financial institutions typically ask customers for documents digitally and validate them through Aadhaar or over a video call with a banks' agent.

But every financial institution needs to do it separately for each and every customer they onboard. With c-KYC, they can fetch any customer details from the data repository and validate the applicant without having to ask for their documents repeatedly. All the customer needs to do is to have a one-time KYC with any of the financial institutions like banks, wallets, insurance companies or stock brokers and give permission to share their data with the c-KYC registry.

But now with the latest diktat from the regulator, banks might want to go back to just using video KYC.

"It is not clear as to why the central bank tagged customers onboarded through c-KYC as high risk, maybe the regulator has visibility over something that we cannot see," said one of the bankers mentioned above.

Industry insiders ET spoke to said c-KYC perhaps has a long way to go in order to stabilise and ensure there are no issues around identity frauds and data misuse.

"We really had much higher expectations from c-KYC data, but what I can say is the data that we get from the repository is not as per our expectations," said Harshvardhan Lunia, chief executive officer, Lendingkart Technologies, a digital lending company.

However, fintechs and many NBFCs continue to use this service as a part of the digital KYC offerings. Large banks, which are extremely careful about the kind of customers they are onboarding, might want to stay away.

Concerns over data quality: A top executive at a fintech, which works as a technology service provider to banks and NBFCs, said the quality of data which one gets from the repository is bad. "Most of the time the documents have been scanned in a way that they cannot be read, images cannot be matched… How do we check frauds then?" he said.

He explained that the c-KYC search API asks for PAN and date of birth to throw up results. But these details are easily available in the public domain and can be replicated by a fraudster.

"With the rapid adoption of c-KYC, the RBI wants to ensure that the right customer is onboarded with the right set of consent," said Wriju Ray, cofounder of Mumbai-based identity verification startup Idfy. "What we see is that banks are doing a c-KYC check and then moving on to a video KYC to check liveness and face match or a physical KYC where a branch officer or a business correspondent does a physical check," he added.

Idfy works with lenders like HDFC Bank, payment apps like PhonePe, and others. [ET Tech, May 24; Pratik Bhakta]

Warning bells. Don't increase unsecured loans exposure: RBI to banks

In 2019, the risk weight on unsecured loans excluding credit cards was reduced from 125 per cent to 100 per cent to place them at par with other retail loans.

In 2019, the risk weight on unsecured loans excluding credit cards was reduced from 125 per cent to 100 per cent to place them at par with other retail loans.

As part of increasing caution amidst growing macro-economic uncertainties and bank collapses in the US and Europe, India's central bank is asking banks back home to be watchful over their retail portfolios, particularly the unsecured loans. These include personal loans, credit cards, small business loans and micro finance loans.

The overall share of unsecured loans as an average across private banks has increased by over 300 basis points since June 2020 and this hasn't gone down well with the central bank.

"As a measure of prudence, the RBI has asked banks to stay within the limits seen in FY23 with respect to unsecured loans," said a CEO of a private bank.

Credit deployment: To be sure, as per the latest credit deployment data published by the RBI, unsecured loans lent between February 2022 to February 2023 stood at Rs. 2.2-lakh crore, higher than the deployment towards large corporates at Rs. 1.18-lakh crore.

The size of the home loan market during this period was Rs. 2.49-lakh crore just marginally larger than the unsecured loans market. A report by CARE Ratings pegs the unsecured loans market at Rs. 13.2-lakh crore, almost equal to the total exposure of the banking sector towards NBFCs (at Rs. 13.1-lakh crore).[Business Line, April 30]

Compromise settlement provides ways to lenders to recover lost money: RBI

The Reserve Bank of India (RBI) said on Tuesday that a "compromise settlement" with borrowers aims to enable multiple avenues to lenders to recover the money in default without much delay.

The RBI made the remarks while issuing a set issued a set of frequently asked questions (FAQs) on Framework for Compromise Settlements and Technical Write-offs. "The primary regulatory objective is to enable multiple avenues for lenders to recover the money in default without much delay," the RBI noted.

It further said that the provision enabling banks to enter into a compromise settlement in respect of borrowers categorised as fraud or wilful defaulter, is not a new regulatory instruction and has been the settled regulatory stance for more than 15 years.

On June 8, the RBI has issued a circular on Framework for Compromise Settlements and Technical Write-offs. The RBI had clarified in the June 8 circular that compromise settlement in respect of accounts categorised as wilful defaulters or fraud, without prejudice to the criminal proceeding underway against such debtors.

On dilution of penal measures, the central bank said it will remain unchanged what has been mentioned in the Master Directions on Frauds dated July 1, 2016, and the Master Circular on Wilful Defaulters dated July 1, 2015.

These penal measures entail that no additional facilities should be granted by any bank to borrowers listed as wilful defaulters, and that such companies can get debarred from institutional finance for floating new ventures for a period of five years from the date of removal of their name from the list of wilful defaulters.

Also borrowers classified as fraud are debarred from seeking bank finance for a period of five years from the date of full payment of the defrauded amount, the RBI added. [Business Standard, June 20]

RBI governor Shaktikanta Das cautions bank boards against loan evergreening

Reserve Bank of India (RBI) Governor Shaktikanta Das on Monday cautioned banks against aggressive growth strategies and the evergreening of loans, while also urging them not to allow any gaps in governance to creep in.

Addressing the board members of public and private sector banks, Das said it was found that some banks were resorting to "innovative" ways to conceal the status of their loans during supervisory processes, and "one method of evergreening was replaced by another" after being pointed out.

"Such practices beg the question as to whose interest such smart methods serve. I have mentioned these instances to sensitise all of you to keep a watch on such practices," Das said. He was discussing his 10-point charter, focusing on the soundness of the banking system and corporate governance, with the bank boards.

The evergreening of loans, in which banks artificially keep the loan classification standard, was one of the reasons for the sharp surge in non-performing assets (NPAs) in the previous decade.

In 2016, the regulator conducted a special review of banks' books, known as asset quality review (AQR), and identified loans that need to be classified as non-performing. This led to a surge in bad loans.

Citing NPA ratios – gross NPA at 4.41 per cent and net NPA at 1.16 per cent as of December 2022, the governor said while the banking sector was strong and stable with a capital adequacy ratio of 16.1 per cent, there should not be any room for complacency.

"It is in times such as these that complacency may set in. We have to

bear in mind that risks often get overlooked or forgotten when things are going well," he said.
The RBI governor delivered his speech on May 22 in New Delhi while addressing the board members of public sector banks, and on May 29 (Monday) to private bank boards in Mumbai. Observing that the business models of banks should be robust and prudent, Das emphasised on their asset-liability management.
"Over-aggressive growth, under-pricing or over-pricing of products both on the credit and deposit sides, and concentration or lack of adequate diversification in deposit/credit profile can expose banks to higher risks and vulnerabilities," he said.
He said gaps were found despite the regulator having issued several guidelines to strengthen governance at banks. "It is a matter of concern that despite these guidelines on corporate governance, we have come across gaps in governance of certain banks, with the potential to cause some degree of volatility in the banking sector," he said, adding while these gaps had been mitigated, it was necessary that boards and the managements "do not allow such gaps to creep in". [Business Standard, May 29]

RBI Governor Warns Private Banks Against Smart Methods To Hide NPAs

Reserve Bank of India Governor Shaktikanta Das told private bank directors to ensure strict corporate governance and warned them against hiding soured loans.
In a closed-door meeting between the RBI's top brass and directors on boards of all private banks in India on Monday, Das said that corporate governance lapses were found at banks.
The transcript of the speech by Das was released on the regulator's website.
"It is ... a matter of concern that despite these guidelines on corporate governance, we have come across gaps in governance of certain banks, with the potential to cause some degree of volatility in the banking sector," the RBI Governor said.
Speaking about some innovative ways in which banks hide the true status of stressed accounts, Das said such practices beg the question as to whose interest such smart methods serve.
Das cited examples of such methods:

- Bringing two lenders together to evergreen each other's loans by sale and buyback of loans or debt instruments.
- Good borrowers being persuaded to enter into structured deals with a stressed borrower to conceal the stress.
- Use of internal or office accounts to adjust borrower's repayment obligations.
- Renewal of loans or disbursement of new/additional loans to the stressed borrower or related entities closer to the repayment date of the earlier loans.

"We have also come across a few examples where one method of evergreening, after being pointed out by the regulator, was replaced by another method," Das said.
The RBI Governor also said that there was a need for independent directors to maintain their "independence". The board is also required to ask tough questions to the management and ensure robust corporate governance.
"…we have noticed the dominance of CEOs in board discussions and decision-making. It has been seen in such cases that boards are not asserting themselves." [BQ Prime, 29 May; Vishwanath Nair]

RBI working on portable payment system for transactions during tragic times

Reserve Bank of India is working on a light weight and portable payment system, a "bunker equivalent in payment systems", that can be used for critical transactions during catastrophic events like natural calamities and war.
The proposed Light weight and Portable Payment System (LPSS) will be independent of conventional technologies and can be operated from anywhere by a bare minimum staff, according to the central bank.
Existing conventional payment systems like RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer) and UPI (Unified Payments Interface) are designed to handle large volumes while ensuring sustained availability. These systems are dependent on complex wired networks backed by advanced IT infrastructure.
However, catastrophic events like natural calamities and war have the potential to render these payment systems temporarily unavailable by disrupting the underlying information and communication infrastructure, RBI said in its latest annual report released on Tuesday.
"Therefore, it is prudent to be prepared to face such extreme and volatile situations," it said.
Keeping this objective in mind, RBI has conceptualised the LPSS that will be independent of conventional technologies and can be operated from anywhere by a bare minimum staff.
"It is expected to operate on minimalistic hardware and software and would be made active only on a need basis. It would process transactions that are critical to ensure stability of the economy such as government and market related transactions," RBI said.
Such a system, the central bank said could ensure near zero downtime of payment and settlement system in the country. It will also help keep the liquidity pipeline of the economy alive and intact by facilitating uninterrupted functioning of essential payment services like bulk payments, interbank payments and provision of cash to participant institutions.
"Having such a resilient system is also likely to act as a bunker equivalent in payment systems and thereby enhance public confidence in digital payments and financial market infrastructure even during extreme conditions," RBI said.
During 2022-23, the payment and settlement systems recorded a robust growth of 57.8 per cent in terms of transaction volume on top of the expansion of 63.8 per cent recorded in the previous year.
The share of digital transactions in the total volume of non-cash retail payments increased to 99.6 per cent during 2022-23, up from 99.3 per cent in the previous year. [Business standard, May 30]

RBI Governor launches financial inclusion dashboard 'Antardrishti'

RBI Governor Shaktikanta Das on Monday launched a financial inclusion dashboard named 'Antardrishti'. The dashboard would, as its name suggests, provide the necessary knowledge to evaluate and track the development of financial inclusion by recording relevant data, according to a statement. This tool will also make it possible to assess the degree of financial exclusion at a local level across the nation so that such places may be addressed, the statement said.
The dashboard, presently intended for internal use in the RBI, will further facilitate greater financial inclusion through a multi-stakeholder approach. The Reserve Bank has been supporting financial inclusion by implementing a number of policy initiatives and the launch of Antardrishti' is another step in this direction. [Business Standard, June 05]

RBI-appointed panel suggests host of customer-centric initiatives for banks

An RBI-appointed panel on Monday recommended hosts of customer-centric initiatives for banks, including online settlement of claims by heirs of deceased account holders, flexibility for submission of life certificates by pensioners and a centralised KYC database.
The report of the Committee for Review of Customer Service Standards in RBI Regulated Entities (REs) has also suggested that the operations of accounts should not be stopped pending periodic Know Your Customer (KYC) updates.
It recommended that there should be a time limit for the return of property documents to borrowers after the closure of the loan account, failing which a penalty should be imposed on the lender. In case of loss of property documents, the RE should not only be obligated to assist in obtaining certified registered copies of documents at their cost but also compensate the customer adequately, keeping in view the time taken to arrange the alternate copies of the documents, the report said.
The committee reviewed the complaints received under the RE's Internal Grievance Redress (IGR) mechanism in the last three years and observed that the number of complaints has been range-bound in the region of around one crore complaints per annum, the report said.
In May last year, the Reserve Bank set up the committee under former RBI Deputy Governor BP Kanungo. [Business Standard, June 5] ■

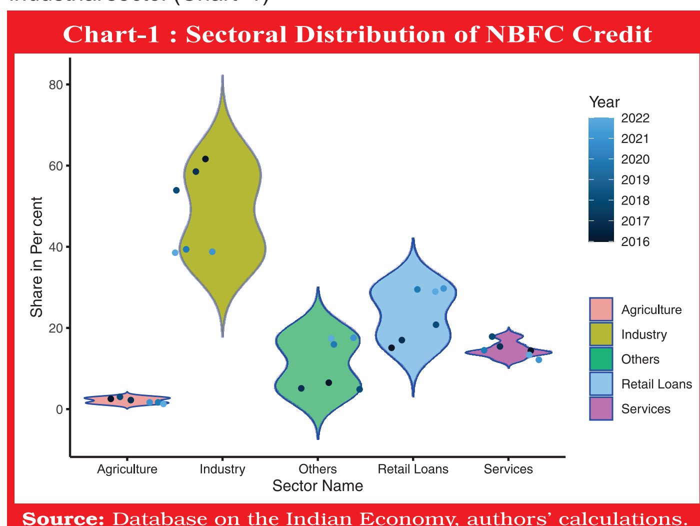
FINANCIAL RISKS DUE TO CLIMATE CHANGE: RBI REPORT

NBFCs extend about half of their gross credit to the power and vehicle/auto segments, which have high carbon footprints. Moreover, around six per cent of NBFC credit is directed to micro, small and medium enterprises (MSMEs), which typically depend on conventional fuel to operate.

Credit Risk: Both physical and transition risk drivers from climate events can reduce a borrower's capacity to service or repay debt and erode a lender's ability to fully recover losses if the pledged collateral values are insufficient. Banks, that are highly exposed to sectors more dependent on fossil fuels, or sectors which contribute highly to emissions due to the nature of their products, such as automobile and thermal power, are more exposed to transition risks.

The Non-Banking Financial Companies (NBFCs) complement and supplement the banking sector in India through their grassroot level presence and ability to deliver tailor-made products to meet varied needs of the customers. On the liabilities side, while NBFCs have been the largest net borrowers of funds from the financial system, on the asset side, the highest chunk of their lending is directed to the industrial sector (Chart -1)

Chart-1 : Sectoral Distribution of NBFC Credit



Source: Database on the Indian Economy, authors' calculations.

III.10 NBFCs extend about half of their gross credit to the power and vehicle/auto segments, which have high carbon footprints. Moreover, around six per cent of NBFC credit is directed to micro, small and medium enterprises (MSMEs), which typically depend on conventional fuel to operate. Given that NBFCs have strong backward and forward linkages with rest of the financial system and the real sector, any large-scale default arising on account of physical or transition risk in any of these segments might translate into macrofinancial instability. Therefore, in addition to the banking sector, there is a need to closely monitor NBFCs for their transition risks, both direct and indirect (Box III.2).

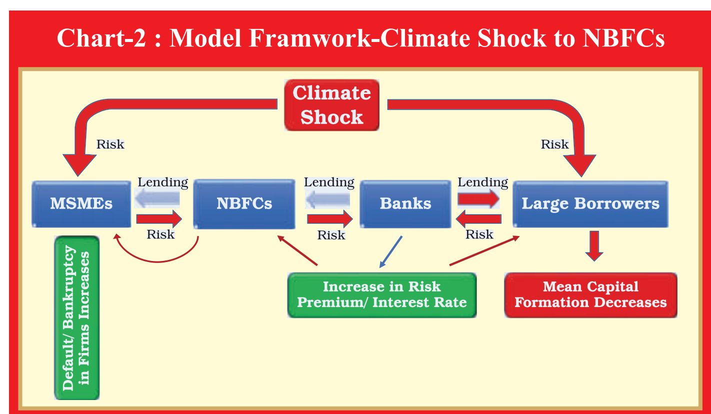
Market Risk: Market risk captures the change in value of financial assets due to changes in interest rates, exchange rates, asset prices, and their volatility. Climate transition risks can reduce financial asset values, leading to a breakdown in correlations and resultant dilution in the effectiveness of hedges. A study on the relationship between climate change and Asian stock markets suggests that the former has a statistically significant negative impact on long term return volatility of about 20 per cent of stocks (Oloko et al., 2022).

In addition, transition risk may result in higher risk premiums for carbon-intensive borrowers, thereby lowering valuations of financial assets that are used as collateral. Some studies argue that the securities accepted as a guarantee under the Euro system collateral framework are not "aligned" with the climate targets of the Paris Agreement, and are, therefore, exposed to transition risks (Weber et al., 2021).

Liquidity Risk: Climate risks can raise the liquidity risk of banks by impacting their capacity to raise funds and their ability to liquidate assets to meet their obligations. One of the main routes through which liquidity risk can transmit is through the credit channel. Credit lines, such as cash credit and overdrafts offered by banks to firms, are considered as liquidity insurance. In times of crisis, competing claims on liquidity from firms and the lenders may give rise to a tension between the two. Such tensions generally manifest as higher spreads on credit, higher charges for covenant violations, and barriers to drawdown of credit lines (Acharya et al. 2020, 2021). Such situations may follow severe climate events in which firms may ask for significant liquidity support while banks may be constrained to provide that support due to a degradation of their asset quality (Schu¨wer et al., 2019 and Rauf, 2023). Rauf further finds that affected banks are expected to face liquidity shortage and may restrict drawdowns of credit lines in the future.

Operational Risk: Operational risk arises mainly from inadequate controls within a bank, employee mistakes, and breakdowns in internal processes and systems, which in turn impact a bank's reputation. Climate events may exacerbate operational and reputational risks as

Chart-2 : Model Framwork-Climate Shock to NBFCs

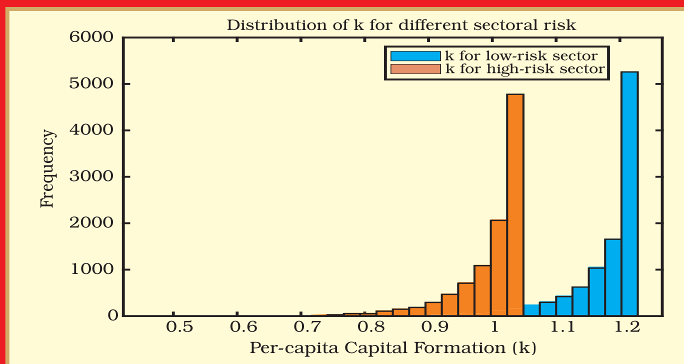


Box III.2 : Role of NBFCs in Propagating Climate Change Impact

A stylised partial equilibrium model to analyse real sector outcomes in response to a climate shock to NBFCs is developed in line with Ghosh and Mazumder (2023). The interrelationship between banks and NBFCs is the backbone of this model. While NBFCs are assumed to be non-deposit taking, scheduled commercial banks (SCBs) are deposit-taking financial institutions that extend loans to NBFCs. By assumption, SCBs lend to the large firms, and NBFCs fill-in the funding gap for small borrowers albeit by charging higher interest rates than SCBs (Chart 1). In the model, climate change impacts large as well as small firms. The direct impact on SCBs is due to their stressed Box III.2 Role of NBFCs in Propagating Climate Change Impact lending to large borrowers. In addition, the indirect channel works through climate change impact on small firms, which produce intermediate goods. Some of these firms may turn bankrupt, and default on their NBFC obligations. Although NBFCs by themselves are considered relatively small, the simulation results of the model show that the impact of a climate event could propagate to other sectors of the economy, given the NBFC-SCB borrowing interlinkages. When a climate shock first increases the riskiness of a small firm and then gets transmitted to a large firm, economy wide delinquency increases. Model simulation results indicate that faced with an adverse weather event and increase in risk, the distribution of capital stock shifts to the left (shift from blue distribution to orange in Chart 2) indicating its adverse effects on capital formation.

To sum up, notwithstanding a low share in total credit, any large-scale default in loans extended by NBFCs on account of weather events amplify delinquencies, given NBFCs' backward and forward linkages. Multiple propagation channels could increase the severity of a climate shock. Therefore, a careful vigil on NBFC sector is necessary during the process of transitioning towards a greener economy. Reference: Ghosh, S., and D. Mazumder (2023). Do NBFCs propagate real shocks?. Journal of Asian Economics: 101590.

Chart-3 : Impact of climate shock on capital formation

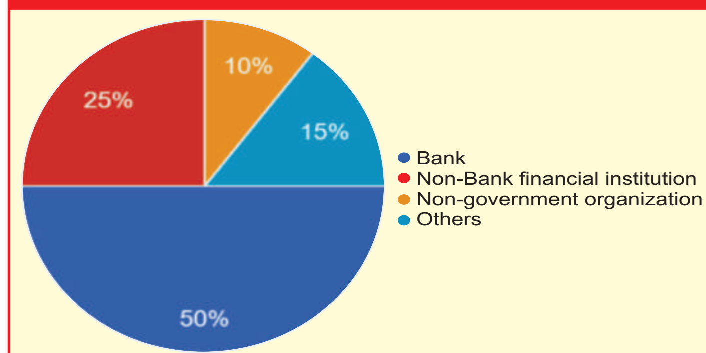


Source: Authors' calculations.

corporations and banks could be subject to legal and regulatory compliance risk, especially from climate-related lawsuits. Further, extreme weather events may impact the financial sector by forcing office closures or damaging crucial resources such as data centres. Stronger enforcement of regulatory and disclosure requirements by the regulator coupled with a competitive market structure may risk, the distribution of capital stock shifts to the left (shift from blue distribution to orange in Chart 2) indicating its adverse effects on capital formation. To sum up, notwithstanding a low share in total credit, any large-scale default in loans extended by NBFCs on account of weather events amplify delinquencies, given NBFCs' backward and forward linkages. Multiple propagation channels could increase the severity of a climate shock. Therefore, a careful vigil on NBFC sector is necessary during the process of transitioning towards a greener economy. Reference: Ghosh, S., and D. Mazumder (2023). Do NBFCs propagate real shocks?. Journal of Asian Economics: 101590.

Stakeholders' Survey on Climate Risks: A major factor that influences the effectiveness of policies and their transmission is market perception. An anonymous survey of various financial institutions in India was undertaken in December 2022 to assess the market perception of climate risks, their awareness about the same and policies implemented/ being contemplated by these institutions to hedge against them. The informal survey was conducted among major banks, NBFCs, brokerage institutions and other financial firms. The analysis in this section pertains to twenty responses received and is, thus, indicative in nature (Chart-4).

Chart-4 : Respondents' Affiliation



Source: Authors' calculations based on survey responses.

Challenges: The lack of capacity and data seem to be the biggest impediments to assess climate risk and implementing policies to mitigate them. Almost 95 per cent of the respondents said that they lack appropriate data to robustly assess climate risks. Consequently, only 25 per cent of respondents use scenario analysis to assess climate change risks.

Green Financing Requirement

III.34 Apart from the requirements of higher banking capital, a successful green transition plan would also entail a large new investment in an array of socio-economic infrastructures. A large number of estimates by various institutions suggest that the total financing requirements by India could be approximately 5 to 6 per cent of the annual GDP at the lower end. (Table-1).

Table-1 : Projected Estimates of Green Finance Requirements

Organisation	Target	India
Climate Policy Initiative, 2022	Till 2030 for NDC	USD 170 billion per year till 2030
International Energy Agency, 2022	To reach net zero emissions by 2070 on average between now and 2030	USD 160 billion per year
Council on Energy, Environment, and Water-Center for Energy Finance, 2021	To achieve net-zero carbon emission by 2070	USD 202 billion per year
McCollum et al., 2018	Below 1.5 degree Celsius from 2016-2050	USD 288 billion per year
McKinsey, 2022	Net zero emissions by 2070	USD 44 billion per year increased by 3.5 times by 2030 and by 10 times by 2040

Note: Most of the reports mentioned above do not specify the methodology used in their estimation. Given the possibility of differences in their underlying assumptions, scenarios and coverage, estimates may not be strictly comparable across the board.
Source: Reports of respective organisations/ authors as specified in the reference list.

The required investment amount would rise if the horizon to achieve the net zero target is shortened.

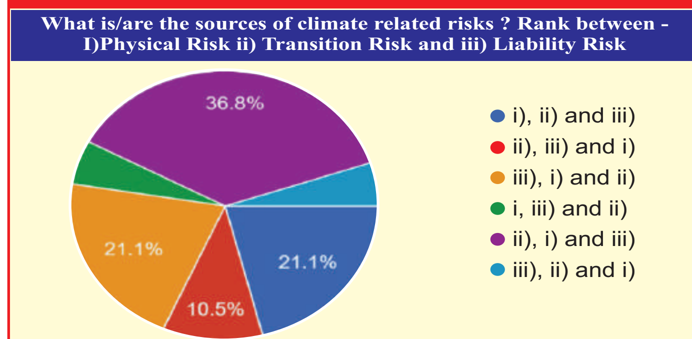
The estimates suggest that, in India, the gap between current infrastructure and the level of infrastructure which could have been achieved in the absence of climate events would be about 5.2 per cent. This, in turn, suggests that an additional annual investment of about 2.5 per cent of GDP would be required to replenish this infrastructure gap by 2030. As these estimates do not explicitly take into account any investment required for mitigation and adaptation due to climate change, the actual funding requirements are likely to be higher.

Green Credit and Priority Sector Norms in India: The early efforts of the Reserve Bank—for example its December 2007 notification—were directed at creating awareness and nudging the banks towards climate sensitive policies. In the recent decade, however, the Reserve Bank has initiated a more direct approach. The inclusion of renewable energy sector under priority sector lending (PSL) scheme in 2015 was one such direct measure. Under this scheme, firms in renewable energy sector are eligible for loans up to Rs.30 crores (increased from Rs. 15 crores since September 4, 2020) while the households are eligible for loans up to Rs. 10 lakhs for investing in renewable energy. A preliminary data analysis suggests that this approach was successful in channelising more resources to the renewable energy sector. As a result of the first policy intervention in 2015, share of non-conventional energy sector in credit, especially by PVBs, increased during 2015- 2018. The subsequent decline in share was arrested by the second policy intervention in 2020.

Green Bonds: Green bonds are instruments that can help finance long-term investments into projects which can mitigate climate change. China has the highest amount of green bond issuances till date (since 2007) (Chart-5).

Chart-5 : Source of Climate Threat

What is/are the sources of climate related risks ? Rank between - I)Physical Risk ii) Transition Risk and iii) Liability Risk



Source: Authors' calculations based on survey responses.

As on April 28, 2023, 63 green bonds were issued in India. Issuer-wise break up shows that corporates and PSUs have issued the highest number of these bonds. [Source: Report on Currency and Finance 2022-23, TOWARDS A GREENER CLEANER INDIA; Reserve Bank of India, Released on May 3, 2023]

CO-LENDING VOLUMES MAY HIT RS 1 TRILLION IN FY24

Banks and non-banking finance companies (NBFCs) could sign co-lending deals worth Rs 1 trillion in the current financial year.

- Piyush Shukla

Co-lending refers to partnerships between two lenders, typically a bank and a non-bank, to offer loans to economically weaker sections or borrowers under the priority sector lending programme. (IE)

Banks and non-banking finance companies (NBFCs) could sign co-lending deals worth Rs 1 trillion in the current financial year, after public sector banks alone declared a co-lending portfolio of Rs 25,414 crore for FY23.

"The total co-lending portfolio declared by PSBs for FY23 was Rs 25,414 crore. The segment saw about 18 partnerships in H2FY23. In fact, Yubi Co.Lend accounts for at least eight of those partnerships, including banks, NBFCs and other FIs like SBI, Axis Bank, Karnataka Bank, Axio, Lendingkart and UGro Capital, among others," said Irfan Mohammed, chief business officer at Yubi. "We record around 1,00,000 daily average transactions on our platform. Keeping these metrics in mind, the co-lending segment is expected to grow by 3x-4x in FY24 to the tune of Rs 1 trillion."

Co-lending refers to partnerships between two lenders, typically a bank and a non-bank, to offer loans to economically weaker sections or borrowers under the priority sector lending programme. Under the model, 20% of the credit risk by way of direct exposure is on the NBFC's book till maturity, while the balance is on the bank's books.

Growth drivers: Rajesh Sharma, managing director at Capri Global Capital, said the NBFC has entered into co-lending alliances with State Bank of India (SBI), Union Bank of India and Punjab & Sind Bank for MSME loans. For affordable housing segment, the NBFC has entered into co-lending pacts with SBI, Punjab & Sind Bank and UCO Bank.

"We started FY23 with a target of achieving a co-lending portfolio of Rs 600-700 crore from Rs 120 crore in FY22. We have already achieved Rs 500-crore target as of Q3FY23. We started co-lending for affordable housing loans in Q3FY23. We certainly aim to achieve a higher growth than in FY23." he said.

Dhrubashish Bhattacharya, head of MSME banking at Bank of Baroda, said the recent hike in lending rates has made funds costlier for NBFCs. "Co-lending, wherein banks can take up to 80% of exposure at a lower cost, has paved the way for NBFCs to increase their exposure as well as serve customers with better risk profile by offering a lower rate of interest. Further, through co-lending, banks can now venture into new product segments and leverage NBFCs' expertise on digital cash flow algorithm-based assessments," Bhattacharya said.

Axis Bank's group executive and head of Bharat baking Munish Sharda said the bank has consistently been working towards ensuring that all segments of customers across rural and semi-urban markets are provided with easy access to credit facility and banking solutions.

"Our co-lending partnerships will deepen our reach in rural and semi-urban markets, help us enter new customer segments, strengthen our presence in existing segments, and augment the priority sector lending portfolio of the bank. We are excited about the opportunity, as our digital co-lending platform allows the business to scale up fast and offers a superior customer experience," Sharda said.

Challenges ahead: According to Mohammed, while co-lending has proven to be beneficial in terms of deepening financial inclusion and access to credit, it suffers from one fundamental challenge — a slower execution timeline.

"Co-lending partnerships are one of the most time-consuming efforts undertaken by banks. In a traditional method, banks hunt for NBFCs which focus on specific credit portfolios, which is followed by extensive discussion around the quantum of capital to be provided by banks through the co-lending model and then discussions around the leverage that could be adopted using the capital infusion from banks. Once this is done, monitoring the credit risk of these on-lent portfolios is carried out on a quarterly basis, which again is a time-consuming and manual process," Mohammed said.

Bhattacharya shared similar views saying for co-lending volumes to increase, a digital journey for quick disbursements and ease of reconciliation is essential. "Bank of Baroda is one of the few banks which has developed its own co-lending digital platform wherein multiple partners can be integrated. We expect to benefit from this first mover advantage," he said. [Financial Express, April 18]

SUSTAINABLE CO-LENDING ESSENTIAL FOR NBFCS, BANKS; WILL HELP BOTH SCALE UP: NBFC HONCHOS

- Anushka Sengupta

At the ETBFSI Connect conference in Chennai, senior NBFC leaders discuss how sustainable businesses can be built with the use of co-lending, the major challenges that the co-lending model still faces and how the industry can overcome them.

Partnerships in the BFSI ecosystem that leverage technology and create reach-efficiency synergies are now a global phenomenon. While the pace and exact construct vary depending on an economy's industry maturity, the need for banking-technology adoption and regulatory framework across.

At the ETBFSI NBFC Connect conference held in Chennai, industry leaders discussed how sustainable co-lending with banks is essential for NBFCs today, how it will help both the parties to scale up, how they can overcome some key challenges this model brings with it and how they can avoid few things for a longer partnership. They highlighted that if banks and NBFCs do not collaborate now, someone else will eat their share.

LVLN Murty, MD & CEO, Dvara KGFS highlighted that co-lending is also co-creation and it is time for companies to get out of the one-size-fits-all approach."Co-lending is also co-creation. It is a different way of liability too. Both teams have to work together in terms of putting their skin into the game.

One size fits all is something we can get out of and scale through the use of co-lending," he said at participating in a panel discussion at ETBFSI Connect conference in Chennai.

He said getting into a co-lending partnership takes time, at least 8-10 months and that time only would evolve and tell how sustainable that venture could be.

Murty added that getting into a lending agreement is not easy and said that the convergence of risk policies with IT infrastructure is the key problem in co-lending today.

"Co-lending is going to be a successful product. If NBFCs and banks don't cooperate at this point someone else will eat their breakfast, someone else will benefit, so I believe co-lending is an important model," said Sanjay Sharma, MD & CEO, Aye Finance.

He asserted that banks should also own up and say they are going to take risk shoulder by shoulder with NBFCs in a co-lending relationship. Even though in co-lending both banks and NBFCs look for a long-term partnership, Sharma highlighted that fallouts or 'divorce' can happen in the co-lending relationship if there is hiding of information which breaks trust or there's incompetence which results in the fallout.

However, he mentioned that it is a rare case and if both the parties stay clear during the partnership and maintain transparency, then it is going to sustain.

The central bank has issued guidelines on co-lending schemes for banks and NBFCs to improve credit flow to unserved and underserved sectors of the economy at affordable costs.

"Natural evolution for any industry is to start with full stack and gradually expert's step-in in every segment of the process and then economic surplus will happen," said Sumit Maniyar, Founder & CEO, Rupeek.

He said that co-lending is a viable model but the challenge in it is going to be how the risk-reward ratio by NBFCs and banks is managed across asset classes.

Also highlighting the challenges, Dr Kalpana Sankar, MD, Belstar Microfinance Ltd said that tech integration is going to be a major challenge organisation will face. However, she said that the opportunity under NBFC-MFI is limited so co-lending would bring a plethora of opportunities, build a good portfolio, risk framework, etc.
Enumerating the benefits, she said there are many benefits of co-lending, like better yields, improved ROA-ROE, and optimised cost, thus indicating that co-lending is going to be the future.
"NBFCs become POCs for customers and we banks can support them in terms of capital. In co-lending scaling of both the parties will happen. Contending will also support millions of MSMEs and micro-finance institutions in the country," said Debashish Mishra, GM, State Bank of India.
He highlighted that the co-lending model will be symbiotic as both have to depend on each other.
"Before co-lending the model was called co-origination, and now co-lending has come to a life-stage, the model is evolving. We will keep on tweaking the model," Mishra added.
Banks and NBFCs in India are set for a quantum leap this year after a fourfold growth in such pacts at Rs 25,000 crore in FY23 as against Rs 5,000 crore a year ago.
Public sector banks are expected to ink more co-lending partnerships, driving large non-banks who will be their co-lending partners. [ETBFSI, May 2]

Co-lending platform Yubi records 250% growth in FY23 transaction volume

Credit and finance for MSMEs: Co-lending as a model has gained momentum in the country as it allows banks to diversify their portfolios, and NBFCs to access cheaper funding sources leading to lower risk exposure and eventually reduced cost of funds.

The company currently has more than 500 co-lending partners, over 50 lenders, and records 1 lakh average daily transactions.

Credit and finance for MSMEs: Co-lending marketplace Yubi Co.Lend on Tuesday said it has recorded over 3.5 million transactions in the financial year 2022-23 with 375 per cent year-on-year (YoY) growth in its gross transaction value and 250 per cent in volume. Secured SME loans and unsecured SME loans grew by 290 per cent and 158 per cent respectively in Q4 as compared to Q3 FY23. Co-lending as a model has gained momentum in the country as it allows banks to diversify their portfolios, and non-banking financial companies (NBFCs) to access cheaper funding sources leading to lower risk exposure and eventually reduced cost of funds.
The total co-lending portfolio declared by public sector banks for FY23-FY24 is Rs 25,414 crore, with the State Bank of India (SBI) accounting for the bulk, Yubi said in a statement. It noted that 16 co-lending partnerships were announced by various banks and NBFCs in the second half of FY23 alone.
Gaurav Kumar, Founder & CEO at Yubi said the issue of the credit gap in the MSME sector can be addressed through co-lending models. "In the dynamic economic environment with rising inflation and recessionary pressures, the dual ability of the co-lending model acts as a hedge for large financial institutions as it increases credit leverage and decreases credit risk," he said.
The company currently has more than 500 co-lending partners, over 50 lenders, and records 1 lakh average daily transactions. Out of total co-lending transactions in India, according to the data recorded by Yubi, consumer loans (44.6 per cent) and secured SME loans (35 per cent) were the top asset classes for co-lending in India in Q4 FY23, indicating high demand for financing from consumers and small businesses.
Maharashtra, New Delhi, Karnataka, and Uttar Pradesh were the top states in co-lending transactions in Q4 FY23.
Co-lending as a model benefits both parties wherein relatively smaller NBFCs, which usually operate in remote geographies, can increase their business footprints and income by leveraging the balance sheet strength of banks. On the other hand, banks, through the risk and reward sharing model, are able to extend their geographical reach and fulfil their priority sector lending obligations. [Financial Express, April 11]

How are NBFCs Building Sustainable Business Over Co-Lending?

The capacity of NBFCs is becoming constrained because of high and growing demand, the availability of capital to them, and the availability of large debt at affordable cost. This is being addressed by the co-lending model. This panel will discuss how NBFCs and banks can work together for sustainable credit delivery benefiting both.
The customer receives the desired credit. One of the key benefits of co-lending is that it allows NBFCs to pool their strengths with those of banks. Banks, with their extensive network and deep pockets, can bring in a lot of funding, while NBFCs can leverage their local knowledge and expertise to reach new customers. In this way, co-lending can help both entities overcome the limitations they face individually, creating a win-win situation. The co-lending market could reach a total volume of roughly Rs 25–30,000 crores in 2022-2023; the potential for expansion from here is quite high. However, challenges in the form of cultural, frictions and other differences between NBFCs and banks remain. This panel will discuss how NBFCs and banks can work together for sustainable credit delivery benefiting both. [ETBFSI, May 9; Amol Dethe]

[Continued from Page-29]

higher for them than for the advanced economies; undertaking the transition can even push them several places down the development ladder. From the developing world, India has emerged as a leading voice on global climate action that is mindful of climate equity and justice considerations.
India has taken numerous policy initiatives in this direction. In 2015, India submitted its Nationally Determined Commitments (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC) with targets up to 2030. At COP26 in 202115, India updated its NDCs, which now represent the framework for its transition to cleaner energy for the period from 2021 to 2030. It has committed to the five-fold strategy of panchamrit, which include raising its non-fossil-fuels-based energy capacity to 500 GW by 2030; raising 50 per cent of its energy requirements from renewable sources; and reducing the carbon intensity of its GDP by 45 per cent by 2030. India aims to achieve the net zero target by 2070. For achieving this target, it has released long-term low emission development strategies (LT-LEDS) at the COP27 summit.
India has co-founded the International Solar Alliance (ISA) with France in 2016 and announced a National Hydrogen Mission to increase the dependency on green energy. The Mission LiFE, i.e., Lifestyle for the Environment, launched in 2022, is now a global movement to connect the powers of the people for the protection of the earth.
The RBI too is engaged in managing climate risks. In April 2021, it joined the Network for Greening the Financial System (NGFS) to benefit from and contribute to the best practices in climate risk management and green finance. Apart from including renewables as part of the priority sector credit for banks, the RBI has recently issued sovereign green bonds, and released the framework for mobilisation of green deposits. At the frontline of research on the subject, the RBI has on May 3, 2023 released the Report on Currency and Finance, 2022-23 with the theme "Towards a Cleaner Greener India". The Report has examined the macro-financial implications of climate change and the possible fiscal, monetary, regulatory and other policy options for India.
In the words of Victor Hugo who is considered to be one of the greatest French writers of all time, "Nothing else in the world…not all the armies…is so powerful as an idea whose time has come." India's time has come and we must seize it. There are formidable trials and challenges ahead, but they can be overcome if we exploit the comparative advantages. I have spoken of some of the defining dimensions favouring India's leap into the future. We need to hone them into the cutting edge that will make this dream possible. [Extract from Inaugural address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India (RBI) at the Indira Gandhi Institute of Development Research (IGIDR) Alumni Conference on May 10, 2023 at Mumbai.]

RBI Releases Master Direction To Regulate Outsourcing of IT Services

- Vidushi Gupta
Supratim Chakraborty

Background

The Reserve Bank of India (RBI) has issued a master direction on outsourcing of information technology services by REs (*as described below*) on 10 April 2023 (Direction). The RBI had published a draft master direction for public feedback on 23 June 2022, pursuant to which the Direction has been released. The Direction aims to mitigate risks (*as described below*) faced by REs due to material outsourcing of information technology (IT) or IT enabled services as identified under the Direction (collectively, "IT services") to providers of IT or IT enabled services (Service Providers).

Applicability and Scope

The Direction is applicable to regulated entities, namely, all commercial banks, non-banking financial companies, primary co-operative banks, credit information companies, 'All India Financial Institutions' as defined under the Direction (collectively, "REs"). In case of foreign banks operating in India through branch mode, reference to REs' board of directors means the head office or controlling office which has oversight over the Indian branch operations. The scope of the Direction extends to 'material outsourcing' of IT services by REs which are IT services which (i) if disrupted or compromised has the potential to significantly impact the RE's business operations, or (ii) may have material impact on the RE's customers in the event of any unauthorised access, loss or theft of customer information.

Effective Date

The Direction will come into effect from 1 October 2023 (Effective Date) for new outsourcing agreements entered into on or after the Effective Date. Further, different dates have been prescribed for existing outsourcing agreements and outsourcing agreements that will come into force before the Effective Date.

Salient features of the Direction:

✤ Grievance redressal : REs are required to implement a robust grievance redressal mechanism, since the responsibility of addressing customer grievances related to IT services rest with REs and outsourcing arrangements will not affect customers' rights against the REs. It is important to note that outsourcing of any IT services by REs do not dilute their obligations and REs shall be liable for the actions of their Service Providers.

✤ Implementation of IT outsourcing policy: REs are required to implement a comprehensive board approved policy which specifies *inter alia*: (i) roles and responsibilities of the board and senior management, (ii) selection criteria for IT services and Service Providers, (iii) parameters for defining material outsourcing, (iv) disaster recovery and business continuity plans, (v) systems to monitor and review the operations of these activities, and (vi) termination processes and exit strategies depending on different scenarios of exit or termination of IT services (including identifying alternative arrangements for continuous provision of services).

✤ RE's key obligations: REs are required to ensure that the Service Provider (when not a group company) must not be owned / controlled by any director, key managerial personnel, or approver of the REs' outsourcing arrangement, or their relatives, as such terms are defined under the Companies Act 2013, unless an exception to the same is approved by the board / board level committee of the REs. REs are responsible for maintaining confidentiality and integrity of data pertaining to their customers, which is made available to the Service Providers and must create an inventory of IT services provided by the Service Providers, including key entities involved in the supply chain.

✤ Due diligence on Service Providers: Prior to entering into an outsourcing arrangement with a Service Provider, REs are required to carry out a risk-based due diligence exercise to assess the Service Provider's capability to comply with the outsourcing agreement. REs are also required to obtain independent review and market feedback about the Service Provider, where possible.

✤ Constituents of the outsourcing agreement: REs are required to ensure that the rights and obligations of the REs and their Service Providers are clearly set out in a legally binding written agreement, duly vetted by the REs' legal counsel. Certain key elements to be specified in such agreement include: (i) details of the activity being outsourced; (ii) audit, monitoring and inspection rights of the REs and RBI; (iii) governing law of the arrangement; (iv) necessary clauses on safe removal / destruction of data, hardware and records; (v) restriction on Service Provider to erase, purge, revoke, alter or change any data during transition / exit period; (vi) types of material adverse events (e.g. data breaches, etc) and incidents required to be reported by Service Provider to REs; (vii) storage of data only in India as per extant regulatory requirements; and (viii) clauses requiring non-disclosure of information and prior approval / consent of REs for use of sub-contractors by the Service Provider.

✤ Risk management framework: REs are required to put in place a risk management framework for IT services which will provide details regarding the processes and responsibilities for identification, measurement, mitigation, management, and reporting of risks associated with outsourcing of IT services. Risk assessments carried out by REs are required to be suitably documented and reviewed on a periodic basis. Where a Service Provider acts as an outsourcing agent for multiple REs, care must be taken to build safeguards to ensure that there is no combining of information, documents, etc.

✤ Reporting of cyber incidents: REs are required to ensure that cyber incidents are reported to them by their Service Providers without undue delay, so that the same can be reported by the REs to the RBI within 6 (six) hours of detection by the Service Providers. REs are also required to monitor the Service Provider's control processes and security practices to disclose security breaches, and immediately notify the RBI in case of any breach of security and leakage of confidential customer information.

✤ Business continuity and disaster recovery plans: REs are required to ensure that their Service Providers develop a robust framework for documenting, maintaining and testing business continuity and disaster recovery plans, commensurate with the IT services outsourced as per instructions issued by RBI. In this regard, REs are required to consider the availability of alternative Service Providers or the possibility of bringing the outsourced IT services back in-house in an emergency, and the costs, time and resources that would be involved.

✤ Obligation to monitor and control outsourced activities: REs are required to implement a management structure to monitor and control IT services (including monitoring performance, uptime of systems and resources, service availability, etc) and reports on such activities are required to be reviewed periodically by senior management. In case of any adverse observation in such report, the same is required to be put up to the board for information. Further, regular audits of Service Providers (including sub-contractors) are required to be conducted by REs.

✤ Outsourcing within a group / conglomerate: REs may outsource any IT services within the business conglomerate, provided that such arrangement is backed by a board-approved policy and appropriate service level agreements are in place in relation to the same. In this regard, the REs' risk management practices in relation to their Service Providers within the business conglomerate is required to be identical to those specified for a non-related party.

✤ Cross-border outsourcing: In case of outsourcing of IT services to a Service Provider based in a jurisdiction other than India, REs are required to closely monitor government policies of such jurisdiction and the political, social, economic and legal conditions on a continuous basis to establish procedures for mitigating any country level risks (including having suitable contingency and exit strategies). Further, REs are also required to ensure that availability of records to it and the RBI are not affected even in case of liquidation of the Service Provider.

CommentThe RBI has noted that REs commonly rely on third-party Service Providers to handle their IT services. However, without a consistent regulatory framework in place, outsourcing of material IT services poses a variety of risks and security threats, especially to customers, on account of unauthorised disclosure and usage of their confidential information. To this effect, the release of this Direction is a commendable step towards strengthening the security and risk mitigation framework in relation to IT services outsourced by REs.

[Authors: Vidushi Gupta, Partner Khaitan & Co; Supratim Chakraborty - Partner Khaitan & Co;For any queries please contact: editors @ khaitanco . com] ■

DIGITALIZATION AND INNOVATION: THE DRIVING FORCES BEHIND NBFC GROWTH IN INDIA

- Srajan Agarwal

Digitalization and Innovation: Non-Banking Financial Companies (NBFCs) have been an integral part of India's financial ecosystem. They are financial institutions that provide a wide range of banking services like loans, credit facilities, investments, and other financial products. NBFCs have played a significant role in the Indian economy's growth story, especially in the rural and semi-urban areas. They cater to the financial needs of small and medium-sized businesses, entrepreneurs, farmers, and individuals who do not have access to traditional banking services. In this article, we will explore the future of NBFCs in India.

One of the major factors that have contributed to the growth of NBFCs is the increasing demand for credit in the Indian economy. As per the RBI's data, the credit growth of banks has been sluggish over the past few years. This has resulted in a credit gap that NBFCs have been able to fill. NBFCs have been able to cater to the financial needs of small and medium-sized enterprises, which have been underserved by traditional banks.

Another factor that has contributed to the growth of NBFCs is the government's initiatives to promote financial inclusion. The government has launched various schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY), Mudra Yojana, and Stand-Up India to provide financial services to the unbanked and underbanked population. NBFCs have played a crucial role in implementing these schemes and providing credit to the beneficiaries.

The rise of digitalization has also been a significant contributor to the growth of NBFCs. With the increasing adoption of digital platforms, NBFCs have been able to reach out to a wider customer base. Digital platforms have also enabled NBFCs to streamline their operations, reduce costs, and enhance their customer experience. This has resulted in NBFCs being able to offer competitive interest rates and customized products to their customers.

Challenges: However, the NBFC sector in India has also faced challenges over the past few years. The sector has been hit by a series of defaults by some of the prominent players like IL&FS and DHFL. These defaults have led to a liquidity crisis in the sector, resulting in a slowdown in credit growth. The RBI has also tightened the regulatory framework for NBFCs to prevent any further defaults and to ensure the stability of the financial system.

Future of NBFCs: Despite the challenges, the future of NBFCs in India looks promising. The sector is expected to grow at a CAGR of 18.5% between 2021 and 2026, according to a report by ResearchAndMarkets.com. The growth is expected to be driven by various factors like the increasing demand for credit, the government's initiatives to promote financial inclusion, and the rise of digitalization.

The latest developments and trends in NBFCs

Digital Transformation: Digital transformation is one of the significant trends that has affected the financial services industry, including NBFCs in India. With the proliferation of smartphones and the internet, digital platforms have become a crucial medium for providing financial services. NBFCs have been quick to adopt digital technologies to enhance customer experience, streamline operations, and reduce costs.

They have developed online platforms for loan applications, disbursals, and repayments. They have also adopted artificial intelligence and machine learning algorithms for risk assessment and credit scoring. The digital transformation has resulted in a significant increase in operational efficiency, enabling NBFCs to provide faster and more reliable services to their customers.

Innovative Products: NBFCs in India have been offering innovative products to cater to the evolving needs of their customers. For instance, gold loans have become increasingly popular as a means of raising short-term finance, with NBFCs leading the way in this segment. They have also been offering loans against securities, education loans, and consumer durable loans. The innovation has helped NBFCs to diversify their loan portfolio and reach new customer segments, resulting in a sustainable growth rate.

Regulatory Framework: The regulatory framework for NBFCs has undergone significant changes over the past few years. In 2018, the Reserve Bank of India (RBI) introduced new regulations to strengthen the sector's financial stability and prevent the recurrence of default incidents. The regulations mandated higher capital adequacy ratios, tighter liquidity norms, and a stricter classification system. The new regulations have increased the cost of compliance for NBFCs, resulting in a slowdown in growth in the short term. However, they have also created a more robust regulatory framework that has increased investor confidence and reduced the risks associated with the sector.

Conclusion

In conclusion, Non-Banking Financial Companies (NBFCs) have played a crucial role in India's financial ecosystem, catering to the financial needs of small and medium-sized businesses, entrepreneurs, farmers, and individuals who do not have access to traditional banking services. The increasing demand for credit, government initiatives to promote financial inclusion, and the rise of digitalization have contributed to the growth of the NBFC sector in India. However, the sector has also faced challenges in recent years, with defaults leading to a liquidity crisis and tighter regulations by the RBI. Nevertheless, the future of NBFCs in India looks promising, with expected growth driven by various factors like digital transformation, innovative products, and a robust regulatory framework. [The Banking and Finance, March 18]

NBFCs' Biggest Boon: Digital Lending

According to a report by KPMG, the digital lending industry in India is expected to reach $1 trillion by 2023. One of the key strengths of NBFCs in digital lending is the ability to quickly assess the creditworthiness of potential borrowers. With the use of advanced algorithms and big data analysis, NBFCs can access vast amounts of information and make informed lending decisions in a matter of minutes. This has allowed them to reduce the time and cost involved in loan origination and processing, while also increasing efficiency and accuracy. Another advantage of digital lending for NBFCs is the ability to offer loans to customers who were previously considered high-risk or unbankable. Despite these advantages, digital lending also poses several challenges for NBFCs in India. One of the major challenges is the need for a robust infrastructure to support digital lending operations, which includes technology, data security, and regulatory compliance. This session discusses the fintech collaborations of NBFCs and the way forward for them to increase their digital lending footprint. [ET BFSI, May 10; Amol Dethe]

TRUST IS BEDROCK OF STRONG & RESILIENT FINANCIAL SYSTEM

It is important for us to be cognizant of the fact that the bedrock of a strong and resilient financial system is the trust that the people repose in it. The trust element is not only created just by the individual institutions but by the collective actions of the entities operating in the financial system. We expect firms to be responsible for their actions and of the actions of the service providers engaged by them and demonstrate accountability for same. Compliance with applicable regulations and ensuring customer-centricity are two non-negotiable principles for entities functioning in the financial sector and the same must flow from the top.

M. Rajeshwar Rao, Deputy Governor, RBI

IS INDIA'S HOUSEHOLD DEBT REALLY LOW? YES, AND NO: MOTILAL OSWAL STUDY

- ***India's household debt remained unchanged at 35.4% of GDP in Dec'22 quarter. It still remains low compared to other advanced nations in the world***
- ***Non-mortgage household debt in India was the same as in Australia and Japan, and higher than in many other major nations including the UK, the US and China***
- ***Businesses accounted for 30% debt, while agricultural (or farm) loans accounted for another quarter of such debt in India in FY22***
- ***Mortgage debt was as high as 40% of GDP in China and Malaysia, 50% in the US, and as high as 87% of GDP in Australia***
- ***Rural areas accounted for only ~15% of total individual housing loan (IHL) disbursed by HFCs in FY22***
- ***Rural areas account for only about 6% of housing loans by SCBs***
- ***Low rural credit may present both a potential and a structural constraint.***

◆ According to the Reserve Bank of India (RBI), household debt in India stood at 35.3% of GDP in FY22 (the latest official data). Our estimates suggest that it has remained steady at 35.4% as of Dec'22 (or 3QFY23). A comparison of world's major economies confirms that while India's household debt is very low compared to many advanced nations and China, it is still higher than many other Asian emerging nations.

◆ Interestingly, although India's household debt is much lower than that in advanced economies, the non-mortgage debt stood at ~25% of GDP in CY22 in India, the same as in Australia and Japan, and higher than in world's many other major nations (including the US and China). Further details reveal that agricultural and business loans account for more than half of non-mortgage household loans in India; on the other hand, education, credit cards, and consumer durables make up only a small portion of the overall household debt. This break-up, notably, is very different in various nations.

◆ India's total household debt is relatively low due to its limited share of mortgage debt, which was just about 10% of GDP in CY22 as compared to 40% in China and Malaysia, 50% in the US, and as high as 87% in Australia. One of the reasons for low mortgage debt could be the high share of rural areas (and thus, rural population) in India. Although ~65% of India's population stays in rural areas, they accounted for only about 15% of total individual housing loan (IHL) disbursed by housing finance companies (HFCs) in FY22. Similarly, only about 6% of (outstanding) housing loans by scheduled commercial banks (SCBs) accrues to the rural sector, whose share has fallen in the past decade.

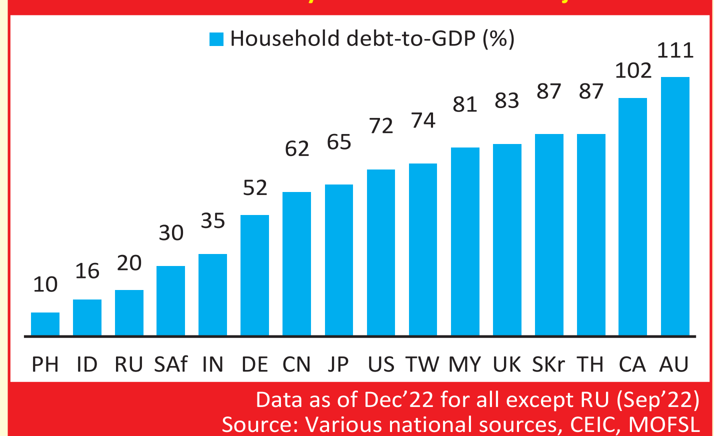
◆ Such low intensity of credit in the rural sector not only indicates a large potential, but also presents a structural constraint to increase housing loans substantially in India.

India's household debt at ~35% of GDP is very low compared to advanced nations: Not too long ago, it was widely believed that household debt in India was 11-12% of GDP, among the lowest levels compared to other major economies. When the RBI published its quarterly estimates of households' financial assets and liabilities in Jun'20 (updating the Mar'18 pilot exercise), it revealed that household debt was 30.9% of GDP as of Mar'20. In its latest update in Sep'22, the estimated household debt for FY22 (or Mar'22) stood at 35.3% of GDP. However, it has not been updated since then. It has increased from 26.7% of GDP in FY12 (Exhibit 1). According to our estimates, India's household debt remained unchanged at 35.4% of GDP in Dec'22 quarter, which still remains very low compared to other major nations in the world (Exhibit 2).

Exhibit 1: Household debt was 35% of GDP in India… RBI data as of FY22 * Dec'22 is MOFSL estimates

Exhibit 2: …which is very low versus other major nations Data as of Dec'22 for all except RU (Sep'22) Source: Various national sources, CEIC, MOFSL

Exhibit 2: ...which is very low versus other major nations



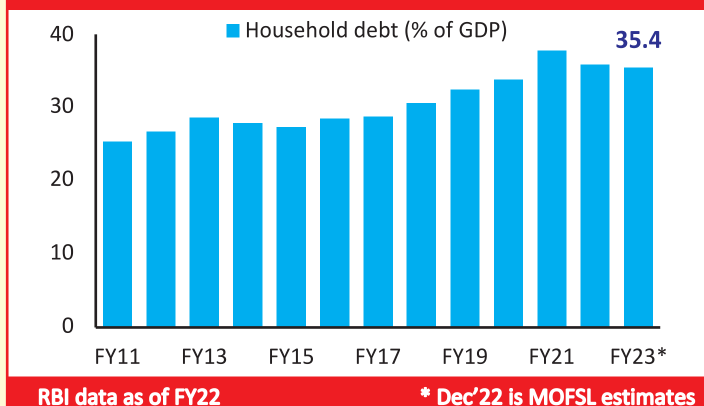
Data as of Dec'22 for all except RU (Sep'22)
Source: Various national sources, CEIC, MOFSL

Non-mortgage household debt in India, however, is at ~25% of GDP, higher than in many rich nations: There are two key components of household debt – mortgage and non-mortgage debt. The former represents the long-term loans taken for investment purpose, while the latter mostly comprises short-term loans for consumption purposes.

Interestingly, although India's household debt is much lower than that in almost all advanced economies, the non-mortgage household debt was ~25% of GDP in Dec'22 in India, lower than its peak of 26.8% of GDP in FY21 and compared to 20.3% of GDP a decade ago in FY12 (Exhibit 3). This level of non-mortgage household debt in India was the same as in Australia and Japan, and higher than in many other major nations including the UK, the US, and China (Exhibit 4). It is, however, the highest in South Korea and Thailand at more than 50% of GDP in Dec'22.

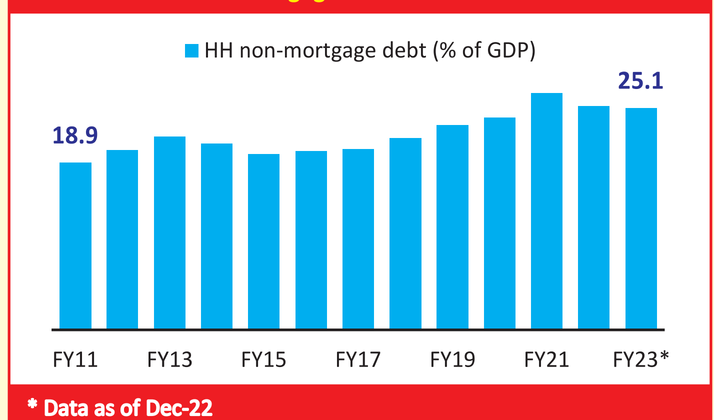
Exhibit 3: HH non-mortgage debt was 25% of GDP in India…
* Data as of Dec-22

Exhibit 1: Household debt was 35% of GDP in India...



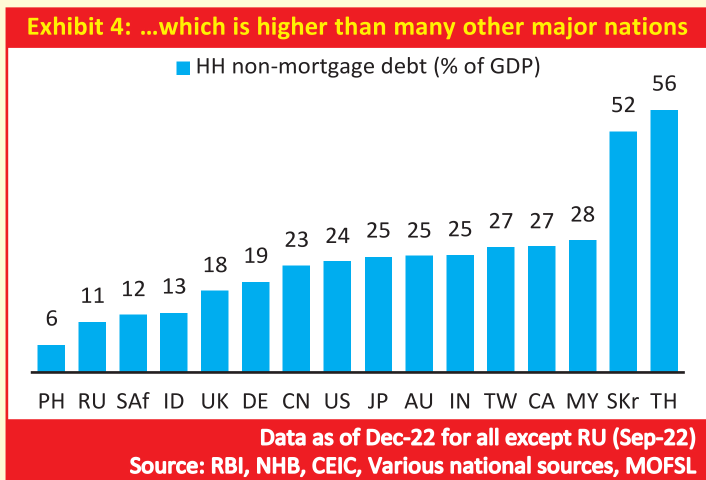
RBI data as of FY22 * Dec'22 is MOFSL estimates

Exhibit 3: HH non-mortgage debt was 25% of GDP in India...



* Data as of Dec-22

Exhibit 4: …which is higher than many other major nations
Data as of Dec-22 for all except RU (Sep-22)
Source: RBI, NHB, CEIC, Various national sources, MOFSL



Agricultural and business loans account for more than half of non-mortgage household debt in India: A look at the composition of non-mortgage household debt reveals that businesses accounted for 30% debt, while agricultural (or farm) loans accounted for another quarter of such debt in India in FY22 (Exhibit 5). Among personal loans, vehicle (or automobile) loans account for only about 12% of non-mortgage debt, which were almost equally distributed between SCBs and NBFCs. Education, consumer durable, and credit card loans constituted a small portion, about 1-3% of the total non-mortgage debt of households in India.

A comparison of the composition of non-mortgage household debt for a few economies, for which we could find data, suggests that it is quite different in various nations (Exhibit 6). Automobile loans account for as much as 30-40% of non-mortgage debt in the US, Malaysia, and the Philippines (though we do not have this data for China, it appears to be very low – probably in low single digits). Similarly, while credit card loans make up for ~40% of such debt in the Philippines, it accounts for 28% in China and 18% in the US. Further, we do not have education/student loans for these nations, but its share is ~30% of non-mortgage household debt in the US, compared to ~2% in India (and 3% in Thailand). Unfortunately, we do not have a uniform break-up of non-mortgage debt across nations to conduct a more useful analysis.

Exhibit 5: Agricultural and business loans account for more than half of household debt in India… Based on FY22 data Including household debt from SCBs, NBFCs and HFCs

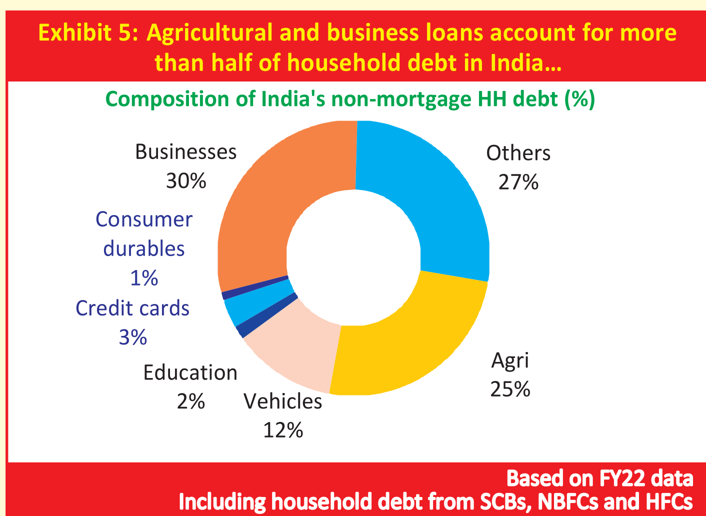
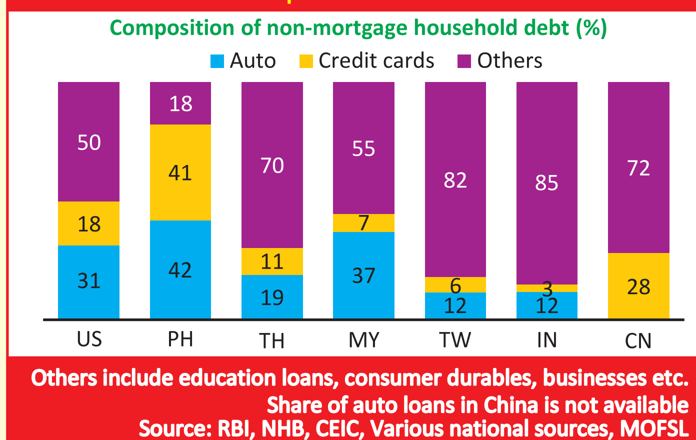


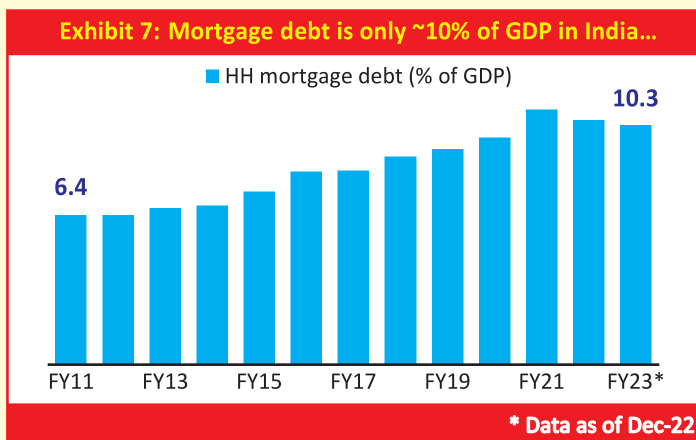
Exhibit 6: …but the composition of non-mortgage household debt is quite different in various nations



Lower household debt in India is because of very low mortgage debt…: The primary factor contributing to the low level of household debt low in India is the relatively small portion of mortgage debt. As of Dec'22, mortgage debt accounted for only 10.3% of GDP, compared to its peak of 11% of GDP in FY21 and just 6% of GDP a decade ago in FY12 (Exhibit 7).

A comparison of household mortgage debt across major nations confirms that it is among the lowest in India. Mortgage debt was as high as 40% of GDP in China and Malaysia, 50% in the US, and as high as 87% of GDP in Australia (Exhibit 8). In contrast, mortgage debt was the lowest at just 3-4% of GDP in Indonesia and Philippines.

Exhibit 7: Mortgage debt is only ~10% of GDP in India… * Data as of Dec-22



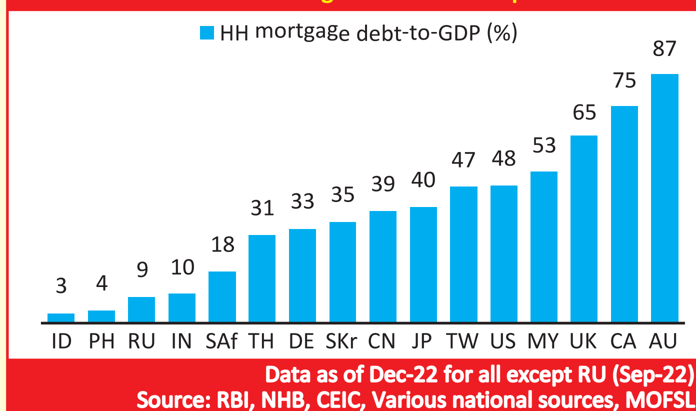


Exhibit 8: …which is among the lowest compared to others Data as of Dec-22 for all except RU (Sep-22) Source: RBI, NHB, CEIC, Various national sources, MOFSL

...which may be because of a large rural sector in the country: One of the reasons for such low mortgage debt in India could be a high share of rural areas (and thus, rural population) in India. Almost 65% of India's population is estimated to live in rural areas, compared to 72% as per 2001 Census and 80% according to the 1971 Census. It is then very intriguing to note that rural areas accounted for only ~15% of total individual housing loan (IHL) disbursed by HFCs in FY22, lower than 20-21% a few years ago (Exhibit 9).

Exhibit 9: Less than 15% of IHL are disbursed to the rural areas by HFCs now…

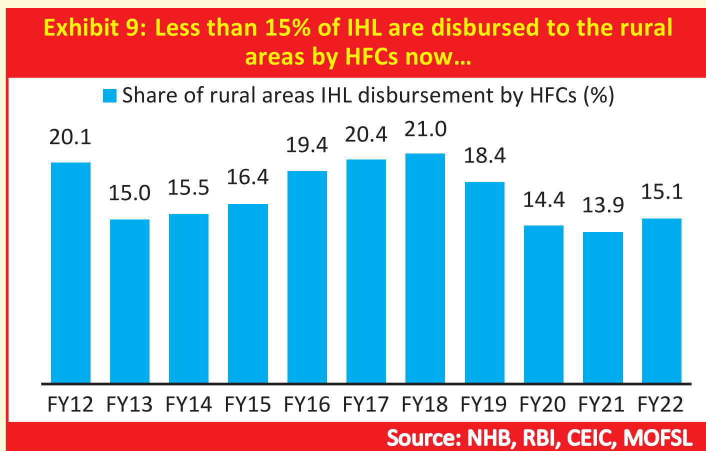
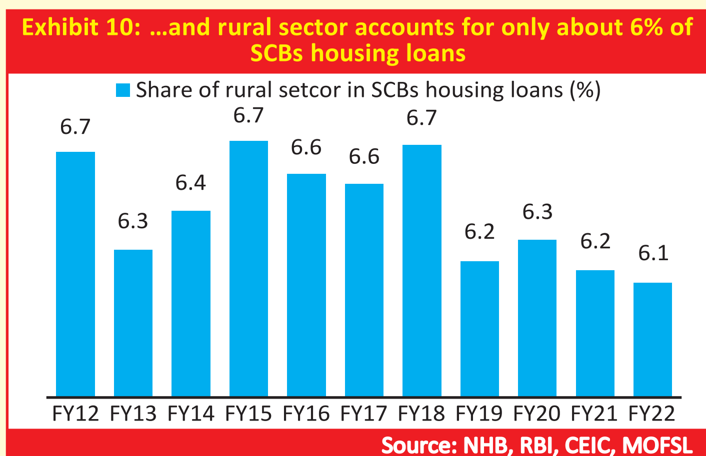


Exhibit 10: …and rural sector accounts for only about 6% of SCBs housing loans



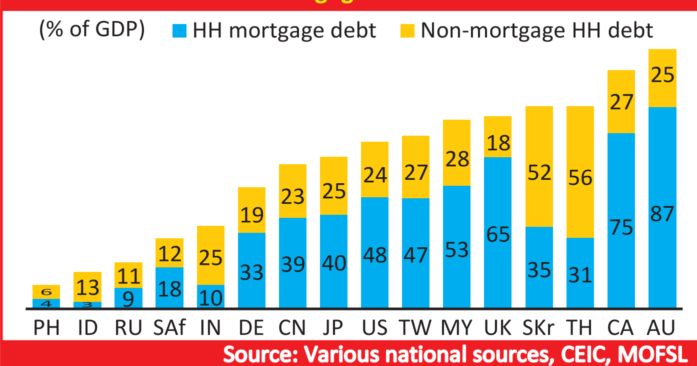
Since Scheduled commercial banks (SCBs) account for almost two-thirds of the total mortgage loans, it is important to look at their composition. According to the details, rural areas constitute merely 6% of SCBs' total housing loans, with over half of these loans accruing to the metropolitan areas (Exhibit 10). Additionally, their share in SCBs' household loans has also declined in the past few years.

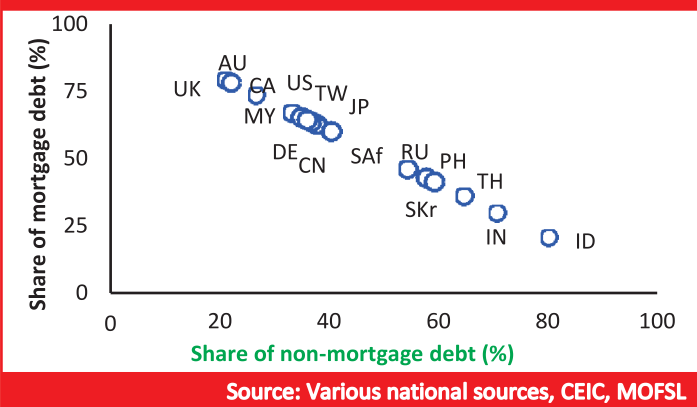
Conclusion:

Household debt may not rise substantially in India Overall, there is no doubt that household debt is among the lowest in India compared to other major nations. However, it is very important and interesting to note that it is almost entirely because of low mortgage debt, since non-mortgage household debt in India is higher than many advanced economies (Exhibit 11). The share of mortgage debt is only ~30% of the total household debt in India, which is only second to Indonesia (Exhibit 12).

Exhibit 11: India's household debt is low because of very low mortgage debt…

Exhibit 12: …as non-mortgage debt accounts for ~70% of household debt in India Source: Various national sources, CEIC, MOFSL





It could be argued that increasing household debt higher in India can be achieved by promoting mortgage debt. However, low rural credit may present both a potential and a structural constraint since the willingness and creditworthiness of rural households may vary significantly. Therefore, increasing household debt substantially in India may not be an easy task due to these constraints and variations. [Source: BQ PRIME, June-2; Is India's Household Debt Really Low? Motilal Oswal's Analysis; Study by: Motilal Oswal Financial Services] ■

[Continued from Page-30]

sample forecasts of the model were back-tested leading to improvement in model efficacy.

Fraud Reporting and Sensitisation of NBFCs

VI.117 The online fraud reporting system for NBFCs has commenced from July 1, 2022. As part of online reporting system, a separate quarterly return (FMR 4) has been introduced for reporting security incidences, i.e., theft, burglary, dacoity and robbery. Further, workshops have been conducted for select NBFCs to sensitise them on fraud prevention, prompt /accurate reporting and follow up action.

Various Analytical Studies

VI.118 During the year, various analytical studies were conducted by the Department to study the compliance by NBFCs to the Reserve Bank's guidelines. Furthermore, an analysis was done to compare the Expected Credit Loss (ECL) required under Ind-AS with provisions under Income Recognition, Asset Classification and Provisioning pertaining to advances (IRACP).

Agenda for 2023-24

VI.119 The Department has identified the following goals for supervision of NBFCs in 2023- 24:

- Examination of licensing requirements for NBFCs and initiating supervisory action against non-compliant NBFCs; and
- Impact assessment of recent modification in asset classification norms for NBFCs. [Extract from Reserve Bank of India ANNUAL REPORT-2022-2023, Released on May 30, 2023] ■

CRACKDOWN ON LENDING APPS MAY RAISE COMPETITIVE HEAT FOR NBFCS

The move may push many digital lenders to apply for NBFC licences. While the crowded retail lending segment faces overleveraging risk with the entry of more players, the MSME space stands to benefit.

- Jinit Parmar

DIgital lending: The move may push many digital lenders to apply for NBFC licences. While the crowded retail lending segment faces overleveraging risk with the entry of more players, the MSME space stands to benefit.

Global tech giant Google's action against digital lending mobile apps on its Play Store may create more competition for non-banking financial companies (NBFCs), said experts.

Recently, Google said that it has taken necessary enforcement action against more than 3,500 personal loan apps in 2022, which includes removing them from the Store for violating its policy requirements. The tech major has also revamped its guidelines for digital lenders under which these apps cannot access personal and other sensitive details of users.

Going ahead, experts said that these digital lenders will opt for an NBFC licence with the Reserve Bank of India (RBI).

"More digital lenders are expected to approach the RBI for an NBFC registration certificate as Google's policies for hosting lending applications on its Play Store will tighten further," said Ram Rastogi, Chairman, Fintech Association for Consumer Empowerment (FACE).

"Some serious players would go for NBFC licences after the actions by Google," said Shachindra Nath, Chief Executive Officer, U Gro Capital.

Actions against lenders: The tech giant, in a bid to crack down on unregistered and fraudulent lenders, in the past two years, has taken strict actions on digital lending apps.

In August 2022, Google blocked 2,000 personal loan providers from its app marketplace in India. The company's actions include app rejection, suspension, restricting the discoverability of the app, making it available only in certain regions and even terminating the developer account of the app maker.

In 2021, Google revised its Play Store developer program policy for financial services apps, mandating additional requirements for personal loan apps in the country.

The rise in digital lending by unregistered and fraudulent apps has been a major concern that has had the government, RBI as well as the Enforcement Directorate (ED) in a bind. The issue dates back to 2020 when instances of high-handed loan recovery methods by these apps that lend to unsuspecting customers at high rates pushed many to commit suicide.

Experts highlighted that the RBI has time and again warned digital lenders to work on their lending business under its digital guidelines.

"The central bank has made it clear for lending apps to adhere to and work under its guidelines. Those lenders who wish to explore services other than lending need to apply for a licence so that proper regulation takes place," said Aditya Kumar, CEO, Niro.

What about competition? The lending market in India grew 11.1 percent to Rs 174.3 lakh crore as of March 2022, as compared to the previous fiscal year, credit bureau CRIF High Mark said in the second edition of its report, 'How India Lends'.

The report mentioned that NBFCs and other digital lenders dominated major sectors like home and microfinance loans, credit cards, business and consumer loans, two-wheeler loans and retail loans whereas traditional banks dominated the commercial loans sector.

Sovan Satyaprakash, Head, Strategy, Aye Finance, said with the entry of new players in the NBFC market, the crowded retail lending segment will see increased competition going ahead. "The new entrants also pose a risk of overleveraging eligible borrowers or increasing subprime lending, while the MSME lending space could stand to benefit," he added.

Alongside this, some experts said that many digital lenders still have business in collaboration with NBFCs and fintech firms, which will coexist despite some lenders applying for the NBFC licence.

"In the last five years, co-lending by digital lenders, NBFCs and legacy banks has increased. This is a business model which exists other than the competition arena," Kumar said.

NBFC licences: Recently, some digital lenders and fintech companies secured NBFC licences from the central bank. On May 4, alternative financing fintech platform Getvantage got an NBFC licence. Last month the neobanking platform Jupiter secured an NBFC licence to enter the lending business.

With the possibility of entry of new players in the NBFC market, experts highlighted that entrants in the sector will create a diverse market for consumers.

"The entry of more players through NBFC licences could have different degrees of impact on different segments. With more players in MSME lending, the industry as a whole will be better able to cater to the needs of the largely underserved market of micro-enterprises," said Satyaprakash.

"Owning an NBFC licence will give digital lenders a competitive edge over other players in the market, as it will enable them to provide a wider range of financial services to their customers," said HP Singh, Chairman and Managing Director, Satin Creditcare Network.

Earlier, RBI had said that digital lenders must convey the details of the recovery agent if a loan turns delinquent.

"If the loan turns delinquent and the recovery agent has been assigned to the borrower, the particulars of such recovery agent assigned must be communicated to the borrower through email/SMS before the recovery agent contacts the borrower for recovery," the RBI said in an FAQ on digital lending guidelines.

Here, experts highlighted that digital lenders who have NBFC licences fall under the regulatory purview of the central bank which can help in better regulation.

Singh said, "Digital lenders have been rapidly gaining market share in the loan industry. In addition, the regulatory supervision provided by the RBI may enhance transparency and responsibility in the industry, thereby helping to level the playing field for all participants."

On the other hand, Nath said the fundamental nature of the business model of these digital lending apps did not have any regulation or regulatory aspect.

Here, Singh said, this will entirely depend on how well each company is able to adapt to the changing landscape and offer unique value propositions to stay competitive. [Moneycontrol, May 5]

TReDS platform operators welcome RBI's directive to ease MSME invoice discounting, boost liquidity

Four months after proposing the participation of insurance companies on the Trade Receivables Discounting System (TReDS) to encourage financing of invoices of buyers irrespective of their credit ratings, the Reserve Bank of India (RBI) on Wednesday issued a directive to TReDS operators and participants to facilitate insurance for transactions.

"Financiers place their bids on the TReDS platforms keeping in view the credit rating of buyers. They are generally not inclined to bid for payables of low-rated buyers. To overcome this, an insurance facility is being permitted for TReDS transactions, which would aid financiers to hedge default risks," RBI said in a notification.

Currently, financiers such as banks, NBFCs, and others bid on the invoice at discounted rates depending on the buyer's rating. Usually, financiers give credit limits only above BBB and AA or AAA-rated buyers and shy away from buyers with credit ratings below BBB.

"This is where insurance companies will come in and after their due diligence about the buyer and the industry they are in, will provide the coverage. Depending on the risk they are undertaking, the premium will change," Ketan Gaikwad, Managing Director and CEO, RXIL told.

According to M1xchange's Chief Executive Officer Sundeep Mohindru, the decision by RBI opens up a big market opportunity around trade credit insurance for insurance companies. "Moreover, with the growing number of buyers and sellers getting on TReDS platforms for invoice discounting, insurance companies don't have to set up their sales structure to get business out of it."

The central bank also allowed secondary market operations on TReDS for the transfer of invoices or factoring units (FUs) within a particular TReDS platform in order to bring in more liquidity on the platform. Under secondary market operations, they can sell the invoice further to a bank who perhaps is in need of meeting its priority sector lending (PSL) targets and use that capital again to redeploy," explained Mohindru.

[Financial Express, June 8]

'MISALIGNMENT OF PRODUCT OFFERINGS AND CUSTOMER NEEDS IS GREATEST CHALLENGE,' BELIEVES NBFC LEADERS

- Navya Menon

NBFC honchos discuss the tools for the customer retention in the NBFC space like the three-stage CX model. They believe technology has so much to play in this direction and through data one needs to see how to customize more and enhance the quality of service offered.

As the financial services industry grows by leaps and bounds, industry experts continue to believe that the key to customer retention is enhancing customer experience.

They also believe that every part of the customer side is a challenging task, and simplifying customer experience is having a deep understanding of the target audience and using technology on the back of it.

The greatest challenge has been the misalignment of product offerings and customer needs, and since the customers are present in all channels, the lenders proximity automatically enhances their experience, they believe.

Sivakumar Nandipati, CDO, Fedbank Financial Services says, "In the Indian context, a customer is a guest coming to your home, so as a host you need to look into how you will provide the customer experience. If they get a good experience, they will come again."

Adding to this, he said handling every part of the customer side is a challenging task. He talked extensively about the three-stage CX model that comes into play. First, is the product working properly? Is the customer able to use the product? Is there a win-win happening for the company and the customer after they use the products?

"Customer experience for us is serving people who don't even have a phone or know the tech language, but how financial inclusion happens here," said Swapnil Dixit, VP of Product, Avanti Finance.

The UX, two-minute experience comes into play in customer experience and that is a criterion Avanti Finance keeps to provide a good customer experience. Life experience is another criterion they use to meet their customer experience targets.

"Simplifying customer experience is having a deep understanding of the target audience and using technology on the back of it," believed Kapil Kapoor, CTO & CPO, CredAble.

Industry honchos agreed that nobody owns the customer and organizations can be the custodians of the customers but there cannot be any ownership as there needs to be a consent architecture.

Customer experience for us is a frictionless user journey that happens in their memorable experiences, even large business players struggle to tick this factor, they believed.

Challenges faced in customer experience

Balaji TK, CTO of Inditrade says that the greatest challenge for them in customer experience has been the misalignment of product offerings and customer needs. "Customers are present in all channels so even we should be in phygital, digital, etc. If we achieve this, if we can be available in all channels at the same time, the customer experience will automatically increase," said Balaji TK.

The NBFC leaders feel that financial institutions collect so much data from customers, probably the most in the BFSI industry. Hence using that data one needs to see how one can customize more and enhance the quality of service offered.

[ETBFSI, May 5; These are the edited excerpts from the Panel Discussion: Simplifying Customer Experience(CX) at the First Edition of the ETBFSI NBFC Connect event held in Chennai]

'NEED TO BREAK DOWN PROCESSES THROUGH DIGITAL': NBFCS PATH FOR SCALING UP BUSINESS

- Vikas Kumar

Industry leaders believe that technology is the key in scaling up the NBFC business, and that needs to be leveraged in a systematic manner. Digital transformation is the key in scaling up, and creation of digital assets is the essential part.

With the suitable digital technologies and touching the real target of enhancing the customer experience will support the scaling up of NBFCs, believes Dr N Raveendran, CIO, Sakthi Finance.

The CIO also talked about the horizontal and vertical growth model elaborating that in the horizontal model if the branches are currently X, then atleast we are aiming to grow to 2X in the coming year.

While in the vertical growth, it is like adding more areas to your current business.

A lot of potential is lying for any finance in the rural areas. In terms of expansion, instead of opening branches, we open customer service points, said Dr N Raveendran, CIO, Sakthi Finance. This model is working well for us in Tamil Nadu and Kerala.

On the idea of scaling up of business, Prasenjit Datta, CTO and CIO, Vivriti Capital our model focused on tech, and we are a B2B model NBFC. We are invested in a platform where we can bring more of the co-lending customers.

"For the portfolios like the institutional or a supply chain finance, we have on premises server like data center and disaster recovery. But for co-lending business we adopted the cloud at the early stage," he said. "If you are an early adopters of cloud there are multiple options that you get in any cloud service provider, and you can build a system which will reduce the process inefficiencies," he apprehended.

Ajay Thomas, CDO, Shriram Capital talked about digital transformation as key in scaling up of NBFCs and said creating digital assets is the essential part of it. "We are in the process of creating a SuperApp, and down the line you will see our SuperApp in the quarter down the line called Shriram One," he said. "When we want to scale up, we look at simplifying processes which can really help our executors on-field to give instant decisioning," he added.

Talking about the spending on technology for the business, Ajay Thomas, CDO, Shriram Capital said India is divided into five Bharats and each segment requires a specific need in itself. So, the moment you go at a product level, something which you do for HNIs versus the lower mass, the treatment of each product is going to be different.

Nikhil Garg, SVP & Head-Technology, DMI Finance believes that there is a huge need for credit across the country we are really underserved. In terms of scaling up, he said there is a huge potential that can be leveraged only if every process could be broken down thought of as digital, and the whole technology is put behind it.

"There is a lot of Paradigm Shift which has happened because of the cloud. You don't have to scale up the business to scale up the processes but you just only need the right solutions," he maintained.

Everybody probably cannot be doing all the things in a single group. Collaboration is the key in the coming days for the NBFC businesses. Open API, data and the cloud adoption are the key things to look for NBFCs.

[These are the edited excerpts from the Panel Discussion: Scaling up NBFCs for Future at the First Edition of the ETBFSI NBFC Connect event held in Chennai, Published on May 8]

NO LONGER SHADOW BANKS; OVERSHADOWED BANKS IN MANY SEGMENTS: NBFC HONCHOS

In terms of customer reach, size, etc some NBFCs are much bigger than some banks and provide a better customer experience as well, industry leaders said at ETBFSI NBFC Connect conference in Chennai.

Non-banking finance companies have taken a strong exception being called shadow banks saying that in many sectors banks were the shadows.

"NBFCs form a dominant share of credit financing today. The connotation of non-bank has withered away with time. We are tested with stringent norms than banks which is why we are moving faster with time," Vikrant Narang, Deputy CEO, Ambit Finvest Pvt Ltd, said at the ETBFSI NBFC Connect, which is being held in Chennai for the first time.

Alok Aggarwal, CEO, Muthoot Homefin, said in certain segments NBFCs are leaders and banks are their shadows. "If you go back to the creation of NBFCs, in hindsight the thought was to make an institution to make a shadow of the banks, an approach to provide a small alternative but the way the industry has progressed and grown, we have overshadowed."

D Arulmany, MD & CEO, Veritas Finance, said NBFCs don't have the same tag that they had. "In terms of customer reach, size, etc some NBFCs are much bigger than some banks and provide a better customer experience as well."

It is a clear case where we overshadowed the original object, which is the banks, but we don't have many provisions that the banks have, said Sachin Pillai, MD & CEO, Hinduja Leyland Finance Ltd.

"I don't believe in the term shadow banks. We adopt terms which come from the West and this shadow term had come from the US. Shadow in itself has a definition of poor representation, a negative perspective. I feel NBFCs are much more resilient than other sectors, so no way I can relate such negative connotation to the NBFC sector, he said.

NBFCs are seeing an unprecedented surge in credit, thanks to the wings of digital lending. Last year their Co-lending with banks rose four fold and is expected to grow many fold this year too. [ETBSFI Research, April 28]

Shadow Banks in India?

Following is the quote from R Gandhi, Dy. Governor, Reserve Bank of India while delivering The Frank Moraes (an eminent Journalist) oration lecture titled: "Role of NBFCs in Financial Sector: Regulatory Challenges" on June 17, 2014.

"13. Do we have shadow banks in India? The answer is yes. It is yes, because we have financial institutions which accept deposits and extend credit like banks, **but we do not call them shadow banks; we call them the Non-Banking Finance Companies (NBFCs). Are they in fact shadow banks? No,** because these institutions have been under the regulatory structure of the Reserve Bank of India, right from 1963 i.e. 50 full years before the developed west is doing so." (emphasis added)

No official agency or any regulator or any Government official or Government department/ministry ever call the NBFCs as Shadow bank as R. Gandhi, Dy. Governor, RBI has categorically said NO. They are not.

Somehow some of the journalist friends and some writers with penchant to use different description or word in order to avoid repetition of using the name NBFCs at times use shadow bank! Let these friends know that Mr. R Gandhi had used the platform of the United Writers Association while delivering The Frank Moraes (an eminent Journalist) oration lecture to tell that NBFCs are not Shadow Banks.

Moreover, lots of water has flown after R. Gandhi Dy. Governor of RBI has said in (2014) respect of NBFCs' regulations. Apart from lots of tightening of regulations for NBFCs thereafter now they are treated with similar regulation as are applied for banks. T. Rabi Sankar, Dy. Governor, RBI has recently said: "That regulation clearly established the principle of 'same activity, same regulation'." Will not now the journalist friends like to bury this foreign coin of Shadow bank for a rapidly growing sector like NBFCs India?

What are Shadow Banks?

R. Gandhi, Dy. Governor, RBI has explained how the term Shadow Bank has emerged and what such institutions are engaged in quite succinctly in his above stated speech as under:

"6. The term "shadow bank" was coined by economist Paul McCulley in a 2007 speech at the annual financial symposium hosted by the Kansas City Federal Reserve Bank in Jackson Hole, Wyoming. In McCulley's talk, shadow banking had a distinctly U.S. focus though there were shadow banking institutions in the UK, Europe and even in China. He referred mainly to non - bank financial institutions that engaged in what economists call maturity transformation. Commercial banks engage in maturity transformation when they use deposits, which are normally short term, to fund loans that are longer term. Shadow banks do something similar. Further, they do much more. They are the hedge funds; they were the conduits for asset backed securities; they were the special purpose vehicles for highly leveraged activity, with serious asset liability mismatch." [RBI Website] [BFSI.com, April 28] ■

THE DAWN OF INDIA'S AGE

Michael Debabrata Patra
Deputy Governor,
Reserve Bank of India

India is poised on the crest of a tide in its history that will take it to its full potential in securing its aspirational goals for the future of its citizens and in its role in global affairs, albeit amidst several challenges.

The cornerstone of building a great nation is the nurturing of its human capital. The IGIDR has groomed some of the brightest and most driven scholars in the country. Their professional successes intrinsically define the institution. Alumni are receivers and also givers. In the words of Albert Einstein, "It is every man's obligation to put back into the world at least the equivalent of what he takes out of it." While you reflect on your journey through these arches, do ponder on how you could enrich the journey of others that follow in your footsteps. I see you as rays of light illuminating the terrain you traverse while also reflecting the incandescence of the sun – your alma mater. The rich diversity of your accomplishments is our asset, worthy of emulation, with externalities to reap by those who join you today.

Taking a cue from an inspiring description of the key to success in life2, there is a tide in the affairs of nations which, taken at the flood, leads on to fortune. India is poised on the crest of a tide in its history that will take it to its full potential in securing its aspirational goals for the future of its citizens and in its role in global affairs, albeit amidst several challenges. It is in that context and spirit that I thought I will spend some time envisioning the dawn of India's age.

Demographics: According to the United Nations3, India has become the most populous country in the world this year, attesting to the flowering of the demographic dividend that set in from 2018. There is a paradigm shift in our thinking on the subject. Once considered a drag on development in the tradition of Thomas Malthus4, our large population is now regarded as an asset and an opportunity in a world in which many countries are confronting aging and even population decline. By contrast, our population is young – the median age is 28 years. Every sixth working age (15-64 years) person in the world is an Indian. The potential for boosting saving and investment that this entails considerably enhances India's emergence as the world's economic powerhouse of the future. In fact, this momentous development has been termed as 'shifting the world's centre of gravity'5 because it could be heralding a tectonic change in India's role in the global order. Moreover, India's population is expected to keep growing for the next four decades, peaking at under 1.7 billion in 2063. More than a sixth of the increase of the world's working age population between now and 2050 will be provided by India.

Already, India is the fifth largest economy of the world in terms of market exchange rates and the third largest in terms of purchasing power parity (PPP). The Organisation for Economic Cooperation and Development (OECD) has calculated that in PPP terms, India will be the second largest economy of the world by 2048.

We must prepare for donning this responsibility. In some ways we have begun. India is upgrading physical infrastructure - roads and airports being the most visible dimensions – to world class levels. We are on the cusp of a digital payments revolution. Yet, our most formidable challenges remain: only half of the existing working age population is part of the labour force. Furthermore, India's female labour force participation is among the lowest in the world, even lower than that of low income countries. Also, India's labour productivity (GDP per hours worked) is lower than even peers in the lower middle income group of countries into which we are classified. Consequently, 16 per cent of the population lives in poverty, according to the UN. We have to change all that by creating jobs commensurate with expansion of the working age population, by skilling up the work force and providing it an institutional environment that enables work flexibility in tune with changing technologies and demand patterns. Importantly, we must enable greater female participation in the workforce by assuring the dignity of work and the sanctity of the workplace. Our population presents an exciting opportunity which can be realised only if we are successful in providing it with economic opportunity.

Diaspora: An outward reflection of India's demographic bonus is the vibrant expansion of Indian communities across the world. India has always been an open economy and international migration has been a major force defining India's economic, social and political relations with the rest of the world right from the Bronze Age in 3000 BC.

In its 2022 publication of its migrant database, the UN estimates that at 18 million6, the Indian diaspora is the largest in the world, accounting for 6.4 per cent of the total stock of international migrants (281 million) in 2020. This migration has been distributed across the world, with major destinations currently being the UAE, followed by the US. It is interesting to note too that the demographic dividend is also being seized by internal migration.

Over the years, our perceptions about the diaspora have also transformed from 'brain drain' to 'brain gain', spurred by the contributions that Indians have made in various fields in the global arena, including information technology, entrepreneurship, international politics, medicine, arts and culture, with some of them becoming Nobel laureates. It is estimated that over 90 out of 1078 founders of about 500 unicorns in the US are persons of Indian origin7. According to a recent study8, professionals in the areas of science, technology, engineering, and mathematics (STEM) play an important role in the U.S. economy by providing cutting-edge ideas and technologies that create jobs and raise living standards. Immigrants from India are the largest country of birth group, accounting for 28.9 percent of all foreign-born STEM workers.

The Indian economy has been a beneficiary of this dynamic and industrious diaspora. India currently receives the highest flow of remittances in the world at US $ 108 billion in 2022, up by 24.6 per cent from a year ago, and accounting for 3 per cent of India's GDP. Additionally, Indians residing abroad hold deposits in Indian banks cumulating to US $ 136 billion at the end of February 2023.

Going forward, labour market transformation driven by technological breakthroughs, energy transition and geo-economics will blur the distinctions between working abroad and working in India. The demographic advantage may well equip India to reap the maximum benefits of this shift. The World Economic Forum's Future of Jobs Report, 2023 points to a global churn in labour markets – creation of 69 million jobs and a decline of 83 million jobs – led by supply chains and transportation, media, entertainment and sports industries. The churn in India's labour markets will be driven by technology-led sectors like artificial intelligence and machine learning (AI&ML), followed by data analysts and scientists. Employers in India remain among the most upbeat in terms of future talent availability, with respondents believing that the existing workforce can be upskilled to pack the pipeline and talent can be retained. A larger proportion of respondents in the Indian set are inclined to consider improving talent progression and promotion process as well as providing effective reskilling and upskilling as business practices that could improve access to talent than in the global set. As a priority, therefore, India needs to get its skilling strategy right.

Diversification: The Indian economy is undergoing a quiet but fundamental transformation encompassing all its sectors. Perhaps the most striking transformation is occurring in India's exports of services which have demonstrated pandemic-proofing, rising by above 25 per cent per annum since 2020, and providing valuable support to the viability of the external sector. While software and business services are the main drivers of this robust performance, advances in IT have not only made services more tradable but also increasingly unbundled: a single service activity in the global supply chain can now be fragmented and undertaken separately at different geographical locations. Jurisdictions have accordingly been decentralising and diversifying their supply chains to ensure

business continuity. These factors have led to a new channel of IT-enabled services - large multinational corporations (MNCs) are setting up Global Capability Centres (GCCs), which are offshore offices, delivering a wide array of services across IT sector verticals.

India is home to about 40 per cent of global GCCs, and they are estimated to comprise 25 per cent of overall IT services exports. GCCs are also driving diversification, with firms in diverse sectors such as electronics, retail, automotive, banking and financial services, and hospitality, to name a few, setting up GCCs in India. GCC services include accounting, legal services, business consultancy, operations, capacity development and research. GCCs cater to high-value and knowledge-intensive projects such as data analytics, artificial intelligence/machine learning, chip design, system design, robotics and other new-age technology solutions that are high in demand in the global tech market. India is also becoming a hub for engineering R&D (ER&D) centers as leading multinationals develop their centers of excellence (CoEs) across different business domains. The National Association of Software and Service Companies (NASSCOM) estimates that India will add 500 GCCs by 2026. They are going to be hiring. India's citizens of the future should prepare for this revolution. The world is coming to our doorstep to fill world-class jobs.

Digital Revolution: India is playing a pivotal role in the ongoing fifth technological wave – the information and communication revolution9. We have emerged as the largest player in real-time payment transactions globally, with a share close to 50 per cent. The Unified Payment Interface (UPI) is the mainstay of the retail payment ecosystem, with around 9 billion transactions in April 2023 alone and this is attracting global attention. The India Stack creates a unified software platform to bring our population into the digital age. India Stack is the largest open application programming interface (API) in the world. It is being implemented in stages, starting with the introduction of the Aadhaar Universal ID numbers; the introduction of electronic Know Your Customer (eKYC) which enables paperless and rapid verification of identity details; e-Sign whereby users attach a legally valid electronic signature to a document; UPI enabling cashless payments; and most recently, DigiLocker, a platform for issuance and verification of documents and certificates. The benefits of India Stack are being widely exploited by rising mobile penetration. It is argued that India Stack could fast-track the move to digital payment systems worldwide and mark the end of cash10.

Digitalisation is also powering a revolution in the cross-border payments space. India is linking UPI with other national fast payment systems (FPS). The UPI has been linked with Singapore's PayNow in a move that is expected to make cost-effective cross-border peer-to-peer (P2P) transfers using mobile apps, and deepen trade, travel, and remittance flows between the two nations. Other link-ups are on the anvil. Within India, too, increasing interoperability across domestic payment modes is being prioritised. India is also gearing up for the launch of the digital rupee. Internationalisation of home-grown payment modes is being enabled through tie-ups with payment service providers that allow QR code-based merchant payments in Bhutan and Singapore. Leveraging the growing popularity of the UPI, this payment facility has been extended to inbound travellers from the G20 nations for effecting local merchant transactions.

Looking ahead, the future of digitalisation is bright, with total digital payments poised to jump three-fold to USD 10 trillion by 2026, wherein 2 out of 3 transactions will be through non-cash modes. The future of cross-border payments will be characterised by the setting up of dedicated payment rails for instantaneous transfers, while also ensuring digital and financial inclusion and greater harmonisation of payment regulations across borders.

Diplomacy: India's G20 Presidency is a watershed moment in our history as we seek a central role in finding pragmatic global solutions for collective well-being and promoting a sustainable and inclusive future for all. G20 brings together the world's largest economies on one platform for collective action, coordination and consensus building in our vision of Vasudhaiva Kutumbakam – One Earth – One Family – One Future.

India is prioritising a reformed multilateralism that creates a more accountable, inclusive, just, equitable and representative multipolar international system for the 21st century. Our priorities include addressing the macroeconomic implications of food and energy insecurity; climate change; strengthening Multilateral Development Banks (MBDs); debt sustainability; strengthening financial resilience through sustainable capital flows; financing inclusive, equitable and sustainable growth; leveraging digital public infrastructure; climate financing; and opportunities and risks from technological change.

On the finance track, we aim to expand the narrative beyond financial stability and financial integrity concerns to capture the cross-sectoral and macro-financial implications and risks. We are working towards strengthening financial institutions' ability to manage third-party risks and outsourcing, inter alia, arising from BigTech and FinTech, and also enhancing global cooperation to strengthen the financial sector's cyber resilience.

Going forward, the world's hopes are on building consensus to deliver a G20 Delhi Declaration that will leave an Indian footprint on the sands of time as we strive for 'human-centric globalisation' that is sensitive to the voices of the Global South.

Dynamic Federalism: Increasingly, the quality of life and the business environment in India is going to be defined by shifts in the focus of public policy that foster competitive federalism among India's states in achieving the aspirational goals of sustainable economic development. The freedom to compete allows each state to design, experiment, innovate and reform, given its unique features and challenges, while emulating best practices achieved by peers. An example of the power of competitive federalism is the drive among states to attract private investment, both domestic as well as foreign, by showcasing investment opportunities in each state. The spirit of competitiveness is being promoted at the highest policy levels. Well-performing states in the area of business reforms are recognised as Top Achievers. Similarly, Niti Aayog has developed the Export Preparedness Index to evaluate sub-national export performance11.

Moving on, the states' start-up ranking scheme has encouraged each of them to have dedicated start-up policies. Many States have also undertaken substantive legislative and administrative reforms in their labour and industrial relations to boost domestic manufacturing capacity. Today, many states have instituted processes such as single-window clearance, self-certification of compliance by enterprises, online filing for registration and returns and transparent inspection systems. The Smart Cities Mission promotes sustainable and inclusive cities12. The Ministry of Housing and Urban Affairs has launched the 'City Finance Rankings 2022' portal in March 2023 whereby urban local bodies in the country will be evaluated on the basis of 15 indicators,13 based on current financial health and improvement in financial performance over time. The sustainable development goals (SDG) India Index14 developed by the NITI Aayog, in collaboration with United Nations, is also fostering competition among states and UTs by ranking them on global developmental goals.

As our states compete for a place in the sun, they will nurture business growth, put in place the best physical and social infrastructure and provide us with improved basic amenities, clean energy, and better health and societal outcomes. Along with foreign investment bringing in new technologies and ideas, we are moving into a national ethos of wider consumer choices and a better standard of living.

Decarbonisation: Climate change is manifesting itself at an alarming scale and pace globally. Extreme weather events are becoming more frequent and intense, inflicting increasing damage on human lives and the environment, globally and in India. The intensifying concern now is that climate change is heavily influenced by human activity. In fact, the period from the mid-20th century has been defined as the "Anthropocene" epoch, marking a significant impact on earth's climate due to the increased use of fossil fuels.

India and other developing economies are highly vulnerable to climate change due to their limited capabilities in climate science and technology and insufficient funding for adaptation and mitigation. The relative costs of transitioning to a greener path are

[Continued on Page-19]

STRENGTHEN REGULATIONS, EXAMINE LICENSING REQUIREMENTS: RBI'S AGENDA FOR NBFCS IN FY24

In its recently released Annual Report, the apex bank highlighted key plans for the NBFCs for this fiscal. Apart from the regulations and licensing requirements, the impact assessment of recent modification in asset classification norms for NBFCs are among the key goals. Here are the details:

For the Financial Year 2023-24, the Reserve Bank of India (RBI) has mentioned to strengthen Non-Banking Financial Companies (NBFC) regulations to examine licensing requirements.

"The central bank's department of supervision will work on the examination of licensing requirements for NBFCs and initiating supervisory action against non-compliant NBFCs in 2023-24," the apex bank said in its Annual Report.

The report also highlighted that the impact assessment of recent modification in asset classification norms for NBFCs will also be the key goals for supervision of NBFCs in 2023- 24.

It further mentioned about the plans to include NBFCs in addition to banks in a phased manner.

"With non-banking financial companies (NBFCs) constituting an increasingly important segment of the Indian financial system, the Department plans to strengthen the analysis of transmission to lending rates and sectoral credit flows by expanding the coverage to include NBFCs in addition to banks in a phased manner," the report highlighted.

Robust credit growth during 2022-23 due to regulatory framework

RBI's Annual Report highlighted that the Non-banking financial companies (NBFCs) maintained robust credit growth during 2022-23, supported by the broad-based revival in economic activity and targeted policy initiatives.

The sector strengthened its financial soundness during the year througrobust capital buffers, improved asset quality and consolidation of balance sheet. A scale based regulatory framework was implemented for NBFCs during 2022-23.

Sound macroeconomic fundamentals, a resilient financial system reflected in healthy balance sheets of banks and non-banking financial companies (NBFCs), and a deleveraged corporate sector imparted resilience to counter the adverse global spillovers, it further added.

The report also mentioned that a unified Department of Supervision (DoS) has been operationalised in which the supervision of banks, UCBs and NBFCs is being undertaken in a holistic manner under one umbrella Department. This will improve handling of issues arising from regulatory/supervisory arbitrage, interconnectedness and information asymmetry. [ETBFSI, May 31; Vikas Kumar]

Department of Regulation (DoR) of RBI: Agenda for 2023-24

VI.12 The Department of Regulation (DoR) is the nodal Department for regulation of commercial banks, cooperative banks, NBFCs, Credit Information Companies (CICs) and All India Financial Institutions (AIFIs), which also aims at ensuring a healthy and competitive financial system, while promoting cost effective financial inclusion. The regulatory framework is fine-tuned as per the evolving requirements of the Indian economy while adapting to international best practices.

Agenda for 2023-24

VI.73 During 2023-24, the Department will focus on the following key deliverables:

- Comprehensive review of instructions on statutory and other restrictions in credit management (Utkarsh 2.0);
- Review of miscellaneous non-banking companies (MNBCs) regulations (Utkarsh 2.0);
- Recognition of self-regulatory organisations (SROs) for NBFCs;
- Review of liquidity management framework of UCBs (Utkarsh 2.0);
- Issue of harmonised regulations on 'Income Recognition, Asset Classification and Provisioning Pertaining to Advances' to regulated entities (Utkarsh 2.0);
- Comprehensive review of all non-fund based contingent facilities issued by lending institutions (Utkarsh 2.0); ANNUAL REPORT 2022-23 146
- Review of policy on conduct of activities by banks and NBFCs;
- Review of regulation on agency business and referral service;
- Comprehensive review of guidelines on area of operations of UCBs;
- Review of instructions on various regulatory approvals of UCBs; and
- Regulatory initiatives on climate risk and sustainable finance.

Non-Banking Financial Companies (NBFCs)

VI.110 The Department continued to closely monitor the NBFCs (excluding HFCs) and ARCs registered with the Reserve Bank.

Agenda for 2022-23

VI.111 The Department had set the following goals for supervision of NBFCs in 2022-23:

- Review the supervisory framework and the returns' formats for NBFCs under Indian Accounting Standards (Ind-AS) based on the regulatory guidance in the matter (Utkarsh) [Paragraph VI.112];
- Make changes in sectoral assessment in the context of recently released scale based regulatory framework for NBFCs (Paragraph VI.113);
- Roll out KRIs for select NBFCs to assess their cyber security risk profile (Paragraph VI.114); and
- Roll out of IT examination for select NBFCs (Paragraph VI.114).

Implementation Status Rationalisation of NBFC Returns

VI.112 During the year, a Working Group comprising of officials from the Reserve Bank, select large NBFCs and audit firms reviewed and designed new returns' formats as per the supervisory framework for NBFCs in alignment with the Indian Accounting Standards (Ind-AS) [an Indian version of International Financial Reporting Standards (IFRS)]. These returns will be taken up for implementation. Sectoral Assessment of NBFCs

VI.113 During the year, the Reserve Bank, for the purpose of sectoral assessment of NBFCs in the context of recently released scale-based regulatory framework for NBFCs, classified 16 NBFCs in the upper layer. The model design was also modified to cover all NBFCs in various layers, viz., top, upper, middle and base layer. Cyber Security and IT Examination of NBFCs

VI.114 In order to assess the inherent risks and put in place an effective off-site monitoring mechanism, KRIs were rolled out for select NBFCs. These NBFCs have started submitting KRI data and a scoring model is being formulated based on the same. IT examination for select NBFCs will be initiated in 2023-24.

Other Initiatives Action Against Non-compliant NBFCs

VI.115 During the year, based on targeted scrutiny of arrangements entered into by certain NBFCs with Digital Lending Partners (DLPs), various issues such as non-adherence to outsourcing guidelines (including those pertaining to recovery agents), fair practices code and KYC norms were examined. Further, certain dormant NBFCs were also identified which were vulnerable to misuse by miscreants. Appropriate supervisory actions, including cancellation of certificate of registration (CoR) of a few NBFCs, were taken based on the supervisory examinations.

Improvement in Usage of Analytical Tools to Detect Vulnerabilities Early

VI.116 During the year, stress testing model of NBFCs was augmented to cover multiple balance sheet and profit & loss statement parameters/ ratios, the forward projections and CRAR levels under baseline, medium and severe scenarios for ANNUAL REPORT 2022-23 158 estimating slippages. Input and output of

[Continued on Page-24]

Aadhaar brought down KYC cost to Rs. 3 from as high as Rs. 700, says Nirmala Sitharaman

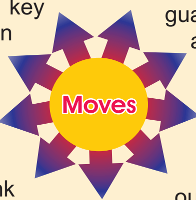
Finance Minister Nirmala Sitharaman had said that Aadhaar has brought down the cost of KYC to Rs. 3 from as high as Rs. 700. At the same time, the cost of loan processing has been lowered by almost 75 per cent.

Delivering a keynote address during a seminar on 'India's Digital Public Infrastructure - Stacking Up the Benefits', organised by IMF in Washington DC on Friday (Saturday according to Indian Standard Time), she highlighted the benefits of DPI (Digital Public Infrastructure), India's stack and how the Modi Govt has leveraged the benefits of it to serve the citizens, especially during the pandemic. "In India, we have seen how Digital Public Infrastructure (DPI) can contribute to targeted, quick, efficient & inclusive service delivery through innovative methods developed by both public & private sector initiatives," she said.

Using the unique identity number 'Aadhaar' in Know Your Customer (KYC), she said that has brought down verification costs. As on date, "cost for customer acquisition has come down from Rs. 500–700 ($6-9) per person to Rs. 3 (0.4 cent)," she said. KYC is a regulatory and legal requirement. It enables banks and other financial institutions to know/understand their customers and their financial dealings to serve them better and prudently manage the risks of Money Laundering and Financing of Terrorism.

Aadhaar-based KYC also helped more and more people under financial inclusion by opening up many low-cost accounts, which also help provide every penny of government allocation directly to beneficiaries. India has opened 46.25 crore low-cost bank accounts under PM Jan Dhan Yojana, with 56 per cent of account holders being women. This has enabled the government to transform service delivery by building the world's largest direct benefits transfer system.

"Our DPI based direct benefits transfer system has aided about 650 million people who received $322 bn directly into their accounts, which have led to overall savings of more than $27 bn just across key central government schemes. The greatest potential of DPI in reaching the last mile became evident during the pandemic. About $ 4.5 billion was transferred during the Covid pandemic directly into the bank accounts of 160 million beneficiaries." she said. The greatest potential of DPI in reaching the last mile became evident during the pandemic. About $4.5 billion was transferred during the COVID pandemic directly into the bank accounts of 160 million beneficiaries.



Further, she said that due to the consent-based data exchange framework, the cost of loan processing is estimated to have declined by almost 75 per cent. The Finance Minister mentioned how UPI has been a game changer when making digital payments in India. Data shows digital payment transactions rose to 9,192 crores (at the end of December 31, 2022) from 8840 crores (at the end of March 22) and from 2,071 crores (at the end of March 31, 2018)

During the last five years, various easy and convenient modes of digital payments, including Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), Immediate Payment Service (IMPS), and National Electronic Toll Collection (NETC), have registered substantial growth and have transformed digital payment ecosystem by increasing person-to-person (P2P) as well as person-to-merchant (P2M) payments. BHIM UPI has emerged as the preferred payment mode of the citizens and has recorded 803.6 crore digital payment transactions with a value of Rs. 12.98 lakh crore in January 2023, data from NPCI showed. [Business Line, April 15]

FinMin allows 22 finance cos to undertake Aadhaar-based client verification

The Finance Ministry has allowed 22 financial companies, including Amazon Pay (India) and Hero FinCorp, to undertake Aadhaar-based authentication of clients. The ministry, through a notification, said these 22 companies, which are already reporting entities under the PMLA, will be able to verify the identity of clients and beneficial owners' details using their Aadhaar numbers.

These 22 financial companies include Godrej Finance, Amazon Pay (India) Pvt Ltd, Aditya Birla Housing Finance, Tata Motors Finance Solution, IIFL Finance and Mahindra Rural Housing Finance Ltd.

Nangia Andersen LLP Partner Sandeep Jhunjhunwala said that while Aadhaar authentication of clients is made available as one of the modes of verification for banking companies, the Prevention of Money Laundering Act (PMLA) provides that Aadhaar authentication can also be adopted by reporting entities other than banking companies as may be notified by the central government.

"Accordingly, the CG has notified a list of 22 financial institutions/intermediaries, which are permitted to use Aadhaar authentication to verify the identity of clients/ beneficial owners," Jhunjhunwala said.

The other modes of verification prescribed under the Money Laundering Act include offline verification under the Aadhaar Act, use of a passport and any other officially valid document or modes of identification as may be notified by the central government, and the client has a voluntary choice to opt for the mode of verification.

"In the interest of safeguarding the identity information and authentication records of individuals, the Money Laundering Act prohibits reporting entities from storing the Aadhaar number or core biometric information of the client, where Aadhaar is used to verify identity," Jhunjhunwala added. [Business Standard, May 5]

CGTMSE issues guidelines regarding reduction of annual guarantee fee for loans up to Rs. 1 crore from a peak rate of 2% per annum to as low as 0.37% per annum Limit on ceiling for guarantees enhanced from Rs. 2 crores to Rs. 5 crore

In Union Budget 2023-24, Union Finance Minister Mrs Nirmala Sitharaman announced the revamping of Credit Guarantee Scheme for Micro & Small Enterprises with effect from 01.04.2023, with an infusion of Rs 9,000 crore to the corpus to enable additional collateral-free guaranteed credit of Rs. 2 lakh crore and the reduction in the cost of the credit by about 1 per cent.

Consequent upon this, the following significant steps have been taken:

- The corpus of Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) has been infused with a sum of Rs. 8,000 crore on 30.03.2023.
- CGTMSE has issued guidelines regarding reduction of annual guarantee fee for loans up to Rs.1 crore from a peak rate of 2% per annum to as low as 0.37% per annum. This will reduce the overall cost of credit to the Micro & Small Enterprises to a great extent.
- The limit on ceiling for guarantees has been enhanced from Rs. 2 crore to Rs. 5 crore.
- For settlement of claims in respect of guarantees for loan outstanding up to Rs. 10 lakh, initiation of legal proceedings will no longer be required.

CGTMSE created a new landmark by touching the milestone figure of approving guarantees worth Rs. 1 lakh crore during FY 2022 - 23. [PIB-Delhi, March 31]

CGTMSE ups guarantee coverage for MSEs

CGTMSE's move to reduce annual guarantee fee, among others is expected to encourage the public and private sector banks, FIs and foreign banks to step up loans to Micro and Small Enterprises

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has upped the coverage ceiling under its Credit Guarantee Fund Scheme from Rs. 2 crores to Rs. 5 crores per borrower for credit facilities extended by lending institutions to Micro and Small Enterprises (MSEs).

CGTMSE, set up by the Government of India and SIDBI provide guarantee to enable MSEs access credit, reduction in guarantee fee for loans up to Rs. 1 crore to bring down the cost of credit and doubled the threshold limit for waiver of legal action by lenders while invoking guarantee to Rs.10 lakhs per claim.

The changes are effective April 1, comes when the loan growth to the MSE segment slowed to 13.2 per cent year-on-year as on February 24, 2023 against 24 per cent y-o-y as on February 25, 2022, as per RBI data. This move is expected to encourage the public and private sector banks, Member Financial Institutions and foreign banks to step up loans to MSEs.

As on February 24, 2023, the scheduled commercial banks' credit to MSEs stood at Rs. 5,87,494 crore compared with Rs. 5,18,873 crores as on February 25, 2022.

The annual guarantee fee (AGF), which is generally passed on to the borrowers for loans up to Rs. 10 lakhs have been reduced to 0.37 per cent (from 0.75 per cent) and for loans above Rs. 10 lakhs up to Rs. 50 lakhs to 0.55 per cent (from 1.10 per cent).

The AGF for loans above Rs. 50 lakhs up to Rs. 1 crore is 0.60 per cent;

above Rs. 1 crore up to Rs. 2 crores (1.20 per cent); and for loans above Rs. 2 crores up to Rs. 5 crores (1.35 per cent).
Earlier, there was a single slab of Rs. 50 lakhs up to Rs. 2 crores for which the AGF was 1.20 per cent.
Banking expert V Viswanathan observed that the increase in guarantee coverage ceiling up to Rs. 5 crores for Micro & Small Enterprises is a welcome change and will be a big booster to these enterprises as they can avail loan without collateral obligations.
"A unit which has exhausted its collateral can apply for enhancement without bringing in surety by agreeing to join the guarantee scheme for the enhanced amount," he said.
Referring to the enhanced threshold for waiver of legal action to Rs. 10 lakhs from the existing Rs. 5 lakhs, Viswanathan said: 'This means lenders can invoke the guarantee even if they consider waiving legal action in respect of a MSE account if the aggregate outstanding is equal to or less than Rs. 10 lakhs. Incidentally, the maximum loan granted under MUDRA is Rs. 10 lakhs."
The credit guarantee scheme (CGS) assures a lender that if an MSE unit that has availed itself of collateral-free credit facilities (fund-based and/or non-fund based) fails to discharge its liabilities, then the trust would make good the loss to the tune of 75-85 per cent of the credit facility. [Business Line, April 13]

Centre to come up with creditor-led insolvency resolution framework: Report

The creditors and debtors will be allowed to reach an informal agreement to resolve the bankruptcy case and later approach the NCLT to admit cases

In a bid to ease the burden of the National Company Law Tribunal (NCLT) and fast-track settlement, the Centre is looking to consider a creditor-led insolvency resolution mechanism under the bankruptcy law, The Economic Times (ET) reported on Monday. The creditors and debtors will be allowed to reach an informal agreement to resolve the bankruptcy case and later approach the NCLT to admit cases quickly, a person aware of the matter told ET. However, the finer details will be finalised after consultations with the stakeholders.
The resolution process for corporate insolvency has seen delays due to rising cases and a shortage of NCLT benches. Earlier, the Insolvency and Bankruptcy Board of India (IBBI) set up a panel under Sudhaker Shukla to firm up a "regulatory approach" to fast-track the resolution process, the report added.
Moreover, the board may also allow management of the firms under stress to continue until the resolution process is complete. Also, the creditor-led resolution approach would differ from the pre-packaged scheme, which also allows informal discussions between the lender and the defaulter. However, it is only allowed to micro, small, and medium enterprises (MSMEs).
Unlike the pre-packaged deal, the new deal would put 'reasonable restrictions' on the bidding of the assets of the defaulter. The IBC has fixed a maximum of 270 days to resolve corporate bankruptcy. But according to data from IBBI, 611 cases resolved till December 2022 took on an average of 482 days to resolve.
"Such a framework will enable all stakeholders to understand each other's concerns with clarity and resolve the same through discussions," Yogendra Aldak, partner at Lakshmikumaran & Sridharan Attorneys, told ET. [Business Standard/ET, May 09]

Government, financial sector regulators pitch for a dynamic system for early stress indicators for economy: FSDC meeting

Indian economy and financial sector are well protected and that there is no spillover effect from the failure of American banks, says the government

The Centre, along with financial sector regulators, has underlined the need for evolving a system of early warning indicators for the economy. The government has simultaneously asserted that the Indian economy and financial sector are well protected and that there is no spillover effect from the failure of American banks.
These issues were deliberated on in a meeting of the Financial Stability and Development Council (FSDC) chaired by Finance Minister Nirmala Sitharaman on Monday. A significant consensus was reached in the meeting to run a special drive to help people get unclaimed deposits, shares, and dividends.
Briefing reporters after the meeting, Economic Affairs Secretary Ajay Seth said an early warning system for the whole economy would possibly be in line with the RBI's indicators to identify stress for banks.
"This is one set of indicators. There has to be a wide set of indicators that capture information from the financial markets, global markets, and the economy. It is evolving a system to get a sense of stress. The idea is to get the stress identified much earlier, before it becomes prominent and reaches a difficult situation," he said.
Talking about the strength of the financial sector, especially in the wake of issues related to some banks in the US, he said: "We see that the global financial situation is daunting, but, at the same time, the Indian economy and financial sector are well protected and well regulated. Of course we have to be cautious and be on our toes." Asked if the spillover of the failures of Silicon Valley Bank and Signature Bank and the liquidity pressure faced by Credit Suisse were discussed, he said it was not specifically brought up, but there is no spillover.
Special Drive: During the meeting, the Finance Minister advised all regulators to conduct a special drive to facilitate the settlement of unclaimed deposits and claims in the financial sector across all segments, such as banking deposits, shares and dividends, mutual funds, insurance, etc. Seth said that special efforts will be made in those cases where nominee details are available but the nominees are not aware. "Each regulator should take action so that nominee details are available. To reach out so that contact details are available and those claims are settled," Seth said.
G Sec: Seth also informed that the effort is to have a seamless experience in G Sec with the use of technology. "With the use of technology, how can a seamless experience be provided to potential investors, whether they come through the RBI infrastructure, which is the market infrastructure route, or the SEBI infrastructure route. This was hitherto not possible, but today, with the use of technology, it is possible," he said. [Business Line, May 08]

Committee formed for Arbitration Law update

In a bid to "reduce court intervention" and make arbitration a "party-driven process and cost-effective", the government has constituted an expert committee to examine the working of the Arbitration and Conciliation Act, 1996 and recommend reforms.
As per available information, the Department of Legal Affairs under the Ministry of Law is considering the need to further reform the working of the arbitration law, with a view to promote ease of doing business in India.
The 16-member expert committee, headed by former legal affairs secretary TK Vishwanathan, includes members from the ministries of law and railways, Niti Aayog, CII, National Highway Authority of India, and senior lawyers.
The committee has been asked to submit its recommendations within 30 days.
"As a part of the exercise and for having requisite consultation, it is proposed to have views of experts on the subject and the users of arbitration, prior to amending the law or if required, an original principal legislation on the subject," said an office memorandum on the setting up of the panel, dated June 14.
FIDC has requested all its members to submit the suggestions / recommendations in writing to FIDC at directorgeneral@fidcindia. org.in so that the same can be compiled by FIDC Legal Committee and then forwarded in a time bound manner to the Central Govt. as a representation. [Economic Times, June 17]

Income Tax department notifies e-appeals scheme to ensure electronic filing

The Income Tax department has notified the e-appeals scheme, which will ensure electronic filing and processing of appeals.
Under the 'e-Appeals Scheme, 2023', the Joint Commissioner (Appeals) shall dispose of the appeals filed before it or allocated or transferred to it.
The scheme also provides for personal hearings through video conferencing in appeal cases, where the assessee has filed an appeal against the assessment order of taxmen.
Nangia Andersen India Partner Neeraj Agarwala said the implementation of e-appeals is a progressive step towards a more efficient, accessible and accountable tax system.
"By taking the necessary precautions, such as meticulous preparation and providing comprehensive supporting documentation to substantiate their claims, taxpayers can look forward to speedy disposals. However, a lot will depend on the implementation of the

procedures and providing adequate time for response to the taxpayers," Agarwala added. [Business Standard, May 30]

India Mortgage Guarantee Co to support securitisation transactions

In a move that will help home loan companies that wish to securitise their home loan receivables, the India Mortgage Guarantee Corporation (IMGC) will offer to provide guarantees that can substitute cash collaterals. Thereby, the lenders would not have to lock-up their cash in collaterals when they look for credit enhancement; IMGC's guarantees will do the job of the cash collaterals, the company's CEO, Mahesh Misra, told journalists today.

IMGC is in the business of providing first-loss loan default guarantee to home loan companies, and is the only Indian mortgage guarantee company. The company was promoted in 2012 by the National Housing Bank—which, incidentally, is looking to sell off its 12 per cent stake to the other investors, viz., Enact MI, Sagen, IFC and ADB. IMGC typically guarantees the first 20 per cent of the default. NHB is waiting for RBI's approval for exiting IMGC, having done its job of promoting and stabilising the business.

Misra said that IMGC has provided guarantees, substituting cash collaterals, in a few securitisation transactions, but would do more in the coming years.

In 2022-23, IMGC has crossed the milestone of standing guarantee for home loans worth Rs. 20,000 crores, for over 100,000 borrowers, though its customers are the lenders. Its current list of partner-lenders includes marquee names such as LIC Housing Finance, SBI Home Loans, HDFC Home Loans, Muthoot Finance, Shriram Housing Finance, Axis Bank and Federal Bank.

These lenders give the option of taking the guarantee to the borrowers; the fee in the hands of the borrowers typically works out to Rs. 17 per Rs. 1 lakh, Misra said. IMGC typically charges 1.25 per cent of the loans it guarantees.

With a capital base of Rs. 400 crores, the company boasts of a capital adequacy ratio of 38 per cent. For the first time since inception, the company made a net profit in 2022-23, Misra said.

Misra said that the average size of the loans that IMGC guarantees is about Rs. 19 lakhs — down from Rs. 26 lakhs a few years ago.

He said that IMGC's business would only grow because the 'outstanding mortgage loans to GDP ratio' in India works out to 10 per cent, much lower than in most other countries. [Business Line, June 13]

Govt policies led to transformation; India to be 4th largest economy globally within 2 years: Vaishnaw

Enabling policies and grassroot initiatives of the government have led to social and economic transformation of the country since 2014, and the nation is all set to become the fourth largest economy in the world within two years, Union minister Ashwini Vaishnaw said on Saturday.

India is being seen as a bright spot globally and the world is placing its confidence in India, Vaishnaw said, urging people to continue posing their faith in the decisive leadership that will take the nation to new highs by 2047.

After Prime Minister Narendra Modi-led government came to power in 2014, India moved up from tenth rank to fifth, Vaishnaw said, adding within two years India will be the fourth largest economy in the world.

"Within six years, India will be the third largest economy in the world," Vaishnaw said, highlighting the speed of progress and economic growth under the government, which is driven by determination and can-do attitude.

Highlighting the government's various schemes and initiatives that have empowered people and transformed lives, Vaishnaw told the audience: "Your future is being built in today's India. By 2047, you will live in developed country…when you take decisions, India will be among the top most economies." [Financial Express, May 27]

Govt brings down threshold for e-invoicing to Rs. 5 cr businesses from August 1

Businesses with turnover of over Rs. 5 crores will have to generate electronic or e-invoice for B2B transactions with effect from August 1. Currently, the e-voice mandate is applicable for businesses with a turnover of and above Rs. 10 crores, according to the news agency PTI.

The finance ministry through a notification dated May 10 has notified a reduction in the threshold for e-invoicing Businesses with turnover of over Rs. 5 crores will have to generate electronic or e-invoice for B2B transactions with effect from August 1. Currently, the e-voice mandate is applicable for businesses with a turnover of and above Rs. 10 crores.

Deloitte India Partner Leader Indirect Tax Mahesh Jaising said the scope of MSMEs under e-invoicing will be expanded and they will need to implement e-invoicing with this announcement. "For companies, e-invoicing is a boon rather than a bane as suppliers who are e-invoicing compliant result in proper flow of input tax credit and reduce the churn around credit issues," he added.

Reacting to the announcement, AMRG & Associates Senior Partner Rajat Mohan said phased implementation of e-invoicing has resulted in reduced disruptions, improved compliance, and increased revenue. "Inclusion of the MSME sector in the e-invoicing regime would benefit the overall business ecosystem by reducing costs, rationalizing errors, ensuring faster invoice processing, and also limiting commercial disputes in the long term," Mohan stated.

EY Tax Partner Saurabh Agarwal said the industry needs to review their vendor masters and ensure that any vendor supplying goods or services and crossing the threshold turnover of Rs. 5 crores are necessarily issuing an e-invoice from August 2023 to avoid any dispute with respect to availing of input tax credit (ITC).

Under Goods and Services Tax (GST) law, e-invoicing for business to-business (B2B) transactions was made mandatory for companies with a turnover of over Rs. 500 crores from October 1, 2020, which was then extended to those with a turnover of over Rs. 100 crore effective January 1, 2021, PTI reported. From April 1, 2021, companies with turnover of over Rs. 50 crores were generating B2B e-invoices, and the threshold was brought down to Rs. 20 crore beginning April 1, 2022. From October 1, 2022, the threshold was further lowered to Rs. 10 crores. [Mint, 11 May]

New system for flagging/blacklisting of vehicle on Vahan implemented from 15 April 2023

Presently, blacklisting of vehicles is carried out on Vahan as received from States / UTs, to restrict further transactions till such time default is suitably addressed.

On receipt of multiple representations by the Ministry of Road Transport and Highways from vehicle owners, transporters etc., have highlighted cases of wrongful/erroneous blacklisting of their vehicles, thereby causing much distress.

Therefore, based on a comprehensive review undertaken by the Ministry, including consultations with multiple stakeholders, a new system for flagging of errant vehicles on Vahan has been finalized. The list of categories under which vehicles can be flagged on Vahan as "NOT TO BE TRANSACTED" is listed below which will be treated as Rule 167 of CMVR, 1989.

Such flagging shall be carried out and removed only by the parent RTO, and other authorities would be permitted to send a request electronically to the parent RTO through the system.

The new system shall be implemented with effect from 15.04.2023.

1. In case of theft of vehicle if it is reported by owner or authorised person or Police or Insurer.
2. Tax not being not paid within 30 days of its becoming due.
3. Prohibition/restriction imposed by Central or State Government or under rules made under Section 65 (2) [p]
4. Vehicle met with an accident or abandoned on road side reported by Police or Otherwise rendered permanently incapable of use or Registration obtained on the basis of misrepresentation.
5. Loan Defaulter : Owner fails to pay three consecutive EMIs reported in writing by financier in form 36 of CMVR.
6. Vehicle confiscated : On court order for third party liabilities or Government debt or commission of an offense reported by victim duly endorsed by the concerned Police station or under any law in force.
7. Police case : vehicle is a case property/ under investigation and formal request made by the I.O in writing to keep the file in safe custody/ not to make any transaction.
8. Court case : Vehicle involved in commission of offense or violation of direction of court or dispute among legal heirs pending for adjudication.
9. Others (under this drop down list): *Vehicle offered as surety/guarantee against a bail bond or default of bail condition;

- On demise of owner of vehicle if any heir(s) file a complaint with registering authority not to transfer ownership of vehicle in dispute;
- When challan is pending for 90 days and on expiry period of 10 days from the date of issuance of Notice serves under Rule 167(6) of CMVR.

[Source: Circular dated 3 April 2023 from Ministry of Road Transport and Highways]

Beware! Cheque bounce can lead to hefty penalty and imprisonment

Keep sufficient funds in account, fill cheque details accurately and legibly, and ensure your signature hasn't changed

- Bindisha Sarang

Cheque bounce is back in the news with three cases making the headlines. A court in Maharashtra's Thane district sentenced a businessman to rigorous imprisonment for three months and directed him to pay double the bounced amount. A metropolitan court punished a man in Gujarat with a one-year jail sentence.

The Sikkim High Court recently ruled that offences under Section 138 of the Negotiable Instruments Act can be compounded at any stage.

What is a cheque bounce?

Cheque bounce or "dishonour of cheque" occurs when a drawee is unable to withdraw money using a cheque due to certain limitations. It is covered by the Negotiable Instruments Act (NI Act), 1881, which aims to deter the issuance of cheques without sufficient funds in the bank account, and provides legal remedy to the aggrieved party.

Insufficient funds

Section 138 of the NI Act mentions two reasons for cheque bounce. Tushar Agarwal, advocate, Supreme Court of India, says, "First, there is insufficient money in the account. Second, the cheque amount exceeds the arrangement the account holder has with the bank." The second reason refers to the cheque amount being higher than the account's withdrawal limit.

Over time various other reasons have emerged.

Signature or number mismatch: A cheque can be dishonoured if there is a discrepancy between the drawer's signature on the cheque and the specimen signature available with the bank. Pratyush Miglani, managing partner, MVAC Advocates & Consultants, says, "This is done to avert fraudulent activities like forgery."

A number mismatch may arise if the cheque number entered in the MICR (Magnetic Ink Character Recognition) code line doesn't correspond with the pre-printed cheque number.

Expired or damaged cheque: A cheque is usually valid for three months from the date of issuance. If presented after this period, it is not honoured.

The bank may also declare a damaged or mutilated cheque as invalid. Miglani says, "Essential elements like the date, payee's name, amount, and signature must be legible and undamaged for successful processing."

Stop payment instruction: The issuer may have instructed the bank to stop the payment due to reasons like a dispute, suspicion of fraud, loss of the cheque, or change in circumstances.

Legal consequences

Cheque bounce is a criminal offence under Section 138 of the NI Act Suhael Buttan, counsel, SKV Law Offices, says, "The sentence can be for up to two years; a fine, which can be extended to twice the amount covered by the dishonoured cheque; or both."

Anushkaa Arora, principal & founder, ABA Law Office, adds, "Bail can be secured when the matter is pending in lower court. Post-conviction the chances of bail become bleak."

Regarding legal notice, Abhinay Sharma, managing partner, ASL Partners, points out, "The receiver of the bounced cheque can send a legal notice to the issuer within 30 days of receiving the bounce memo from the bank."

Sections 143A and 148 have been inserted through recent amendments. Buttan says, "These sections give the trial or the appellate court the right to direct payment of interim compensation during the trial and deposit of a certain minimum sum in an appeal by the drawer of cheque against conviction."

The Sikkim HC recently ruled that offences under Section 138 of the NI Act can be compounded at any stage. This means the parties can enter into a compromise and settle the matter out of court.

Proceed with caution

Keep sufficient funds in your bank account until the cheque is cleared. Fill all details correctly. If there is any doubt, verify with the bank that your signature hasn't changed. Also avoid overwriting. If availability of funds is an issue, communicate with the payee and resolve the matter instead of issuing the cheque. Use the Sikkim HC's recent ruling to compromise and settle out of court.

M Barve, founder, MB Wealth Financial Solutions suggests making online payments. Landlords can use cheque bounce laws to their advantage. "Take one or a few signed cheques in advance. The stringent consequences of bounced cheques will ensure you get the rent on time and there is no default."

Check bounce: Fallout can be expensive

The bank may charge the issuer a penalty, which can range from Rs 50 to Rs 750

If the cheque amount is not paid within the stipulated time, the receiver may be entitled to claim interest on the cheque amount

The issuer's credit score could take a beating

This can make it difficult to obtain credit in the future [Business Standard, May 08; Source: ASL Partners]

Banks Vs Borrowers: Supreme Court Clarifies Ruling On Fraud-Tagging Accounts

Are borrowers entitled to a personal hearing before their accounts are tagged as 'fraud'? Supreme Court clarifies its ruling.

Right to a hearing would carry the meaning as is given in the operative directions in the judgement, the Supreme Court said, while clarifying its March 27 judgment on fraud tagging of accounts by banks.

State Bank of India had approached the apex court, seeking clarity on the judgement that gave borrowers the right to be heard before their accounts are classified as 'fraud' by banks. The directions issued by the court said an opportunity of being heard must be given to borrowers before their accounts are tagged as 'fraud'.

Appearing for SBI, Solicitor General Tushar Mehta argued that the judgement may be interpreted by various high courts to mean that a 'personal hearing' has been made mandatory by the Supreme Court.

On Friday, Chief Justice of India DY Chandrachud said the top court had not used the word 'personal hearing', and that the bench was very careful about it. Clarification was also sought on the applicability of the judgement on past decisions.

Mehta had argued that the application of the judgement should be prospective, so that its impact does not fall on past decisions. However, the top court was not inclined to entertain this request and asked the solicitor general to file a separate review for this. [BQ Prime, 12 May]

Evidence against third parties subject to tax proceedings, rules SC

Apex court also allows retrospective application of rule

The Supreme Court on Thursday upheld an amendment that allows income tax officials to proceed against "third parties" against whom incriminating evidence was found at another person's premises during search operations. It also said that the amendment would apply retrospectively.

The matter pertains to the application of Section 153C of the Income Tax Act, which provides the revenue department the power to proceed against third parties and issue notice and assess and reassess income in case of undisclosed income and assets. This amendment was passed through the Finance Act of 2015, which came into effect on June 1, 2015.

The court said such proceedings were within the scope of Section 153C of the Income Tax Act, irrespective of whether the searches were conducted before or after June 1, 2015.

Quashing a 2014 Delhi High Court order, the top court said the amendment to Section 153C would apply retrospectively to searches conducted prior to the date of the amendment.

This also implies that action initiated against third parties will be covered under this and will apply to all pending and future proceedings.

In 2014, the Delhi HC gave restrictive interpretation to the words "belong/belongs" mentioned in the Section 153C for other

persons/third parties. The HC held that the word cannot be confused as "relates to/refers to".

To address this, the government brought in the amendment to the section in 2015, through which it substituted the words with "pertain/pertains to".

However, there was contention over the applicability of the section and whether the amendment would be applicable retrospectively.

The Supreme Court allowed a batch of 115 appeals filed by the revenue department against the Delhi HC's judgment.

The amendment was necessitated because of the "narrow and restrictive" meaning given by the Delhi High Court in the PepsiCo case, the apex court said. The Delhi HC's observation came in the way of suppressing the very mischief that the legislature intended to suppress, the apex court pointed out.

It said that while interpreting a statute the court must bear in mind the intention with which the legislation was passed and the mischief it sought to suppress. It added that the interpretation that best expressed the intention of the legislature should be preferred. However, the narrow scope given to the words "belongs or belong to" frustrated this purpose and, therefore, the amendment was necessitated.

It further said, "The object and purpose of Section 153C is to address the persons other than the searched person. Even as per the unamended Section 153C, the proceeding against other persons (other than the searched person) was on the basis of the seizure of books of account or documents seized or requisitioned 'belongs or belong to' a person other than the searched person."

The apex court rejected assessees' arguments that the retrospective application of the section would affect the substantive rights of individuals. It said, the submission seems to be attractive but deserves to be rejected. [Business Standard, April 6]

IBC: Guarantor's liability not always the same as borrower's, says Insolvency Tribunal

The liability of a corporate guarantor may not always be co-extensive or the same as that of the principal borrower, the Mumbai Insolvency Tribunal has said. The date of default for the corporate guarantor could be different from that of the borrower if the guarantee agreement specifies so, the court has held.

As the date of default in respect of the guarantor fell during the period during which the Insolvency Code was suspended, no proceedings can be initiated against the guarantor, according to the tribunal.

In the instant case, Direct Media Distribution Pvt. was a guarantor for the debentures issued by Essel Infra Projects Ltd.

Jay Properties Pvt., one of the debenture holders, acquired 425 unlisted debentures of Essel Infra with a face value of Rs 1 crore each, through a private placement. This was later transferred to Franklin Templeton Asset Management (India) Pvt.

The debentures became redeemable on May 22, 2020, which Essel Infra failed to redeem. However, a demand notice to the guarantor was only made on June 12, 2020.

The trustee for Franklin Templeton—IDBI Trusteeship Ltd.—argued that the demand notice served on May 9 amounted to an invocation of a guarantee.

However, according to Direct Media, the guarantee agreement clearly provided that the liability of the corporate guarantor cannot arise unless specifically invoked by the debenture holder. As the invocation in this case fell when Insolvency Code was suspended, bankruptcy proceedings cannot be initiated against the guarantor, it had argued.

The operation of the Insolvency and Bankruptcy Code was suspended for a year from March 25, 2020 to March 24, 2021. No proceedings under the code could be initiated for a default during such a period.

The court accepted Direct Media's argument that the date of default for the guarantor was two days after the date of invocation of the guarantee. Its liability can only arise after the invocation of the guarantee, as the agreement specifically says so. Moreover, there is nothing called "continuous default" as the date of default cannot be shifted, the court held.

The judgement follows the established precedent in respect of a guarantor's liability under contract law, says Abhishek Sharma, partner at Dentons Link Legal.

"In the present case, the agreement mandated the invocation of guarantee, which means guarantor's duty to pay can arise only after that," Abhishek Sharma, Partner, Dentons Link Legal.

Ameya Gokhale, partner at Shardul Amarchand Mangaldas and Co., also agreed with this assessment.

According to him, while the liability of the guarantor is co-extensive with that of the borrower, the method and time when such liability arises is subject to the contract i.e. the guarantee agreement.

In the present case, the contract mandates the invocation of the guarantee for the liability to arise. Therefore, the liability of the guarantor did not arise before June 14, 2020, which is two days after the invocation of the guarantee, he said.

"This means that the date of default for the borrower may not always be the same as the date of default for the guarantor," Ameya Gokhale, Partner, Shardul Amarchand Mangaldas and Co. [BQ Prime, 24 May] (Source: Reuters)

Income Tax assessment order issued with DIN has no standing in law: Delhi HC

Delhi High Court has upheld that Income Tax assessment order issued with DIN (Document Identification Number) has no standing in law. In 2019, Central Board of Direct Taxes (CBDT) made DIN mandatory for documents issued.

This order came following the appeal filed by the Income Tax Department against a ruling by Income Tax Appellate Tribunal (ITAT). "We find no error in the view adopted by the tribunal. The tribunal has simply applied the provisions of the 2019 Circular and thus, reached a conclusion in favour of the respondent/assessee," a division bench of Justices Rajiv Shakdher and Tara Vitasta Ganju said in a recent ruling.

Further, the bench said that the appeal filed by the tax department is closed. "If the AO is in a position to take next steps in law, it would embark upon the same only in accordance with the law," added the bench.

CBDT, in its order dated August 14, 2019, said that no communication shall be issued by any Income Tax authority relating to assessment, appeals, orders, statutory or otherwise, exemptions, enquiry, investigation, verification of information, penalty, prosecution, rectification, approval etc. to the assessee or any other person, on or after the 1st day of October, 2019 unless a computer-generated DIN has been allotted and is duly quoted in the body of such communication.

The circular also gave exceptional situation in which communication can be issued manually. These include technical problem, absence of official, delay in PAN migration beside others. Even after issuing the communication manually, these need to be regularized within 15 days. The circular made it clear, the communication not in conformity with this circular "shall be treated as invalid and shall be deemed to have never been issued."

Taking cue from the circular, the bench noted that the final assessment order was passed by the Assessing Officer (AO). The final assessment order does not bear a DIN. There is nothing on record to show that the revenue department took steps to demonstrate before the tribunal that there were exceptional circumstances, as referred in the circular, which would sustain the communication of the final assessment order manually, albeit, without DIN. Given this situation, clearly paragraph four of the 2019 Circular would apply meaning that the order has no legal status.

Commenting on the ruling, Amit Maheshwari, Tax Partner, AKM Global says there are several tribunal rulings on the similar lines where the notice/ order/ letter from the tax department is treated as invalid in the absence of DIN.

However, this ruling will set a significant precedent for future communication and existing tax assessments/appeals as DIN was mandated by CBDT on all communication to ensure transparency in tax administration, and of late, significant number of letters/ notices/ orders from the tax department relating to assessments, appeals etc. were made without DIN. Interestingly, "the court categorically

held that failure to generate and allocate DIN in this case is not a mistake curable under Section 292B and stated that circular no. 19/2019 is binding on the revenue, which gives a clear conclusion that communication without DIN shall be treated as invalid and as not issued," he said. [Business Line, April 14]

Incriminating material must for any addition to taxable income: SC

The Supreme Court on Monday held that the income tax authorities cannot add to a taxpayer's income under Section 153A of the Income Tax Act if no incriminating evidence is found during a search, a report by Business Line (BL) said. The court, however, left the scope for the authorities to re-open the cases of tax violation if any incriminating evidence emerges later.

Section 153A of the I-T Act specifies a process to determine the income of the searched individual. It aims to bring undisclosed income under the tax. The cases can be re-opened under Section 147/148.

According to the report, a division bench of justices MR Shah and Sudhanshu Dhulia said that if no incriminating evidence is found during the search, the Assessing Officer (AO) cannot assess other material which relates to already completed assessments.

The report also quoted Vishwas Panijar, partner with Nangia Andersen LLP, as saying that the reassessment is detrimental to the taxpayer by its very nature. So, it would require a higher degree of care by the department. According to the law, 'reassessment' inherently satisfies two of the most critical elements. One, it is deemed that income has escaped assessment in a case where a search/seizure has been conducted. Second, a show cause notice before initiating reassessment is not required to be given in such cases.

Panijar added that there is no restriction on the initiation of reassessment, safeguards like a time limit for issuing of notice and seeking the reason for reassessment would continue to be available to the taxpayer even in such cases. [Business Standard, April 25]

Institutional arbitration may suffer collateral damage

An important ruling that will have far-reaching consequences, a five-judge bench of the Supreme Court has held that an unstamped instrument (including an arbitration agreement) which is otherwise exigible to stamp duty is non-existent in law and must be impounded by a court if presented with it (say, by a party seeking arbitration). This process for impounding is usually marred by delays under the Stamp Act, resulting in a long wait for parties before they can avail their remedies under the arbitration clause contained in such instruments.

In its recent ruling, the Supreme Court has confirmed findings in SMS Tea Estates vs. Chandmari Tea Co and Garware Wall Ropes Ltd vs. Costal Marine Constructions & Engg and overruled NN Global Mercantile Private Limited vs. Indo Unique Flame Ltd and Others and held that an instrument which is exigible to stamp duty if not stamped is non-existent in law and cannot be relied on to appoint an arbitrator. The ruling stipulates that: (a) where the instrument exigible to stamp duty and is not stamped, the court cannot appoint an arbitrator, and the instrument must be impounded and the procedure contemplated under the Stamp Act must be followed; (b) where the instrument may be stamped but an objection is raised by a party that it is not duly stamped, and where it appears that such an objection is without any foundation, then the court may refer the parties to arbitration and leave. [Mint, 28 April]

No fitness certificate for vehicles fitted with LED/neon lights: Kerala HC

The Kerala High Court said that vehicles fitted with multi-coloured LED/laser/neon lights or flash lights, cannot be treated as vehicles that comply with the provisions of the Motor Vehicles (MV) laws for the purpose of granting a certificate of fitness.

The court noted that such vehicles pose a potential threat to the safety of other vehicles and their drivers, pedestrians and other road users.

"Therefore, vehicles which are fitted with after-market multi-coloured LED/laser/neon lights, flash lights, as seen in the screenshots reproduced herein before, which are being used in a public place, openly flouting the safety standards prescribed in AIS008, which are capable of dazzling the drivers of the oncoming vehicles, pedestrians and other road users, thereby posing a potential threat to the safety of other road users, have to be dealt with in an appropriate manner, strictly in accordance with the law. Such goods vehicles cannot be treated as vehicles which comply with the provisions of the Motor Vehicles Act and the Rules made thereunder, for the purpose of grant of certificate of fitness," it said.

The court ordered that in addition to the penal consequences under MV laws, a further fine of Rs 5,000 must be imposed per alteration in a vehicle. [Business Standard, May 18]

No service tax on corporate guarantees by parent to arms: Supreme Court

The Supreme Court has ruled that no service tax would be levied on corporate guarantees provided by a parent company to its subsidiaries as there is no consideration involved, resolving a long-standing service tax conflict.

The decision was made in the case of the Commissioner of CGST and Central Excise versus Edelweiss Financial Services, and is expected to resolve past cases related to service tax on corporate guarantees, tax experts said.

"No effort was made on behalf of the revenue to assail the...finding or to demonstrate that issuance of corporate guarantees to group companies without consideration would be a taxable service," the top court observed while upholding a ruling by the principal commissioner of goods and services tax (GST). "In these circumstances, in view of such conclusive findings in both forums, we see no reason to admit this case," the court said.

However, under the GST regime, even if no consideration is involved in a related party transaction, a 'deemed consideration' applies, and companies are required to pay tax, experts said.

"This order by the Supreme Court is with respect to the dispute under the service tax period where there was no deemed levy of tax in the absence of consideration even for services rendered to related entities," said Abhishek Jain, partner, indirect tax, at KPMG in India. "However, taxpayers would need to evaluate the implications of GST on corporate guarantees, since under GST, transactions with related parties would qualify as supply even if no consideration is involved."

The revenue department had issued a show-cause notice to Edelweiss Financial Services for failing to discharge tax liabilities related to providing corporate guarantees to its subsidiaries located within and outside India.

The parent company had not charged any consideration for providing corporate guarantees to its subsidiaries. [ET Bureau, Apr 4]

Courtroom. 'Ascetic aloofness' of defaulter denounced

Court comes down on Alectrona Energy promoter's attempt to wriggle out of liability

Justice D Bharatha Chakravarthi of Madras High Court came down heavily on a defaulter, Rohit Rabindra Nath, promoter of Alectrona Energy, for his "totally unconcerned" attitude towards his default. Calling it an "unconscionable feature", the judge said Nath's attitude was "akin to an ascetic's aloofness to worldly affairs". Alectrona Energy, of which Nath is Managing Director, owes KEB Hana Bank ¹ 60.61 crore.

Noting that "the arguments (of Nath) are advanced without even remotely touching the debt or repayment", Justice Chakravarthi said, "We find that the attitude of the petitioner to wriggle out of liability is writ-large from the proceedings."

The bank had petitioned the Debts Recovery Tribunal-II in Chennai, initiating insolvency proceedings against Nath, who is a personal guarantor of the unsecured part of the loan. Nath approached the court, saying the case could only be heard by the National Company Law Tribunal (NCLT). He had also approached the Supreme Court, in vain, against a government notification pertaining to personal guarantees.

Justice Chakravarthi not only declined to transfer the case to NCLT, but also directed Nath to pay the bank Rs.1 lakh towards costs. [Business Line, May 21] ■

NBFCs' education loan AUM expected to grow 35-40% in FY23, says Crisil

Education loan delinquencies have remained low for NBFCs so far, with built-in structural features of these loans playing a significant role

Non-banking financial companies' (NBFCs) education loan assets under management (AUM) are likely to grow 35-40% to Rs. 35,000 crores in the current fiscal, driven by specialized business models and a rise in students studying abroad, according to rating agency Crisil on Thursday.

Although education loans by NBFCs are expected to increase at a more moderate pace compared to the previous fiscal year, the growth remains healthy. Crisil estimates that the AUM for education loans nearly doubled to over Rs. 25,000 crores in FY23 from Rs. 13,000 crores in FY22.

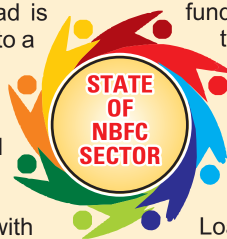
Despite rapid growth, asset quality in the segment has remained strong, with low levels of non-performing assets (NPAs) due to protective structural features of these loans.

Krishnan Sitaraman, senior director and deputy chief ratings officer at Crisil Ratings, said that swift loan disbursement, adequate risk classification of foreign universities, and structured loan repayment terms have enabled NBFCs to optimally serve the financing needs of students studying abroad.

In FY21, growth stagnated as the Covid-19 pandemic halted international travel, with the number of students traveling abroad dropping to 260,000, a decline of over 50% compared to the previous year. As the pandemic's impact lessened, this number increased to 450,000 and 750,000 for FY22 and FY23, respectively.

Crisil noted that over 90% of education loans are for studying abroad, with US academic courses accounting for over half of these NBFCs' education loan AUM, followed by Canada at 20-25%.

Although the number of Indian students studying abroad is expected to keep rising, growth rates may moderate due to a higher base effect, subdued global economic growth, and related layoffs, particularly in the technology sector.



Crisil added that education loan delinquencies have remained low for NBFCs so far, with built-in structural features of these loans playing a significant role.

Ajit Velonie, senior director at Crisil Ratings, explained that compulsory co-borrowers, a focus on STEM courses with better employability prospects, and structured repayment terms have supported the asset quality of education loan NBFCs. As a result, gross NPA stayed below 0.5% even during the pandemic. [Mint, April 20]

Icra sees 12-14% growth in NBFC Retail AUM in FY24

The report predicted an optimistic outlook for NBFCs in the retail segment, anticipating strong growth in FY2024.

The retail assets under management (AUM) of non-banking financial companies (NBFCs) are likely to witness a healthy growth of 12-14 per cent in the fiscal year 2024, the rating agency Icra said in a report.

This follows a strong rebound in FY2023 and surpasses the earlier estimates for AUM growth, according to Icra.

As of December 2022, NBFC retail AUM stood at Rs 12.8 trillion, reflecting a significant increase of approximately 20 per cent year-on-year (YoY).

The report highlighted that the growth in FY24 will be primarily driven by the unsecured segments i.e. personal credit and microfinance. It accounted for 27 per cent of the AUM in December 2022.

Icra added, "The intensified competition from banks in traditional asset segments has prompted entities to increasingly target these unsecured segments." However, the vehicle finance segment, constituting about 40 per cent of the NBFC retail book, is expected to grow at a relatively slower pace.

During FY2023, loan against properties (LAP) and small and medium enterprise (SME) loans experienced robust growth. The gold loan segment is anticipated to face challenges due to intensified competition from banks.

The overdue in the NBFC retail sector has fallen below pre-pandemic levels, with most entities successfully addressing their pandemic-affected portfolios through higher write-offs, it added.

Additionally, restructured books have significantly diminished and are currently at manageable levels, reflecting the overall solvency profiles of the entities.

While asset quality is expected to continue to improve, leading to the unwinding of provisions and lower credit costs, margins are likely to face pressure in FY2024, Icra mentioned.

Consequently, net profitability is projected to moderately decline from the estimated level of 2.5-2.7 per cent in FY2023 to 2.4-2.6 per cent in FY2024.

The report also emphasised that capitalisation has remained adequate as growth has revived. The current capital profile, coupled with the sector's internal profit generation, is expected to sufficiently support near-to-medium-term growth.

"Whereas, certain entities experiencing exceptionally high growth rates may need to raise additional capital," it stated.

In recent years, the funding mix for NBFCs has gradually shifted towards long-term sources such as term loans and debentures. Banks have played a crucial role as principal lenders by providing direct exposures, investing in capital market instruments, and participating in loan sell-downs.

The rise in securitisation volumes has further strengthened funding for the sector. The report suggests that the incremental funding requirement should be manageable to meet the estimated growth.

The report predicted an optimistic outlook for NBFCs in the retail segment, anticipating strong growth in FY2024.

"While challenges such as margin pressure and intensified competition from banks persist, the sector is expected to benefit from improved asset quality and a favourable funding mix," it added. [Business World, 08 May]

Nonbanks step up Used Car funding as EVs catch on

Non-banking financial companies (NBFCs) are stepping up the funding of used cars, seeing it as a growth driver over the next two-three years, especially with electric vehicles (EVs) gaining traction in the Indian market.

Mahindra Finance, Shriram Finance, Poonawalla Fincorp, Cholamandalam Finance and others expect wider acceptance in the metros for used EVs. Finance penetration in this market has grown from 20% a year back to about 35% currently, according to executives.

Loans for used cars have traditionally carried higher interest rates. But a key shift of late is the narrowing of the interest rate differential between used and new cars, from 400 to 250 basis points, said companies.

The other key driver behind the sustained growth momentum is the enhanced transparency of a sector that's becoming more organised.

The overall used car market grew 7% in FY23 to 4.5 million units; it's pegged at 7 million vehicles by FY26.

"The used car business is far more organised and the vehicles are quality, price and warranty certified. This makes it easier qualitatively at lower risk for NBFCs to finance such vehicles," said Ramesh Iyer, vice chairman and managing director, Mahindra Finance. It finances 15,000 units a month on average. It exceeded 20,000 vehicles in March.

A noteworthy trend is the increase in the share of EVs in used car markets.

This is despite the fact that EVs appear to lose value less rapidly than similar internal combustion engine (ICE) vehicles. A two-year-old EV sells at 70-75% of a new car's price, while an ICE model of comparable age sees a reduction of at least 50-60%. On the other hand, the higher prices of new EVs are persuading customers who want to go green to opt for used ones, said an executive at an EV maker. Used car platforms such as Spinny and others are making the market more organised, meaning there's less opaqueness over quality and price assessment. Spinny is also seeing an increase in the used EV portfolio.

"The overall (used car) category is growing very fast, with return on capital higher in the used car market for financiers as against new cars," said Spinny CEO Niraj Singh. "The increasing financing options, and lower interest rates are driving used car growth."

Used car company First Choice Wheels agreed that there is increasing acceptance of used cars as the market gets more organised. [ET Bureau, May 07; By Lijee Philip]

REC lists $750-mn green bonds on GIFT IFSC stock exchanges

REC's green bond issue was oversubscribed nearly 3.5 times

State-run REC on Wednesday said it has exclusively listed its recently issued $750-million green bonds, raised under its $7-billion global medium-term programme, on GIFT IFSC stock exchanges in Gandhinagar (Gujarat).

This is the largest senior USD tranche by an Indian non-banking financial company (NBFC) (largest senior green bond tranche by a South and South-East Asian issuer) and first green bond issuance by an Indian company post India's G20 presidency, the power sector NBFC said.

The issue saw over-subscription of around 3.5 times from 161 investors, with active participation from quality accounts. Investors from across the globe participated in the issue — Asia Pacific (APAC) 42 per cent, Europe, Middle East and Africa (EMEA) 26 per cent, and the US 32 per cent, it added.

Over 87 per cent of the transaction has been allocated to fund managers, asset managers and insurance companies.

REC CMD Vivek Kumar Dewangan said, "We have consciously decided on the exclusive listing of REC's recently issued green bonds on IFSC stock exchanges, which have come a long way in their acceptability amongst the global investors."

IFSCA Chairperson Injeti Srinivas said, "We are pleased that REC has listed their $750 million green bonds exclusively on the IFSC exchanges. With this listing, the cumulative ESG labelled bonds listed on IFSC exchanges has crossed $10 billion. GIFT IFSC is emerging as a gateway to facilitate raising of foreign capital into sustainable projects in India, thereby contributing towards achieving our climate change commitments and SDG goals."

NSE International Exchange MD & CEO V Balasubramaniam said that with this listing, REC's total listing now stands at $4.75 billion under the $7-billion global medium-term note programme. This also takes the total bond issuance on IFSC exchanges to $51.7 billion-plus with the total medium-term notes worth over $73 billion. [Business Line, May 03]

Sustained momentum in NBFC investments, rising demand for lending: Report

Several investors are being driven towards NBFCs due to the rising per capita income and increasing demand for personal loans and other new-to-credit segments. NBFCs are covering the underserved markets and untapped customers by the banks, giving them an edge and areas to expand in, according to a report by Bain & Company.

NBFCs are at the forefront of the country's growth and expansion, especially due to the increased consumption by the middle class, openness to credit and the increasing ability of the players by offering credit through offline and digital expansion.

Investments in NBFCs are firmly supported by RBI policies resulting in the growth of credit from 21% to 27% in 2022. Personal loans, consumer durables, 2W and 3W finance, and micro, small, and medium enterprises (MSME) are all areas where NBFCs have increased their market share, highlighted a recent report by Bain & Company.

NBFCs have achieved this expansion by covering untapped customers and underserved markets by banks, along with building an expansive on-ground network in tier 2 & tier 3 cities and rural areas, enabling cross-selling opportunities.

According to the report, the public market performance of various listed players, like IIFL and Cholamandalam, which outperformed market indices, is evidence of the NBFC model's strength. Consumer durables, personal loans, Microfinance, and MSMEs have also fuelled NBFC growth, with a focus on customer experience and penetration in underserved segments.

With increasing per capita income, there is a greater demand for personal loans for essential and unessential spending and a continuing demand for consumer durable loans.

Increasing NBFCs' ability to extend coverage to previously uncreditworthy segments of the population using alternative data (e.g., e-commerce, social media, location data) and favourable policies (account aggregator framework), said the report.

NBFCs are advancing in entering rural and MSME segments through expanded offline presence and superior online customer journeys.

NBFCs have created value in market performance across several themes, such as Customer experience improvement (quick and seamless onboarding, approval and disbursal of loans), Robust and innovative underwriting, collection process enhancement, product diversification and market expansion into tier 2 cities which banks currently underserved, the report further added. [ETBFSI, Apr 21]

Account aggregator transactions soar as lenders disburse Rs 6K cr

Account Aggregator is a type of RBI-regulated entity that helps individuals securely and digitally access and share information from one financial institution they have an account with, to any other regulated financial institution in the AA network.

The account aggregators (AA) ecosystem is seeing increased adoption from various financial services players, and lenders including banks and non-banking finance companies (NBFCs) have disbursed Rs 6,000 crore of loans through AA-based underwriting, according to a report published on May 25 by Kotak Institutional Equities.

"Industry participants have started realising benefits of the framework (AA) with implementation of use cases across several retail product segments and remain optimistic about it gaining further traction over the next few years," the report said.

Some banks and NBFCs have implemented AA-based processes for several retail product segments and are positive about the mechanism as it leads to a better customer experience and faster turnaround time for loans, reduction in drop-off rates, lower instances of frauds, lower costs and more comprehensive borrower data for underwriting loans, the report said.

"Our business loan journey has seen an improvement across the board – the process has become much more convenient for our customers. Today close to 15%-20% of our customers are using this flow," said Mehekka Oberoi, strategy lead, CEO's office at IIFL.

Account Aggregator is a type of RBI-regulated entity that helps individuals securely and digitally access and share information from one financial institution they have an account with, to any other regulated financial institution in the AA network. User data cannot be shared without the consent of the individual. AA is different from Aadhar EKYCs and credit bureaus like CIBIL as the AA network allows sharing of transaction data or bank statements from savings deposits and current accounts.

Over the past year, most of the large private and state-owned banks have been onboarded onto the AA ecosystem as financial information providers (FIPs). Similarly, mutual fund agents as well as several insurance companies have also been onboarded as FIPs. The ecosystem expects the onboarding of the GST network over the next few months as another FIP, which should drive further use cases for underwriting credit to self-employed borrowers and small businesses, the report said.

"We view the developments in the AA ecosystem as a definite positive for credit growth and asset quality for banks in the long

term," the brokerage said. About 8 million accounts have already been linked to the AAs so far since September 2021 while 10 million consent requests have also been raised through AA applications.

However, the AA ecosystem is also dealing with its own teething challenges, the report said, such as systemic outages at the FIP or AA level, systemic constraints at some of the large FIPs, consent provision mechanisms for joint accounts, among others. However, this has not been a deterrent in driving increasing adoption of the AA ecosystem so far, it added. [Financial Express, May 26]

Banks credit to NBFCs sees robust growth, mutual funds pare exposure: Report

Absolute bank lending to NBFCs has more than tripled in the last five years, while mutual funds exposure has reduced by over a third over during the same period.

The credit exposure of the banks to non-banking financial companies (NBFC) increased significantly in the last twelve months and the dependence of shadow lenders on the banking sector for funding is likely to remain very high going ahead, says a report by Care Ratings.

Banks' outstanding credit to NBFCs rose by Rs3.09 lakh crore over the last 12 months and stood at Rs. 13.3 lakh crore in March 2023. This was primarily because the NBFCs' additional borrowings moved to banks due to differentials between market yields and interest rates offered by banks.

On the other hand, mutual funds' debt exposure to NBFCs fell 14.1% YoY to ₹ 1.46 lakh crore in March 2023, while increasing sequentially by 2.5% from February 2023 levels.

Absolute bank lending to NBFCs has more than tripled in the last five years, while mutual funds exposure has reduced by over a third over during the same period.

Banks' credit to NBFCs started witnessing healthy growth in H2FY22 which continued its upward trajectory into FY23, data shows.

"This growth can be attributed to several factors, including the base effect, the improved financial position and growth visibility of NBFCs, and the fact that banks continue to offer more favourable rates compared to capital market yields," the report said.

As of March 2023, lending to NBFCs accounted for 17.3% of the incremental lending of aggregate credit.

As NBFC exposure as a percentage of aggregate credit increased to 9.7% in March 2023 from 8.6% YoY, certain banks may face difficulties in extending further credit to the NBFC sector as they move closer to the sectoral exposure norms, the report noted.

Meanwhile, in March 2023, the debt assets under management (AUM) of mutual funds decreased 10.4% YoY to Rs. 12.1 lakh crore.

"This decrease can be attributed to regular quarter-end outflows from liquid funds, the sustained popularity of equity funds, fixed-term plans (FMP) losing popularity, and alternate investment avenues," the report added.

Data shows that investment in corporate debt of NBFCs fell by 30.5% to Rs. 0.67 lakh crore in March 2023, while the percentage share of total corporate debt to NBFCs too declined to 4.4% from 5.8%, YoY.

Meanwhile, mutual fund share has declined for the last several quarters as they primarily maintain their exposure to NBFCs via market instruments.

"Further as and when banks fully transmit the rate hikes to their borrowers, market borrowing by NBFCs may increase as the spread between bank rates and market yields soften. Meanwhile, given the general credit risk aversion of MFs, the exposure to NBFCs, especially those rated below the highest levels is not likely to increase meaningfully. Hence, the NBFC's dependence on the banking sector for funding is likely to remain very high," the report added. [Live Mint, 18 May]

Banks' credit to NBFCs gallops at 30% for 6 months in a row

Lending to NBFCs now constitutes 10.5% of overall non-food credit outstanding, according to a research report by ICICI Securities.

According to the data, while banks' non-food credit grew 15.9% YoY to Rs 134.1 trillion in February, credit to NBFCs rose 32.4% to Rs 13.09 trillion during the same period. Data show that banks' credit to NBFCs started growing by upwards of 30% since September 2022, registering a 35.5% Y-o-Y growth in December and 31% rise in January. Lending to NBFCs now constitutes 10.5% of overall non-food credit outstanding, according to a research report by ICICI Securities.

Officials at NBFCs said the rise in banks' loans to non-bank lenders is primarily driven by their need to meet priority sector lending targets. "…The RBI has come up with guidelines on co-origination and co-lending by banks. This has come as a big relief as well as a bright opportunity for banks to meet their priority sector targets. Banks have quickly adapted these guidelines and formulated policies to join hands with NBFCs, resulting in 30%-plus growth in lending to NBFCs," said Jugal Mantri, executive director and chief executive officer at Anand Rathi Global Finance.

Umesh Revankar, executive vice-chairman at Shriram Finance, told FE that banks have also become a "little too large" now. He said the retail strength of lenders reduces when they become large sized, and they incline to focus on wholesale loans.

"Banks have become a little too large now…When your size becomes large, your retail strength comes down, you tend to do more of wholesale lending rather than retail lending. Even though they want to do retail, they do not have the infrastructure to do it," Revankar said, adding that banks' credit growth to the NBFC sector will likely outpace the non-food credit growth and remain upwards of 20% in the current fiscal.

Krishnan Sitaraman, senior director and deputy chief rating officer at CRISIL, said there is also a partial impact of the base effect playing out in the February credit growth figures. "A little bit of that 30% (credit growth)-plus is also a base effect. If you look one year back, credit growth to NBFCs was not that significant. NBFCs also benefitted from the rebound in economy and their credit growth has also touched double-digits in FY23 and is expected to improve in FY24 as well. So, NBFCs' demand from the banking sector has gone up," Sitaraman said.

"Other angle here is also a shift from the bond markets to the banking sector. In bond markets, interest rate increases, in terms of borrowing cost, have been higher than the banking sector and also a number of investors in the bond markets may not be comfortable with certain types of NBFCs…," he added.

Sustainable growth? Going ahead in FY24, banks' loan growth to the NBFC sector will likely moderate to above 20% due to higher-rated NBFCs shifting borrowing towards capital markets, experts said.

Jinay Gala, associate director at India Ratings & Research, said in the previous year, banks' interest rates were lower compared to capital market rates, as transmission of RBI's 250-bps repo rate hike was faster in capital markets than in bank loans.

"Now, things are changing for higher-rated NBFCs, many of them will find borrowing from the capital market better than borrowing from banks. They have a good amount of arbitrage to go to the capital markets compared to banks. The RBI has also guided higher-rated NBFCs to conduct 25% of their incremental borrowing from capital markets…," Gala said.

Sanjay Agarwal, senior director at CareEdge Ratings, said bank credit to NBFCs may also moderate on account of such exposure reaching sectoral limits. "… the exposure of banks to NBFCs is growing very fast, it was Rs 4.5 trillion in 2018, and today, it is almost Rs 13 trillion. We feel there could be a small bit of moderation in NBFC growth itself because 2022 was a year of exuberance and it is not expected to continue for two-three years continuously. Some of the banks are supposedly having issues in sectoral limits to NBFCs…," he said. [Financial Express, April 5; by Piyush Shukla]

On the growth path. NBFC-MFIs' AUM to grow 25-30 per cent in FY24, credit profile to strengthen: Crisil

Assets under management of NBFC-MFIs is expected to grow 25-30 per cent in FY24 aided by improving asset quality, continued traction in economic activity, and rising profitability, supported by higher net interest margins.

"The confluence of these factors augurs well for the credit profiles of NBFC-MFIs," Crisil Ratings said in a note, adding that growth over the last two fiscals has been driven by pent-up demand for credit and a 10-15 per cent increase in ticket-size of disbursements.

The microfinance sector's AUM is estimated at Rs 3.4 lakh crore as of March 31, with NBFC-MFIs outpacing small finance banks, universal banks and other lenders with AUM of Rs 1.3 lakh crore. The market share of MFIs rose 700 bps in 33 months to 38 per cent as of December 2022, from 31 per cent as of March 2020.

The top five states' AUM comprises over half of the industry AUM, with Bihar having the largest share at 13 per cent, followed by Tamil Nadu at 11 per cent and Karnataka at 10 per cent.

Asset quality improves: The growth in AUM has been accompanied by an improvement in asset quality, as reflected in stressed assets (gross non-performing assets + restructured assets) falling to around 6 per cent in December 2022 from a peak of 13 per cent in September 2021, and to an estimated 3 per cent as of March 2023.

"NBFC-MFIs have been cleaning up their pandemic-impacted loan books through write-offs and sale to asset reconstruction companies. This, coupled with lower slippages in recent originations, has helped bring down their stressed assets level," CRISIL said.

Overall profitability, measured as the return on managed assets, is seen exceeding 3 per cent in FY24, compared with 1.5-2.0 per cent in FY23 and around 1 per cent in FY21 and FY22. This will be led by adoption of risk-based loan pricing and improved credit underwriting, which would lead to higher margins and lower credit costs, also aided by the 150-250 bps increase in average interest yield on loans over the last 12 months.

MFIs' credit costs have peaked at 4-5 per cent over the past two financial years, owing to pandemic-related challenges. As the collection efficiency for loans given over the past 12-15 months has been strong at 98-99 per cent, credit costs have started stabilising and fell to 3-3.5 per cent as of December 2022 and are seen falling to 2.0-2.5 per cent for FY23 as a whole.

"This reflects restoration of cash flows of underlying borrowers after the pandemic-driven liquidity constraints. Continued strengthening of underwriting practices with usage of a comprehensive credit bureau report has also helped," it said. [Business Line, June 02]

NBFCs reduce exposure to new-to-credit segment

New-to-credit customers typically lack the discipline on responsible borrowing practices, loan terms and conditions, and the impact of defaults on their credit history.

A number of non-banking financial companies (NBFC) are reducing their exposure to the new-to-credit segment to keep the asset quality stress under check. According to data from TransUnion CIBIL, loan approval rates to new customers fell to 24% as on December 2022 from 35% in December 2020.

The new-to-credit segment comprised 16% of loan origination volume in December 2022, compared with 22% in December 2020. The trend of declining loan approval rate sustained in the March quarter too, with lenders tightening their underwriting standards, especially in the risk-prone unsecured personal loan segment, said experts.

The delinquency rate in the personal loan segment was 9% in the December quarter, higher than the pre-Covid level of 5%. Vintage delinquency is calculated as a percentage of accounts of over 30 days past due in six months from origination.

"The market analysis and customer inquiry data suggest that the loan inquiry volume by the new-to-credit segment has accelerated for riskier products like personal loans and consumer durable loans for depreciating assets," says Rajesh Sharma, managing director, Capri Global Capital. "Financial institutes have gone more conservative on lending to new-to-credit clients in the absence of an existing repayment history and informal cash flow assessment."

Underwriting loans for the new-to-credit segment is challenging for various reasons. Unlike for existing-to-credit borrowers, the assessment of risk in the new-to-credit segment is challenging due to the unavailability of reliable and comprehensive alternative data on borrowers.

Lenders often limit their exposure to this kind of customers due to factors like perceived risk and uncertainties associated with this segment, said bankers.

New-to-credit customers typically lack the discipline on responsible borrowing practices, loan terms and conditions, and the impact of defaults on their credit history. Also, these borrowers cannot participate in various bureau-imputed pre-approved programmes for smaller-ticket loans.

"The new-to-credit segment has undergone a sea change due to macroeconomic factors like inflation and rate hikes, making these customers more vulnerable," said Sanjiv Shrivastav, chief risk officer, IIFL Finance.

"Regulatory norms around digital lending have also resulted in tighter credit norms, renewed focus on lower risk customer segment by lending institutions, leading to a shift in business strategy." [Financial Express, June 20; Ajay Ramanathan]

Shift in NBFC sector as a financer to real estate sector

Over the years, NBFC funding towards the real estate sector has undergone considerable evolution in terms of size, complexity, and interconnectedness with the financial sector.

As the real estate sector has evolved over the last decade so has been the financing need of the sector.

Traditionally, banks have been serving the needs of the sector towards the construction of real estate projects, whereas non-banking financial companies (NBFCs) have contributed on a wider basis and played a very important role as a supplemental channel of credit intermediation alongside traditional banking channels.

Over the years, NBFC funding towards the real estate sector has undergone considerable evolution in terms of size, complexity, and interconnectedness with the financial sector.

NBFCs have undergone a systemic change post the crisis of September 2018, triggered by the collapse of IL&FS, after which many of them faced an existential crisis, and some could not recover as well. Many of those NBFCs have been very active in the real estate sector up until then.

NBFCs have been funding real estate developers across the lifecycle of a project, and their value addition has been primarily during the initial stages of a project, where the existing regulatory guidelines barred banks from extending financing. In the view of the regulator, it may have construed that NBFCs were taking a disproportionately higher risk, which seems fair seeing the way sector got impacted post the NBFC crisis.

Therefore, the Reserve Bank of India, vide its circular dated April 19, 2022, has stipulated that NBFCs have to ensure while approving loans involving real estate that the borrower has been granted all requisite permission from the government/other regulatory authorities for the underlying projects.

The above guideline has come into effect from October 1, 2022, and is applicable to NBFC-Middle Layer (non-deposit taking NBFCs with assets of more than Rs. 1,000 crore) and NBFC–Upper Layer (as published by the RBI from time to time).

Post the above notification, NBFCs are restricted from financing projects which are not approved or in simple language, projects which are at land stage. To put it further simply, this means NBFCs cannot fund either towards acquisition of land or fund, where the primary source of repayment is an unapproved project/ land.

Therefore, it will lead the sector to align as the NBFCs has thus far provided a vital cog during the lifecycle of a real estate project by being able to extend funding towards the project at its nascent stage or towards land acquisition.

RBI guidelines seem to be a step in the right direction to ensure more equity infusion into the projects while ensuring that the risks are at manageable levels for the overall system.

In conclusion, regulatory steps taken such as these are mainly to give directions to NBFCs to take prudent risk and become more bank like and at the same time to ensure that there is more skin in the game for the promoters in the underlying project through infusion of

higher equity towards land acquisition and approvals.

Consequently, this would lead to better managed overall systemic risk.

[Business Line, April 09; Sonit Singh- The author is Business Head - Real Estate and Urban Infrastructure, Arka Fincap Limited]

Infra finance NBFCs to grow 10-12% in FY24, ICRA revises outlook to positive

ICRA has revised the industry outlook for NBFC-IFCs to 'positive' from 'stable', reflecting its expectation that the enhanced performance witnessed in FY23 will continue in FY24 as well

Infrastructure finance NBFCs are expected to grow 10-12 per cent in FY24 supported by continued government thrust on the infrastructure sector to revive economic activity.

The government has set an infrastructure investment target of over ¹ 111-lakh crore under the National Infrastructure Pipeline (NIP) and the pace of investment is planned to be twice the past level.

"ICRA has revised the industry outlook for NBFC-IFCs (Infrastructure Finance Companies) to 'positive' from 'stable', reflecting its expectation that the enhanced performance witnessed in FY23 will continue in FY24 as well, given the improvement in the solvency profile, calibrated loan book growth in the near term and better asset quality and earnings profile," Manushree Saggar, Vice President and Sector Head–Financial Sector Ratings said.

Overall infrastructure credit, including banks and NBFCs, saw annualised growth of 8 per cent in the first nine months of the financial year ending March 2023 (9MFY23), aided by a sharp pickup in Q3FY23 and bucking the trend of the previous 18 months. NBFC-IFCs too grew in line, maintaining their market share at around 54 per cent as on December 2022, ICRA said in a note.

Asset management: "The increased demand has coincided with the period during which NBFC-IFCs witnessed receding asset quality pressure, led by a few stressed asset resolutions/recoveries, sizeable write-offs, and curtailed incremental slippages," it said.

As a result, the gross stage 3 assets ratio eased to 3.4 per cent in March 2022 from the peak of 6.8 per cent in March 2018. The ratio is further expected to moderate by 10-30 bps in FY24, supported by limited slippages and growth in the book.

While the capitalisation and solvency levels of NBFC-IFCs have improved, the ability of these entities to grow in a calibrated manner without significantly reducing the capital cushion will remain imperative, it said, adding that availability of long-term funding will also remain crucial for asset liability maturity (ALM) management.

"With revival in business growth and lower credit costs, NBFC-IFCs have demonstrated healthy profitability trajectory with their post-tax return on assets (RoMA) estimated at 2.2 per cent for 9MFY23," the rating agency said pegging RoMA at 2.2-2.4 per cent for FY24.

[Business Line, March 23]

Challenges & progress of new-age MSMEs in accessing affordable credit support in India

- K. V. Srinivasan

Micro, Small, and Medium Enterprises (MSMEs) are vital to the Indian economy, contributing to employment generation, GDP growth, and overall economic development. Over the past few years, the Govt of India has also encouraged start-ups in various industries and services over the past few years. One critical challenge these new-age entities face is access to affordable and appropriate credit facilities.

Roadblocks faced in raising finance:

Lack of adequate credit history: New-age MSMEs, such as start-ups and small enterprises, often lack a credit history, which makes it difficult for them to establish creditworthiness. The absence of a track record makes it difficult for the financing institution to assess the risk properly. And the lender usually takes a very conservative call by either reducing the loan amount or demanding stiff terms. Only a small percentage of MSMEs in India have a high enough credit score (e.g., a CIBIL score of 700+). According to a study few years ago, nearly 50 per cent of startups die out before their third anniversary.

Collateral requirements: Most start-ups and younger MSMEs lack access to acceptable collaterals (viz., property or other assets that can be mortgaged). They are therefore forced to access unsecured loans or funding through private sources. While credit guarantee schemes enjoin lenders to offer loans to MSMEs without collaterals, these schemes have yet to achieve the desired level of success.

Complex loan application process: Banks and NBFCs often have complex and lengthy loan approval processes, requiring a lot of information. Owing to their inexperience, new-age MSMEs often fail to showcase their businesses and funding needs in the proper fashion. This may result in a higher probability of loan rejection, lower sanction amounts, or delays in approval.

Tendency to avoid taxes and resort to "informal" sales: There is a tendency for a tax/ compliance phobia among MSMEs. Hence, their books of account may not reflect their true strength, which forces them to remain small. While GST and digital payments have reduced this tendency to deal in 'cash', it still remains a huge problem.

High-interest rates: Understandably, these entities are rated as high-risk borrowers, increasing the interest rate.

Lack of awareness about government schemes: The Indian government has introduced several schemes to promote credit availability for MSMEs. However, many MSMEs are unaware of these schemes or may not understand the benefits they offer.

What is the way forward?

1. MSMEs should shake off their compliance phobia.

Tax avoidance may be tempting but is suicidal in the long term for business growth. Always better to pay taxes and build credible books of account. Even when raising external equity, the promoter's transparency becomes a critical parameter for the financial institution to assess. No compromise there!

2. Most entrepreneurs are experts in manufacturing and selling but need better financial skills.

Learning how to pitch the merits of the business in a fair manner is essential for the borrowers. Understanding business ratios, preparing financial projections robustly, and presenting the case to the lender is critical to raising funds.

3. Start somewhere – and build up over time.

Patience is critical to success in business. It is better to accept harsher terms in the initial stages but work towards a more optimal solution over time. In the initial stages, having a higher interest cost but growing faster is more meaningful. A bigger scale automatically leads to lower interest rates.

4. Building up a credit history.

The promoter, as well as the business, must ensure that there is no blemish on their track record. Even a tiny lapse in payment of your credit card bill or having a very high utilisation of the credit card limit without paying the total amount on the due date can lead to a lower credit score. Never default on any loan – even if you have a dispute with the credit card issuer/lender, and always pay on time. You can always use the grievance redressal mechanisms (including RBI Ombudsman) available to solve the dispute.

5. Always ensure you use the loan only for the purpose for which it is taken.

Lenders draw much comfort from the right end use, making it easier for the MSME to raise further loans. Diverting a working capital loan for buying machinery/office or using an unsecured business loan to deal in the stock market etc., should be strictly avoided.

In conclusion, just as a caterpillar must struggle to become a beautiful butterfly, MSMEs must work to become big businesses. Setting a high moral standard of behaviour is critical to becoming a coveted client of lenders! And there are no viable shortcuts. [BFSI Network -May 15; Views expressed by K. V. Srinivasan, Executive Director and Chief Executive Officer, Profectus Capital.]

In a first, SEBI mulls rules for fractional ownership in real estate

The Securities and Exchange Board of India (SEBI) has for the first time proposed to regulate online platforms offering fractional ownership in real estate, a model already popular in countries like the United States and UAE.

In a consultation paper floated on Friday, the capital markets regulator stated that such fractional ownership of real estate assets was proposed to be brought as MSM (micro, small, medium) REITs under SEBI (Real Estate Investment Trusts) Regulations.

This model allows investors to own a fraction or a small share in a real estate asset like buildings and office spaces, which could include warehouses, shopping centres, conference centres. These investments are done through securities issued by the fractional ownership platforms (FOPs) which accept minimum investments ranging from Rs 10-25 lakh.

SEBI is of the opinion that amidst the mushrooming of FOPs, registration and regulation will bring uniform standard disclosures in valuations and due diligence of assets, regulatory oversight, investor protection and redressal mechanism, and ensure liquidity by the way of listing or similar measures.

These FOPs establish a Special Purpose Vehicle (SPV) to facilitate the issuance of securities.

In the paper, SEBI has stated that the migration of the SPV structures to REIT structure may result in treatment of such investments as business trusts providing certain tax benefits for SEBI-registered REITs, which is otherwise not available to SPVs and investors.

Under the proposed norms, these FOPs will be required to register with SEBI as MSM REIT, which will be set up as a trust with separate parties like investment manager, trustee, sponsor etc. The sponsor must have a networth of Rs 20 crore and hold at least 15 per cent of total units.

Those who do not meet the eligibility criteria and do not register with SEBI will be required to wind up operations.

SEBI has further specified the norms for valuation, liquidation, providing investors an exit, disclosures on investment strategy and a cap on total expense ratio, among others.

The capital markets regulator also noted that as these structures function on Power of Attorney (POAs) granted by the investors, they add to the risk on the investor of these POAs being misused or abused, specifically during insolvency or in case of the death of the investor.

SEBI has cited examples of some platforms in the US where a single platform manages assets worth $7 billion. While the largest platform in India mentioned in the SEBI paper has an AUM close to Rs 1,000 crore.

SEBI expects the regulatory oversight to deepen the space of fractional ownership in India. [Business Standard, May 12]

SEBI bats for participation of NBFCs, MFs, insurance firms in corporate bond market

The Securities and Exchange Board of India (SEBI) has taken out a consultation paper outlining a novel 'client model' where entities like corporates, NBFCs, insurance companies, and mutual funds can directly participate in tri-party repo transactions in the corporate bond market.

Before we unpack what exactly is a tri-party repo, we need to understand the scope of a repo agreement.

A repo agreement is a short-term secured loan where one of the parties to the transaction agrees to sell the securities to the other party, and agrees to repurchase the securities later at a higher price. In such a transaction, the securities serve as collaterals. The difference between the initial price paid on the securities and the price at which the securities are repurchased is deemed to be the interest paid on the loan, in other words, known as the repo rate.

An easier way to understand the repo agreement is to think of banks and NBFCs tapping the repo market for funds. Banks and NBFCs own a lot of securities which can be parked with other entities in the money market to raise funds. The transaction is a two-way street, in which the banks and NBFCs can borrow at competitive interest rates, whereas organisations flush with cash can earn interest on the money lent.

According to Reserve Bank of India (RBI) regulations, mutual funds can only lend in the repo market, while banks and NBFCs can lend as well as borrow in the repo market.

In a tri-party repo agreement, a third party - apart from the lender and the borrower - plays the role of an intermediary or facilitator that helps in services like picking collaterals, acting as the custodian of collaterals as well as ensuring payment and settlement. These entities are called the tri-party agent.

What does the consultation paper say?

A proprietary model is in play in the corporate bond market. Any entity willing to enter a tri-party repo transaction needs to take trading membership of stock exchanges and clearing membership of the Limited Purpose Clearing Corporation (LPCC). In this model, trading, clearing and settlement are undertaken by corporates, non-bank financiers, insurance companies, and mutual funds in their proprietary account.

In the proposed client model, SEBI had pitched two approaches - direct and indirect participation. According to the SEBI proposition, the NBFC or insurance company or fund house will transfer the collateral (debt securities) directly from its account to the account of the LPCC. The fund settlement, in case of the client model indirect participation, will be carried out through a clearing member, whereas in case of the client model direct participation, the fund settlement will be carried out directly by the participant without the involvement of the clearing member.

The need for the 'client model' for tri-party repo in corporate bonds stems from the fact that Rule 8(1)(f) 1 of the Securities Contracts (Regulation) Rules, 1957 restricts bodies corporate, NBFCs, insurance companies, mutual funds, etc. from taking membership of stock exchange/ clearing corporation. Tis restriction stops these entities from participating in the tri-party repo segment except through a clearing member.

The restriction becomes all the more problematic in the repo market. Repo is a very short-term money market instrument with most transactions with a tenure of a single day. Obtaining funds on the same day is quite crucial for the borrowers to use such funds. Thus, the timing of the settlement is critical to ensure that funds reach the bank accounts of market participants. If settlement is done through a clearing member, it might cause a delay in the settlement of funds between the clearing member and its clients/participants which could lead to disputes between the clearing members and the clients/participants. This, in turn, may impact the smooth functioning of the LPCC.

A peculiar problem arises under the proposed direct approach of the client model. The client/ participant is expected to settle funds directly with the clearing corporation. Unfortunately, the prevailing regulations make no explicit provision of enabling contribution to the Core SGF (Settlement Guarantee Fund) by clients/ participants directly.

"Absence of such enabling provision in the SECC Regulations would give rise to a situation where the client/ participant would settle funds directly without adequate risk management measures and in the event of a default, the LPCC will have to make good the shortfall on account of default by itself," the market regulator observed.

"In order to strengthen the risk management system of the LPCC," SEBI said in its circular, "to meet the contingencies arising on account of possible failure of the clients/ participants as well, it is essential that the contribution to the core SGF can also be made by clients/ participants directly in cases where the clearing member is not involved in the tri-party repo transactions."

SEBI has sought suggestions from the stakeholders by May 29. [Moneycontrol, May 20]

Insider trading. SEBI to shift burden of proof on the accused in suspicious trades

India's market regulator SEBI proposed new rules that put the burden of proof on the accused in some cases of insider trading, front running and similar violations, as use of encrypted or disappearing communication and untraceable funding

arrangements impede the watchdog's ability to make and win cases. An unusual trading pattern — involving substantial change in risk or abnormal profits — that coincides with material non-public information on a security will amount to suspicious activity unless the alleged violator can rebut with evidence, the SEBI said in a consultation paper on Thursday.

Cases of abnormal trading: SEBI cited 97 instances of abnormal trading, such as repeated, concentrated, positions taken by an entity ahead of news events at a company, but said no cases could be established partly due to lack of communication evidence.

The proposed regulation is a useful device to overcome judicial pronouncements that require more persuasive evidence, said Shruti Rajan, partner at Mumbai-based law firm Trilegal. But many legitimate traders will have to go through the motions of explaining their trades to SEBI, and with no proposed time limits or limitation periods for investigations, the process itself may often feel interminable, she said.

Deeming provisions are not new. SEBI in its paper pointed to similar provisions in income tax law on unexplained cash credits as well as to US securities law.

Globalized money trails and tech innovations have prompted more lawmakers and regulators to make such moves, said Amit Desai, a criminal defense lawyer.

"When burden of proof shifts, it needs more clear, objective standards to function as safeguards," Desai said. [Business Line, May 26]

SEBI introduces legal identifier system for issuers with listed NCDs

Capital markets regulator SEBI on Wednesday introduced Legal Entity Identifier (LEI) system for issuers that have listed or planning to list non-convertible securities, securitised debt instruments and security receipts.

LEI, a unique global identifier for legal entities participating in financial transactions, is designed to create a global reference data system that uniquely identifies every legal entity, in any jurisdiction, that is party to a financial transaction. It is a unique 20-character code to identify legally distinct entities that engage in financial transactions.

Presently, Reserve Bank of India (RBI) mandates non-individual borrowers having aggregate exposure of above Rs 25 crore to obtain LEI code.

In view of this, SEBI said that issuers having outstanding listed non-convertible securities as on August 31 will have to obtain and report the LEI code in the centralised database of corporate bonds by September 1, according to a circular.

Similarly, issuers having outstanding listed securitised debt instruments and security receipts as on August 31 will have to obtain and report the LEI code to the depositories by September 1.

Further, issuers proposing to list non-convertible securities and securitised debt instruments as well as security receipts on or after September 1 will have to report their LEI code to the centralised database of corporate bonds and depositories respectively at the time of allotment of the ISIN.

SEBI said that the requirement of LEI for issuers proposing to list or having outstanding municipal debt securities will be specified later.

The LEI code can be obtained from Legal Entity Identifier India Ltd, a subsidiary of the Clearing Corporation of India Ltd, which has been recognised by the RBI as issuer of LEI and is accredited by the Global Legal Entity Identifier Foundation (GLEIF) as the local operating unit in India for issuance and management of LEI code.

The regulator has asked depositories to map the LEI code to existing ISINs by September 30, and map the LEI code provided by the issuers with the ISIN at the time of activation of the ISIN for future issuances.

The circular would come into force with immediate effect, the Securities and Exchange Board of India (SEBI) said. [Business Standard, May 03]

SEBI proposes delisting mechanism for non-convertible debt securities

Capital markets regulator SEBI has proposed a mechanism for the voluntary delisting of non-convertible debt securities. Under the mechanism, an entity should not be permitted to delist a few non-convertible debt securities while other non-convertible debt securities continue to remain listed. Accordingly, the proposed mechanism would apply to the voluntary delisting of all listed non-convertible debt securities from all or any of the recognised stock exchanges.

The proposed mechanism would not be applicable to the delisting of non-convertible debt securities of a listed entity that have been delisted by the stock exchanges as a consequence of any penalty or delisted under a resolution plan approved under the IBC.

Notwithstanding this, a listed entity that has more than 200 non-QIB (qualified institutional buyers) holders in any ISIN (International Securities Identification Number) relating to listed non-convertible debt securities, should not be able to voluntarily delist any of its listed non-convertible debt securities, SEBI said.

The regulator came out with the proposal in the absence of any specific provision for the delisting of non-convertible debt securities in the extant provisions.

In the proposed mechanism, the listed entity will have to make an application to the stock exchange for seeking in-principle approval of the proposed delisting of non-convertible debt securities within 15 working days from the date of passing of the special resolution or receipt of any regulatory approval, whichever is later. Such application should be disposed of by the exchange within 15 days.

SEBI has sought public comments on the proposals by May 26. [Business Standard, May 14]

SEBI proposes measures to boost liquidity in corporate bond market

With an aim to boost liquidity in the secondary market for corporate bonds, markets regulator SEBI on Friday came out with a proposal for enabling direct participation by clients in the tri-party repo segment for corporate bonds.

The proposal will facilitate direct participation in repo transactions in corporate bonds by entities which cannot take direct membership of the stock exchange, clearing corporation such as NBFCs, insurance companies, mutual funds, etc.

Suggestions: In its consultation paper, SEBI has suggested for facilitating transactions directly between clients and the Limited Purpose Clearing Corporation (LPCC) in the tri-party repo segment as well as to enabling contribution by such clients directly to the Core SGF (Settlement Guarantee Fund).

"In order to strengthen the risk management system of the LPCC to meet the contingencies arising on account of possible failure of the clients/participants as well, it is essential that the contribution to the Core SGF can also be made by clients/participants directly in cases where the clearing member is not involved in the tri-party repo transactions," SEBI said.

The proposals would facilitate market participants' involvement easier, thus ensuring greater volumes in the corporate bond repo market. This, in turn, will only serve to boost the liquidity in the secondary market for corporate bonds, it said.

The Securities and Exchange Board of India (SEBI) has sought comments on the proposals till May 29.

The regulator noted that an active repo market is an essential pre-condition for improving liquidity in the corporate bond market. This is mainly because active players, especially market makers, are in a position to provide finer two-way quotes, if they are able to finance their inventory of bond holdings through an active repo market.

In the corporate bond market, however, repo is mostly inactive with only a few transactions getting executed and that too in the bilateral repo market. There is no traction in the tri-party repo market despite the segment being in existence on stock exchanges since 2018.

One of the primary reasons for lack of traction on the tri-party repo platform could be that the stock exchanges or clearing corporations do not have a well-funded settlement guarantee fund (SGF) to absorb the counterparty risk as well as the credit risk of the underlying associated with repo transactions. [Business Line, May 20]

SEBI proposes to cut down IPO listing timeline to 3 days from 6 days

Capital markets regulator SEBI on Tuesday proposed to reduce the time taken for the listing of shares on stock exchanges after the

closure of initial public offerings (IPOs) to three days from six days at present.

The proposed reduction in timelines for listing and trading of shares will benefit both issuers as well as investors. "Issuers will have faster access to the capital raised thereby enhancing the ease of doing business and the investors will have opportunity for having early credit and liquidity of their investment", SEBI said in its consultation paper.

The markets regulator, in November 2018, introduced Unified Payment Interface (UPI) as an additional payment mechanism with Application Supported by Blocked Amount (ASBA) for retail investors and prescribed the timelines for listing within six days of closure of issue (T+6). 'T' is the day of closure of the issue.

In its consultation paper, SEBI has suggested the reduction of the time period from the date of issue closure to the date of listing of shares through public issues from the existing six days to three days (T+3).

SEBI has sought comments from the public till June 3 on the proposal.

This comes after SEBI has done extensive back-testing and simulations by all stakeholders including stock exchanges, sponsor banks, NPCI, depositories and registrars in respect of various key activities involved in the public issue process. [Money control News, May 20]

SEBI takes more stringent approach towards initial public offerings

The Securities and Exchange Board of India (SEBI) has pivoted towards a more stringent approach towards initial public offerings (IPOs). This shift in fulcrum follows a meltdown in shares of new-age technology (tech) companies that saw over a Rs 3-trillion wipeout of investor wealth.

According to investment bankers and other industry players, the capital markets regulator has insisted companies identify promoter entities wherever possible.

Additionally, it has been returning draft red herring prospectuses (DRHPs) with inadequate filings and keeping a tight vigil on company comments in the run-up to their IPOs.

Some practices are a departure from the past and exert pressure on issuers, say industry players.

Last week, health-tech start-up HealthVista India (Portea Medical) got the green light for its Rs 1,000-crore IPO only after certain shareholders of the company re-categorised themselves as promoters, from shareholders. [Business Standard, Apr 17]

SEBI issues guidelines on product offerings by online bond platforms

Capital markets regulator SEBI on Friday restricted online bond platform providers from offering products other than listed debt securities on their platforms. In addition, the regulator allowed them to offer securities such as Government Securities, Treasury Bills, listed Sovereign Gold Bonds, listed municipal debt securities, and listed securitised debt instruments on their online bond platforms, according to a circular.

Under the rules, Online Bond Platform Providers (OBPPs) need to register themselves as stock brokers in the debt segment of the stock exchange. OBPs offer an avenue for investors, particularly non-institutional investors to access the bond market.

While restricting products offered on an online bond platform, SEBI reiterated that an entity acting as an online bond platform provider would cease to offer on its platform or any other platform website, products or services not permitted under the rules.

It, further, said that the holding company, subsidiary, or associate of an online bond platform provider will not utilise the name, brand name, or any name resembling that of the online bond platform provider for offering products and services that are not regulated by a financial sector regulator.

This comes after SEBI noted that a few OBPPs have commenced operations and observed that certain OBPPs continue to offer products other than listed debt securities and debt securities proposed to be listed through a public offering on their platforms. Also, they are offering unlisted bonds on a separate platform or website and have not divested such offerings. Moreover, certain OBP providers have given a link on the online bond platform to another platform for transacting in unlisted bonds and other products, SEBI noted.

Such practices are in contravention of NCS (Issue and Listing of Non-Convertible Securities) Regulations. The new framework would come into force with immediate effect, SEBI said. [Business Standard, June 16]

SEBI proposes to tweak 'unpublished price sensitive information' definition to bring uniformity

Capital markets regulator SEBI on Thursday proposed to tweak the current definition of unpublished price sensitive information (UPSI) to bring regulatory certainty and uniformity in compliance for the listed companies in respect of the identification of certain events as UPSI.

In its consultation paper, the regulator suggested that the current definition of UPSI be amended, and the disclosures as required under Regulation 30 of LODR (Listing Obligations and Disclosure Requirements) be brought under it.

Under Regulation 30 of LODR, listed entities are required to disclose to the stock exchanges all events or information, which are material, as soon as possible and not later than 24 hours from the occurrence of such event or information. These events included acquisition, agreement, fraud or default by promoters as well as key managerial personnel, any alteration in securities, revision in ratings, initiation of forensic auditing and change in director and key managerial personnel.

In addition, listed entities need to disclose the outcome of the board meeting pertaining to dividends, financial results and voluntary delisting, among others, within 30 minutes of the closure of the meeting under the rules.

SEBI has sought comments from the public till June 2 on the proposal. Going by the consultation paper, SEBI observed that on multiple instances, an information/event which should have been categorised as UPSI was not done so by the listed entity.

SEBI, along with stock exchanges, carried out a study to identify the kind of announcements/information the listed companies were categorising as UPSI. Around 1,100 press releases made by the top 100 listed companies between January 2021 and September 2022 were considered for the analysis.

Out of 1,099 press releases, in 227 instances, the price movement in the scrip, adjusted for the movement in the Nifty/Sensex was more than 2 per cent. However, of these 227 instances, merely 8 per cent (18) of press releases were categorised as UPSI by the listed companies. Further, if the total press releases (1,099) are considered, only 1.64 per cent of the press releases were categorised as UPSI by the listed companies.

In a case of alleged insider trading by an employee of a company, the employee contended that if the company itself did not consider the information as UPSI, then how could the employee have considered it to be so. This highlighted the fact that companies were not exercising due care in the matter, SEBI noted.

Further, SEBI said that its surveillance system also generated a significant number of alerts on suspected insider trading cases where it was observed that a substantial number of entities made notional profits, sometimes exceeding even Rs 25 crore. However, a significant number of these alerts could not be taken up for further examination by SEBI due to the non-categorisation of material information as UPSI by the listed companies.

In its board meeting in March, SEBI approved the proposal for review and rationalisation of the disclosure of material events or information by the listed entities. The changes approved include the introduction of quantitative thresholds for determining the 'materiality' of events/information, disclosure for certain types of agreements binding listed entities, etc. The changes are aimed at bringing in more transparency and ensuring timely disclosure of material events or information by listed entities. [Financial Express, May 18]

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Domestic Commercial Vehicle Industry volumes expected to grow by 7-10% in FY24: Icra

The domestic commercial vehicle industry volumes are expected to grow by 7-10% in FY2024, supported by replacement demand, pick-up in mining, infrastructure construction activities and overall healthy fleet utilisation levels, rating firm Icra said on Thursday. This is despite the 5% year-on-year and 41% sequential contraction in volumes in April 2023, it noted.

The growth in FY2024 would follow a year of healthy demand in FY2023, wherein the industry volumes expanded by more than 33%, supported by a favourable base, as well as a healthy pick-up in macroeconomic activity, Icra said. The scrappage policy, which was announced in March 2021, has been implemented from April 1, 2023, and is likely to contribute to the growth of new commercial vehicle sales, it added.

"The major impact of the scrappage policy is expected in the CV (Commercial Vehicle) segment, especially passenger carriers, as the usage of other vehicles such as two-wheelers, passenger vehicles, etc. beyond 15 years would be limited," Icra Corporate Ratings Vice President & Co Group Head Kinjal Shah stated.

Auto sales jump in a strong start to FY24: Automobile dispatches to dealerships rose across categories in April, marking a robust start for the industry in fiscal 2023–24. Total auto wholesale sales rose 16% to 16.66 lakh units, data from the Society of Indian Automobile Manufacturers showed.

"All the segments, viz. passenger vehicles, two-wheelers, and three-wheelers, have posted growth in April 2023, compared to April 2022, which clearly indicates that industry has been able to transit very smoothly to BS 6 phase 2 emission norms from April 1," Vinod Aggarwal, president at SIAM, said in a statement. "As we gradually get into the monsoon season, among other factors, good rainfall can also help the auto industry sustain its growth," he said.

The passenger vehicle category registered its highest ever sales in April, with a growth of 13% year-on-year to 2.84 lakh units. While passenger car sales grew 11%, SUV sales accounted for more than half of the industry volumes, with a growth of 16%.

Passenger vehicle sales, including Tata Motors' dispatches, also rose 13% to 3.31 lakh units. The industry body has resumed publishing data with Tata Motors' sales, starting from April.

Two-wheeler sales rose 15% to 13.39 lakh units as rural markets continued to lag the urban region. Scooter sales, a proxy for urban demand, grew nearly 20%, while motorcycle sales rose 14%. In the three-wheeler category, sales doubled year-on-year to over 42,000 units, nearing pre-Covid levels. Domestic sales of three-wheelers in April 2023 have reached nearer to pre-covid levels for the month of April, Rajesh Menon, director general at SIAM, said in a press release. [BQ Prime, May 12]

India to contribute 16% to global GDP growth over 2023-24: Morgan Stanley

With the Indian economy being a key contributor for Asian economic growth outperformance, the broad-based recovery in demand runs counter to the weakness seen outside Asia, said Morgan Stanley in a report.

According to Morgan Stanley, India is benefitting from a combination of cyclical and structural tailwinds and is expected to contribute 16 per cent of the global gross domestic product (GDP) growth over 2023-24.

"In recent months, a wide variety of indicators suggest that India's recovery is strong and broad-based, and is well-placed to sustain growth rates of above 6 per cent," the report said.

The Purchasing Manager's Index (PMI) is at a 13-year high and manufacturing PMI is near a 11-year high, both well above that of other economies; passenger vehicle sales are at 131 per cent of pre-Covid levels, real goods and services tax collections are 35 per cent higher than pre-Covid and services exports have risen by 84 per cent since Oct-20, Morgan Stanley said.

A strong domestic demand and services export will offset the downside in goods export. Domestic demand is supported by healthy balance sheets.

"Meanwhile, the key macro stability indicators of inflation and current account deficit have moved back into policy makers' comfort zones and we expect it will remain there for some time. This suggests that policy makers will not have to bring monetary policy into restrictive territory, allowing economic expansion further room to run," Morgan Stanley said. [Business Standard, May 16]

India witnessing 'snowball effect'; set to see exponential growth in coming years: WEF President Borge Brende

India is expected to clock the highest growth among the world's big economies this year and the country's economy is witnessing the "famous snowball effect" that will lead to more investments and more jobs, according to World Economic Forum (WEF) President Borge Brende.

"There have been reforms that have led to less red tape, better climate for investments and also the digital revolution is really happening in India," Brende said and stressed that he is "very bullish and optimistic" about the country's growth trajectory but not so optimistic about global growth.

India, which currently holds the G20 presidency, is one of the fastest growing key economies in the world and WEF has had close collaborations with the country for the past many years.

"When the snowball starts to roll, it gets bigger and bigger, and that is what is happening with the Indian economy. "The growth will lead to more investments, more jobs… it will be an exponential growth in the coming years and you will see a situation where more poverty is eradicated and more opportunities are there for young people," Brende told PTI in an interview in the national capital.

Brende, who was on a short visit to India, had discussions about ongoing collaborations as well as India's G20 presidency with stakeholders. He met various Union ministers and company executives, among others.

India witnessing 'snowball effect'; set to see exponential growth in coming years: WEF President Borge Brende

Geneva-headquartered WEF is an international organisation for public private cooperation, and is known for its annual Davos meeting, often described as the biggest congregation of the global elite. [Moneycontrol.com, May 26]

India to become post-paid economy from prepaid: Nandan Nilekani

The advent and growth of the account aggregator (AA) ecosystem is going to help monetise the huge digital footprint of citizens, helping turn India from a 'prepaid' to 'post-paid' economy, said Nandan Nilekani, non-executive chairman of Infosys. Drawing parallels of prepaid and post-paid mobile plans offered by telecom companies, Nilekani said now credit will also become post-paid, thus increasing access and reach.

"We're going to see essentially people parlaying their digital capital to improve their lives. We're going to see a movement from a prepaid economy to a post-paid economy," Nilekani said, adding that in a post-paid economy, credit will be given in advance with the help of better guardrails and underwriting.

"So we're going from a few people getting access to credit to the whole country getting access to credit — buyers and sellers," he said at Sahamati's Samvaad conference for account aggregators.

Growth unleashed: Multiple transformations are awaited with the growth of the account aggregator system, Nilekani said, adding: "We don't know what we have unleashed in terms of innovation." While credit is the first driver of growth, the AA framework is cross-sectoral and will have several use cases beyond financial services.

"Within the financial sector itself, it is across banking, capital markets, insurance, pension and so on, with the same architecture applying to all of them. But it is also cross-sectoral, as it can be applied for skills, educational and health records," he said.

The concept of unlocking digital capital or information collateral will lay the foundation for formalisation of the economy by incentivising people and businesses to monetise the system to improve their lives, and also remove information asymmetry by creating a level-playing field for innovation.

'UPI moment': The "genius of AA" is that it is an impartial, independent intermediary acting as fiduciary body to ensure that data comes and goes to the right place, without itself accessing the data, he said, terming it the "UPI moment for lending" which not just

creates digital but a social transformation and inclusive growth.

At the same event, Chief Economic Advisor V Anantha Nageswaran said the availability of digital infrastructure and data through the AA system will lead to elongated financial cycles and increased penetration of financial services. "If India has to achieve sustained growth rates, more than 6 percent GDP per annum, we need a financial cycle that doesn't end in half a decade. It has been India's bane in the past," he said, adding India needs at least a decade long consistent cycle of over 6 per cent GDP growth to see real transformation at the bottom of the financial pyramid.

However, for this, India will need to have regulatory guardrails in place to prevent misuse of data, mis-selling of financial products and predatory practices, he said, adding "self-policing is the best policing". [Business Line, May 26; Anshika Kayastha]

India to become 50% non-cash economy in consumption in 3 years: Report

India is expected to become a 50 per cent non-cash economy in consumption in the next three years, with person-to-merchant digital transactions reaching over $1.5 trillion by FY26, a report showed on Thursday.

India's household consumption is expected to reach more than $3 trillion by FY26, largely propelled by the upper-middle and high-income segments, with UPI payments likely making up a significant portion at around $1 trillion person-to-merchant (P2M) payments, according to the report from Bain & Company.

"With the current technical and financial momentum, India is expected to become a nearly 50 per cent non-cash economy in consumption in the next three years with approximately 350-400 million digital consumers," said Saurabh Trehan, Partner and Leader of the Financial Services (FS) practice, Bain & Company.

This growth could be further propelled to 60-75 per cent in case of continued government incentives and higher traction for UPI 2.0, 123 Lite, credit on UPI, Central Bank Digital Currency (CBDC), he added.

UPI has seen an exponential growth in recent years, with its total annualised transaction value reaching up to $1.7 trillion and its P2M transactions climbing to $380 billion (in FY23), almost twice the amount of credit cards.

This growth is expected to continue at a CAGR of 40-50 per cent, the fastest among payment modes, on the back of rapid merchant acceptance and adoption given zero/low merchant discount rate (MDR), increasing internet penetration, and wider awareness of digital payment methods. Additionally, new innovations like credit on UPI, UPI 123 Pay, UPI Lite, and UPI coin vending machines are expected to further accelerate the adoption, the report mentioned.

Embedded finance has gained huge traction with credit card and Buy Now Pay Later (BNPL) transactions currently accounting for nearly 8 per cent of total consumption. By FY26, this is expected to grow to around 12-13 per cent of consumption.

Credit card spends in India are expected to grow approximately 2.5 times to reach around $270-$280 billion by FY26 from its current $100-$110 billion in FY22, said the report. It is expected that the number of credit cards in circulation will reach approximately 135-140 million by FY26.A

"CBDC, a non-interest-bearing digital currency, could be a game-changer for low ticket transactions, especially in semi-urban and rural areas with limited internet connectivity," the report mentioned.

However, overcoming challenges such as KYC verification, offline access, security, cost, and compliance will play an important role in adoption, it added.

"Early signs, including the introduction of MDR on UPI through PPI, indicate that National Payments Corporation of India (NPCI) wants more monetisation avenues to promote innovation from payment service providers (PSPs), yet also desires to be careful not to hinder the progress of UPI growth", said Rakesh Pozhath, Partner and leading member of the FS practice, Bain & Company. [Business Standard, May 04]

500 mn cyberattacks blocked in India in Q1 2023, attacks grew 29% globally

500 million cyberattacks were blocked in India out of 1 billion global attacks, representing a sharp increase of over 29 per cent in the number of cyberattacks in Q1, 2023, globally on average the BFSI (Banking, Financial Services & Insurance) sector faced 38 per cent more attacks per application compared to the industry average, with over 9,73,000 attacks per website.

More than 500 million cyberattacks were blocked in India out of 1 billion global attacks, representing a sharp increase of over 29 per cent in the number of cyberattacks in Q1, 2023, compared to Q4, 2022, (829 million attacks), globally, a new report showed on Wednesday.

According to the application security SaaS firm Indusface, on average the BFSI (Banking, Financial Services & Insurance) sector faced 38 per cent more attacks per application compared to the industry average, with over 9,73,000 attacks per website.

"It is interesting to see how industries such as BFSI and Healthcare are more targeted by vulnerability and bot attacks. Clearly, attackers are more interested in Personally Identifiable Information (PII) from these sectors. That said, other industries including SaaS and manufacturing are more targeted by DDoS attacks," said Ashish Tandon, CEO of Indusface.

Moreover, the report said the cyberattacks were particularly alarming for the Indian insurance sector, where it found that 11 per cent of all requests on insurance websites were attacked and this number is just 4 per cent as an industry average.

In Q1 2023, about 1,287 applications were attacked by bots versus 743 applications in Q4 2022, an increase of 73 per cent.

When compared to the industry average, BFS and insurance companies received 75 per cent and 33 per cent more bot attacks, respectively. [IANS New Delhi/Business Standard, May 10]

Convincing recovery in capex among listed firms

Capex growth in listed companies looks more convincing this time around with expenditure being more discretionary than maintenance driven. What's surprising is the sudden and rather steep jump in listed companies' capex from Rs 5.2 trillion in FY2017 to an expected Rs 7.6 trillion in FY2023. ICICI Securities has forecast the same to scale a new high of Rs 8.3 trillion, crossing the previous peak of around Rs 6 trillion.

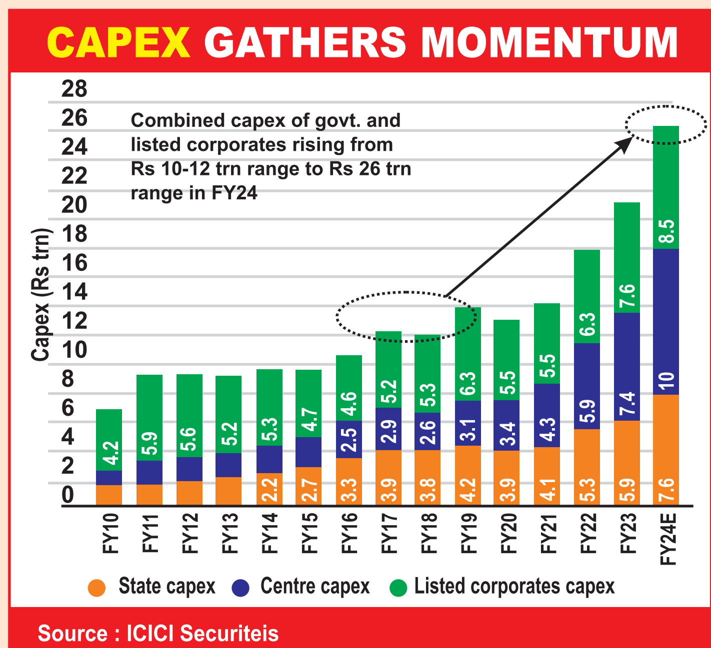


Chart shows that the combined capex in India is expected to double from Rs 10-13 trillion between FY2017-19 period to around Rs 26 trillion by the end of FY2024.

The combined capital expenditure (capex) of the Centre, State governments and listed companies has gained momentum since pandemic times. Without doubt, the Centre has been the engine of growth, especially in the last three years. But private sector capex (as seen in listed firms) is showing clear signs of recovery. [Moneycontrol, June 20]

Banks bet on private capex, NBFC growth to drive corporate credit FY24

The pick in capex, reflected in the better capacity utilisation levels and some capacity expansion, led to accelerated growth in Q3 and Q4 of FY23. Capex has so far been largely driven by government spending and initiatives such as 'Make in India' and PLI Scheme.

With corporate credit growth having picked up momentum over the last 9-12 months, led by demand for refinance and working capital, private banks are betting on increase in private sector capex and healthy NBFC-led growth to drive demand for corporate credit going into FY24. The pick in capex, reflected in the better capacity utilisation levels and some capacity expansion, led to accelerated growth in Q3 and Q4 of FY23, led by funding to manufacturing and infrastructure-led sectors such as iron and steel, telecom, PSUs, retail sectors, roads, gems and jewellery, power, commercial real estate, services and petroleum, bankers said.

"This is largely aided by the fact that many of them (corporates) are going ahead with the capex cycle because most of the sector or industries are at 75-85 per cent capacity utilisation," Harsh Dugar, Wholesale Banking head at Federal Bank said in the earnings call.

"We do see a large amount of capex coming in and along with that heightened level of activity which will require more working capital requirements," he added.

Government spending: Capex has so far been largely driven by government spending and initiatives such as 'Make in India' and PLI (production-linked incentive) Scheme. In addition to the trickle down impact from this accelerated government spending, there are also "early signs of some capex in the private sector", ICICI Bank said.

"There has been a recovery in corporate credit growth post the turn in the monetary environment and some shift from bond markets to banks. We are certainly seeing opportunities for lending in some of the sectors like NBFCs and real estate," said ICICI Bank Group CFO Anindya Banerjee.

Competitive pricing: More conservative lenders such as Kotak Mahindra Bank and Axis Bank, which have flagged concerns regarding irrational and competitive pricing in wholesale lending, said pricing has been improving since Q4 leading to steady pick up in corporate credit. Moreover, there are also early signs of capacity expansion, though few and limited, in a few sectors such as infrastructure, logistics and chemicals, KVS Manian, Whole Time Director at Kotak Bank told *businessline*.

"As the private investment that is being talked about in terms of adding capacity happens over the next few quarters, one could see growth there," Manian said in the investor call, adding that the NBFC segment is seeing strong growth led by good capitalisation levels, pick-up in demand and healthy collections.

'Strong uptick': Axis Bank Deputy MD Rajiv Anand too said that while currently not all private capex is being funded by bank loans, given strong cash flows and low leverage levels of corporates, the bank is seeing "reasonably strong uptick in terms of private capex" and demand for credit should improve. As such, the pipeline for corporate credit remains robust and the momentum is expected to continue in FY24, bankers said, adding that in the initial few months' growth is likely to be led by credit demand from conglomerates as other large and mid-corporates catch up in terms of growth and capacity utilisation. [Business Line, May 8]

Consumer confidence remains on recovery path: RBI survey

The current situation index rose by 2.2 points to 87 from 84.8 on account of improved perception on general economic situation, employment, and household income.

Though the expectations on general prices and inflation remained elevated, relatively lower share of households expect prices to rise, when compared to the previous survey round. (IE)

Reserve Bank of India's bi-monthly consumer confidence survey (CCS) survey showed confidence continues to recover from the historic low recorded in mid-2021, although it remained in the pessimistic zone. Households' overall outlook for the year ahead remained in positive terrain despite marginally lower optimism.

The current situation index rose by 2.2 points to 87 from 84.8 on account of improved perception on general economic situation, employment, and household income. The latest round of the survey was conducted during March 2-11, 2023, covering 6,075 respondents.

Household assessment of inflation conditions improved for the current period reflecting more confidence on economic conditions; notwithstanding a marginal uptick in the latest round, inflationary expectations improved over their average level since September 2021.

Households' perception for the current inflation declined by 70 basis points (bps) to 8.9% in the latest survey round. ii. Both three months and one year ahead inflation expectations moderated by 30 bps each to 10.2% and 10.5%, respectively, as compared to that in January 2023.Though the expectations on general prices and inflation remained elevated, relatively lower share of households expect prices to rise, when compared to the previous survey round. Households' expectations on overall prices were generally aligned to their perception on prices of food and non-food items, and cost of services.

With an uptick in current perception, the sentiments on employment are nearing the levels seen around mid-2019; consumers are also optimistic about the employment outlook as more than half of the respondents expect employment scenario to improve over the next one year. Household spending was buoyant on the back of higher essential and non-essential spending; more than a third of the households expect a rise in non-essential outlay over the next year.

The survey obtains current perceptions (vis-à-vis a year ago) and one year ahead expectations on general economic situation, employment scenario, overall price situation and own income and spending across 19 major cities.

Though the expectations on general prices and inflation remained elevated, relatively lower share of households expect prices to rise, when compared to the previous survey round. Households' expectations on overall prices were generally aligned to their perception on prices of food and non-food items, and cost of services

RBI paper: FDI plays greater role in enhancing profitability of larger firms as compared to smaller units

Credit and finance for MSMEs: A working paper by the Reserve Bank of India (RBI) analysing the impact of foreign direct investment (FDI) on profitability has said that FDI plays a greater role in enhancing the profitability of larger companies as compared to smaller companies. The age and size of a company are one of the factors that determine the profitability of FDI-receiving companies, that is, "older and smaller companies are likely to be less profitable."

This is because in larger companies, the management is often more focused on preserving /improving its reputation, which helps in attracting greater FDI, the paper published on Tuesday said. Hence, larger companies are better placed to take advantage of the increased FDI funding owing to the economies of scale and the cost-effective nature of their operations, it added.

The paper was authored by Haridwar Yadav, Vishal Shinde and Samir Kumar Das from RBI's Department of Statistics and Information Management.

With respect to the age of the company, "FDI in younger companies provides the much-needed stable funding, and technological knowhow which can make their operations more cost-effective, and thereby enhances profitability."

Importantly, even as 100 per cent FDI is uniformly applicable to most of the sectors or activities including MSMEs under the automatic route, there is no specific study conducted by the MSME ministry on the advantages and disadvantages of foreign investment in the MSME sector from competitiveness and viability point of view. In addition, no specific data for FDI in the MSME sector is maintained, minister of state in the MSME Ministry Bhanu Pratap Singh Verma had informed the Parliament last year.

The FDI policy on single brand product retail trading, in case of proposals involving foreign investment beyond 51 per cent, mandates sourcing of 30 per cent of the value of goods procured, to be done from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors.

Likewise, on multi-brand retail trading, the FDI policy provides for at least 30 per cent of the value of procurement of manufactured/processed products purchased to be sourced from MSMEs which have a total investment in plant and machinery up to $2 million.

Meanwhile, the working paper by RBI also reported that an increase in the share of FDI in equity raises the profitability of the FDI-receiving companies. "An increase in the share of FDI in equity increases both returns on assets and return on equity."

According to the Economic Survey 2022-23, FDI inflow in the manufacturing sector jumped to $21.3 billion in FY22 from $12.1 billion in FY21 as the pandemic-driven expansionary policies of advanced economies led to a surge in global liquidity. The country saw the highest-ever FDI inflows of $84.8 billion including $ 7.1 billion FDI equity inflows in the services sector in FY22. [Financial Express, April 12]

Lenders' Q4 FY23 figures reflect sustained credit demand

Deposit accretion also maintains momentum, with most major lenders reporting over 15% growth

Provisional figures for Q4 FY23 released by banks and non-banking finance companies (NBFCs) reflect that domestic demand for credit continues to sustain, despite the steady increase in interest rates and elevated inflationary pressures.

Of the numbers declared so far, most lenders posted growth in advances or assets under management of over 15 per cent, with HDFC Bank seeing a strong growth of 17 per cent year-on-year, and other major lenders such as Bajaj Finance, M&M Financial Services, IndusInd Bank and Federal Bank seeing a growth of 20-30 per cent.

Such numbers, especially by retail-oriented lenders such as Bajaj Finance and Mahindra Finance, show that domestic consumption and need for credit remained strong during FY23. As such, Q4 tends to be a strong quarter for lenders, owing to year-end fund requirements, and as they look to shore up their balance sheets before the end of a financial year.

Some small- and mid-sized banks such YES Bank, Karnataka Bank, Bandhan Bank and Karur Vysya Bank were the outliers, posting credit growth of below 15 per cent, in the range of 6-13 per cent y-o-y. However, Bandhan Bank and Karnataka Bank have been consciously running down their microfinance and corporate exposures, respectively, as a business strategy leading to overall muted growth. Bandhan Bank saw a pick in Q4, with advances growing higher sequentially at 12 per cent.

Deposit accretion

On the other hand, deposit accretion, too, maintained its momentum and most major lenders reported deposit growth of over 15 per cent y-o-y, barring Karnataka Bank and Dhanlaxmi Bank. Sequential trends, too, showed steady deposit growth, albeit few banks such as YES Bank and Karur Vysya Bank that could have possibly slowed down deposit mobilisation due to muted loan growth.

Banks such as HDFC, Karnataka and Bandhan saw their deposits growing faster than advances in FY23. Bajaj Finance's fixed deposits also surged by 45 per cent, albeit on a much smaller base.

In a recent note, CRISIL Ratings had said that balance sheets of banks and NBFCs have been steadily improving due to better capitalisation, asset quality and profitability. It pegged bank credit growth at around 15 per cent in FY24, flat compared to FY23, whereas for NBFCs, it is projected to be around 13-14 per cent, slightly higher than 12-13 per cent in FY23, driven by the retail segment. [Business Line, April 5]

PwC survey reveals 74% Indian consumers are worried about personal finance; 63% to cut back non-essential spending – Check key trends

The survey further found that Indian consumers plan to reduce their spending across all categories over the next six months.

The luxury and premium products are expected to experience the most significant reductions in consumer spending.

According to the 2023 PwC Global Consumer Insights Pulse Survey, which polled 9,180 consumers across 25 regions, cost of living and personal finance concerns are weighing on consumers worldwide. In India, 74% of respondents expressed worry about their personal financial situation, compared to 50% globally. The survey also revealed that 63% of Indian consumers are cutting back on non-essential spending. The survey included 500 Indian respondents from 12 Indian metros, Tier-1 and Tier-2 cities, with a male-female ratio of 57:43.

The survey further found that Indian consumers plan to reduce their spending across all categories over the next six months. This is a significant drop in planned spending across all categories since the previous pulse survey in June 2022. The luxury and premium products, travel, and fashion industries are expected to experience the most significant reductions in consumer spending, while the groceries segment is expected to decline the least. [Financial Express, April 7]

Retail loan securitisation rises 56% to Rs 1.76 lakh crore in FY23

Looking forward, despite the global slowdown, domestic growth and high inflation will drive retail securitisation market in FY24.

Retail loan securitisations jumped a robust 56 per cent to Rs 1.76 lakh crore in the just concluded fiscal 2023, while that of wholesale rose to around Rs 6,600 crore, coming out of the pandemic blues finally, says a report. The secondary market for standard retail assets has seen a robust growth of 56 per cent in FY23, reflecting the resilient retail asset pools in the secondary market as well as the preference of banks to grow their retail assets to meet priority sector lending requirements, according to a Care Ratings analysis.

Such robust growth was possible as bank lending to NBFCs grew 32 per cent and there is a positive correlation between interest rate and relative premium for PSL assets. Both these factors augur well for securitisation market, the agency said. "We expect the market to continue to grow but at a moderate pace in FY24," senior directors Sanjay Agarwal and Vineet Jain said in a note.

The total volume, including direct assignment transactions, rose to Rs 176,000 crore from around Rs 1,13,000 crore in FY22, led by direct assignments which constituted around 61 per cent of the total securitisation market with pass-through certificates (PTCs) making up the remaining volume. The credit quality of retail assets remained resilient, and the total credit growth of banks increased by just over 15 per cent, while bank credit to NBFCs grew by more than twice that rate.

The two main drivers of growth for the securitisation market continue to be the priority sector lending requirement and the need to expand the retail asset book. The robust growth also shows that the regulatory changes in December 2022 did not have any material impact on the overall volumes except that securitisation volume by fintech lenders were negatively impacted in the second half of the fiscal. With new originators from universal banks—up 30 per cent, small finance banks, NBFCs and HFCs coming to the market, driven by higher demand for retail assets.

DA transactions dominated the market volume and mortgage-backed securitisation transactions comprised the lion's share of it with 50 per cent. Asset-backed securitisation and microfinance loans constituted around 31 per cent and 19 per cent of the volumes, respectively. DA transactions grew around 49 per cent, while PTC volumes, mainly driven by ABS pools, contributed around 76 percent of the total PTC issuances, with around Rs 42,500 crore coming from vehicle financing, followed by MFI loans contributing around 13 per cent.

Looking forward, despite the global slowdown, domestic growth and high inflation will drive retail securitisation market in FY24. The reduction in the volume expected from the culmination of the merger of the HDFC twins and the evolving situation with the growing adoption of the colending model will have a major impact on how the retail securitisation market evolves in the near future. [Financial Express, April 11] ■

Finance companies ask RBI not to rename penal interest as 'charges' to avoid attracting GST

The Finance Industry Development Council, a representative body of NBFCs in India, has requested the Reserve Bank of India (RBI) not to classify penal interest as 'charges' due to potential tax implications.

In a representation to the RBI, the FIDC said the central bank's circular on fair lending practices, which included guidelines on the reasonable and transparent disclosure of penal interest or charges, could create problems.

The association highlighted several challenges, such as the risk of levying GST on penal charges, which could create further hardships for customers already in default. The FIDC also noted that penal interest is a deterrent for non-compliance and default.

The council letter signed by director general Mahesh Thakkar said that "Adjusting the credit risk premium can be considered when there is a significant drop in risk profile and the same can be implemented post detailed review of profile on various parameters whereas penal interest can be levied from the date of default which curbs the borrower to delay unnecessarily".

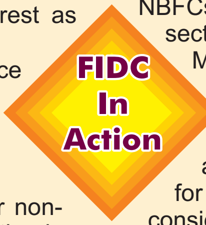
The apex bank can also consider a cap on the rate of penal interest by adding that the penal interest shall be based on the entire outstanding amount of the loan.

Another demand of the NBFC body from the RBI is to consider dropping the proposal to reset the interest rate arising out of default, to avoid dispute with the customer. It should also clarify the materiality concept to levy the Penal interest to bring in transparency to the customer, it believed.

Nature as 'interest' due to higher risk premium cannot be altered Finance companies ask RBI not to rename penal interest as `charges' to avoid attracting GST

Finance companies ask RBI not to rename penal interest as 'charges' to avoid attracting GST

Citing the clause that said, penal charges for non-compliance of material terms shall be proportionate to the default, FIDC believes it is challenging to determine the materiality arising on account of default.



Why to choose penal interest over penal charges?

FIDC believed the penal interest acts as a deterrent for non-compliance and default and motivates the borrower to pay the dues on time. Adjusting the credit risk premium can be considered when there is significant drop in risk profile and the same can be implemented post detailed review of profile on various parameters whereas penal interest can be levied from the date of default which curbs the borrower to delay unnecessarily. [MSN.Com, May 15; Mayur Shetty]

Shri Bhagwat Karad, Union Minister of State for Finance addressed the audience at 13th IMC banking and finance conference inaugural session

IMC Chamber of Commerce and Industry, an apex Chamber of Commerce, Trade and Industry, hosted the 13th IMC. Banking and Finance Conference at IMC Mumbai. Shri. Bhagwat Karad Hon'ble Union Minister of State for Finance addressed the inaugural session virtually in the presence of eminent dignitaries from the Banking and Finance sector. He addressed the session on the theme 'Harnessing Banking and Finance to Drive India's Growth'

India has made significant gains in recent years, making it the fifth largest economy on the Global scale. India's Government has instituted a number of measures in order to bring relief to various industries, said Bhagwat.

These initiatives have made great strides in supporting India during this difficult time. The MSME sector has benefited greatly from the steps taken by the government to promote financial inclusion. Prior to FY 2014, there were very few banking accounts available. Through PM Jan Dhan Yojana and zero balance accounts, banks have been able to penetrate remote areas, villages, and colonies that were previously underserved. The JAM trinity (Jan Dhan Account-Aadhaar-Mobile) has facilitated faster Direct Benefit Transfers (DBTs) of welfare subsidies into bank accounts of people in need. In addition, schemes such as Mudra and Pradhan Mantri Swanidhi Yojana are actively helping to drive economic growth at a local level and bolster the financial ecosystem across India, he added.

Shri. Anant Singhania, President, IMC Chamber of Commerce and Industry said, "At the ideal time for India to ascend to a global leadership role, this conference provided an opportunity to discuss potential strategies for making Indian banking and financial sectors beneficial for sustained growth. The modernized financial infrastructure has seen advancements like digital payments, neo-banking, NBFCs and FinTechs that have greatly improved India's inclusivity of financial services and helped fuel the credit cycle. We hope to utilize our industry strengths in order to reach this goal." [IMC Website, May 13]

Delightful light at the end of tunnel for smaller NBFCs at last from SIDBI :

FIDC have been persistently and aggressively advocating for the need for a Refinance window for NBFCs, more so, for small and mid-sized NBFCs. FIDC had been requesting the SIDBI to play an important role in this regard. One of the representation to SIDBI has vociferously advocated for extending Refinance Window for NBFCs thus:

"Refinance mechanism for NBFCs: Most NBFCs (except the very highly rated NBFCs) depend upon banks for their funding needs since the money markets and other institutional sources of funding are shallow or are restricted to highly rated NBFCs. This has resulted in inadequate and erratic flow of funds to NBFCs and increased concentration risk at a systemic level. There is a dire need for an effective refinance mechanism (on similar lines as the NHB refinance or any other effective method) to ensure diversity and greater regularity in sources of funds to NBFCs. We believe that SIDBI is most suited as an institution to provide such a facility to NBFCs for onward lending to MSMEs and other appropriate sectors. We have discussed this matter with the RBI and the Ministry of Finance as well. We would sincerely appeal to you to kindly consider this proposal." [Representation dated Oct. 4, 2021 titled: 'CREDIT FLOW TO MSMES THROUGH NBFCs']

FIDC in the same communication further advocated thus about how to use credit rating criteria which restricts funding for smaller NBFCs: "While rating should be an important consideration for SIDBI to assess its credit risk, we submit that this may be seen as only one of the criteria, which could be counter-balanced with vintage of NBFC, the track record and experience of the key personnel, financial parameters, credit quality and capital adequacy. We submit that rating therefore not be used as a qualifying criterion for a "go-no go" decision for lending to NBFCs."

Persistence has paid as FIDC director general notes about SIDBI decision, "We are pleased to inform you (FIDC Members) that SIDBI has constituted an Advisory Committee on NBFCs where 4 of our Directors have been nominated as members. The committee shall also be working towards developing a Capacity Assessment Grading Model for small NBFCs.

Additionally, discussions are ongoing with GAME (Global Alliance for Mass Entrepreneurship) to develop a Growth Accelerator for small and lower rated NBFCs."

In the said official communication from SIDBI it is stated about the concern regarding "lower external credit ratings for smaller NBFCs. "The Bank (SIDBI) is already in discussion with various rating agencies to develop Capacity Assessment Rating for such NBFCs, which can be relied upon by the lenders to fund these NBFCs."

Echoing the Expert Committee's view, the 46th Standing Committee on Finance had, inter-alia, suggested that there is a large scope for SIDBI to have a much more scaled engagement with the NBFC sector, by extending finance to a more diversified category of NBFCs, capacity building of & taking equity stakes in smaller NBFC players, seeking guarantee scheme from the Government of India for NBFCs operating in smaller & credit deficient areas etc., noted SIDBI in the letter dated May 30, 2023.

Against this backdrop, SIDBI mentioned the action it has already taken by it to assist NBFCs in various ways and times:

- SIDBI is engaging with a large number of NBFCs to channelise assistance to the MSME sector.

• In the aftermath of Covid pandemic related disruptions, SIDBI was in the forefront in providing crucial liquidity support to smaller and lower rated NBFCs which helped them to stay afloat.

• Under RBI's special liquidity assistance, SIDBI extended assistance aggregating to nearly Rs. 16,000 crores to more than 50 NBFCs in the country.

• SIDBI formulated innovative financial assistance channels for smaller and lower rated NBFCs (including 'below investment grade' rated and unrated NBFCs) viz. Schemes of Financial Assistance through Double Intermediation, Partial Guaranteed Pooled Loan Issuance and Assistance through Alternative Investment Fund (AIF).

SIDBI taking note of plight of smaller NBFCs further said: "The Bank understands that these smaller/ lower rated/ unrated NBFCs, despite their sound business models and having potential to play a much bigger role in serving this segment, however, struggle to grow in scale due to inadequate resource support from conventional banking system - for a variety of reasons including heterogeneity of the space, absence of reliable data on their operational aspects, concerns about corporate governance and lower external credit ratings." It is already in discussion with various rating agencies to develop Capacity Assessment Rating for such NBFCs, as noted earlier.

To address the above challenges being faced by the sector and to reposition its NBFC finance operations, SIDBI has proposed to constitute an Advisory Committee comprising industry practitioners, thought leaders and specialists.

Out of the members of Advisory Committee on NBFCs set up by SIDBI the first four nominees are FIDC office bearers:

Nominees for the Advisory Committee on NBFCs

1. Shri Raman Aggarwal, Director FIDC
2. Shri T T Srinivasaraghavan, Former M D Sundaram Finance Ltd.
3. Shri Umesh Revankar, Executive Vice Chairman, Shriram Finance Limited
4. Shri Kamlesh Gandhi, Founder & CMD, Mas Financial Services Ltd.
5. Shri Vinit Sukumar, Founder & MD, Vivriti Capital Pvt. Ltd.
6. Shri Ashish Mehrotra, M D & CEO, Northern Arc Capital Ltd.
7. Shri Rajesh Dubey, Ex. CEO, SMERA, Ex-SIDBI Official

[Source: SIDBI Circular]

NBFC loan sanctions up 2% YoY in Q4, rises in investment sector: Report

Growth in sanctions for equipment, commercial vehicles indicates revival of capital investment: Study

Loan sanctions by non-banking finance companies (NBFC) grew 2 per cent year-on-year (YoY) to Rs 4.46 trillion in the fourth quarter of Financial Year 2022-23 (Q4 FY23), said a report on Tuesday.

Sanctions for consumption-oriented areas and housing were tepid, but those for investment activities like commercial vehicles and equipment did better, according to data from Finance Industry Development Council (FIDC) and CRIF. CRIF, a credit bureau, works with FIDC for analysis.

Sanctions by NBFCs expanded 7 per cent in the third quarter ended December 2022 (Q3 FY23) compared to the same period last year. The sanctions in absolute terms were Rs 4.17 trillion in Q3 FY23.

K V Srinivasan, co-chairman of FIDC, said the YoY growth in loan sanctions for equipment (36 per cent) and commercial vehicles (20 per cent) and loan against property (25 per cent) indicate revival of capital investment in the economy. Unsecured business loans—another indicator of economic activity—grew 24 per cent YoY in sanctions.

Srinivasan said housing remains largest in terms of absolute sanction (Rs 87,102 crore) amongst various segments in Q4. But the activity in the housing finance segment was adversely impacted by sharp rise in lending rates and base effect (over Q4 FY22).

FIDC said in a statement while sanctions in rural areas declined 10 per cent YoY, those in urban areas shrunk by one per cent and semi-urban contracted by five per cent.

Sequentially, all categories showed growth namely in rural (5 per cent), semi-urban (3.0 per cent) and urban (8 per cent), FIDC-CRIF data showed. [Business Standard, June 06]

NBFC unsecured personal loan sanctions fall 15%

Unsecured personal loan sanctions of non-banking financial companies fell 15% year-on-year in the March quarter, data released by the Finance Industry Development Council and CRIF High Mark showed.

Analysts attribute this to a higher base in January-March, 2022 and the recent tightening of underwriting standards by these lenders, especially with respect to the new-to-credit segment.

These rose 5% quarter-on-quarter to Rs 51,925 crore as on March 31. The fall in fresh unsecured personal loans comes when various lenders have renewed their focus on the segment to improve their margins.

Analysts attribute this to a higher base in January-March, 2022 and the recent tightening of underwriting standards by these lenders, especially with respect to the new-to-credit segment.

Long term loans for a period of above three years fell 36% y-o-y and lease finance fell 41% y-o-y. Short term loans of less than one year also fell 64% y-o-y.

Housing loans also fell 1% y-o-y as high interest rates hit the demand for loans.

Demand loans rose 84% y-o-y, the highest among all categories. Also, education loans rose 79%
y-o-y. Used car loans rose 43% y-o-y in the quarter under review.

Broadly, long-term outlook on the non-banking financial companies (NBFC) segment is positive, say analysts.

"We believe the AUM growth is expected to moderate from here on as disbursement growth moderates due to a higher base. There are no demand concerns but a part of the management's commentary indicated about higher competition," brokerage firm Sharekhan said in a recent report.

"Overall, the asset-quality outlook remains stable to positive, given the benign credit cycle. This should help sustain lower credit costs in the near to medium term. Moreover, the interest rate cycle is close to its peak, which should benefit these lenders in terms of margin improvement." [Financial Express, June 7]

Raman Aggarwal Commented:

In my Keynote Address I shared my views on how AI has become an integral part of lending by NBFCs & has brought in a structural change in the way they operate. Technology cannot replace human touch & plays the enabler & the facilitator role. He said "In the face of booming digital lending applications which come with other transaction and payment challenges, RBI was forced to ban various such applications." [April 27; #eletsNBFC #NBFC100 #BFSI #NBFCs #NBFC100TechSummit #Technology]

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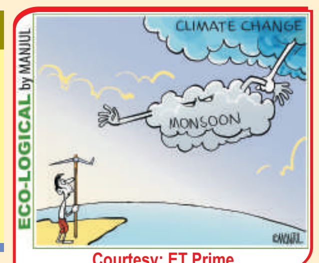
- Editorial Committee



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