

FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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February 04, 2025

Shri Nitin Gadkari ji

Minister of Road Transport and Highways

Transport Bhawan

1, Parliament Street

New Delhi – 110 001

Hon'ble Shri Nitin Gadkariji,

SUB: PROPOSAL FOR DEVELOPING A UNIFORM, PAN-INDIA SYSTEM TO CURB ILLEGAL PRACTICES IN HYPOTHECATION REMOVAL ON VEHICLES AT THE REGIONAL TRANSPORT OFFICES (RTOS)

Finance Industry Development Council (FIDC) is a Representative body of the NBFCs registered with the Reserve Bank of India. FIDC was formed 21 years ago and is the recognized face of the NBFC sector. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members. FIDC is actively working to seek approval from RBI to be the Self-Regulatory Organization (SRO) for the NBFC sector.

We are writing to you to propose a system aimed at curbing illegal practices in the hypothecation removal process at Regional Transport Offices (RTOS), particularly the issue of forging No Objection Certificates (NOCs) by some individuals or RTO agents. These practices undermine the integrity of the vehicle registration system, lead to fraudulent activities, and expose vehicle owners, financial institutions, and the authorities to significant risks.

PROBLEM STATEMENT

One of the most prevalent illegal practices in the vehicle hypothecation process is the submission of forged NOCs. Some vehicle owners or third parties attempt to remove hypothecation from the RTO records by providing falsified NOCs, often in collusion with unscrupulous individuals, thereby bypassing the legitimate process set by financial institutions. This is a significant issue that needs immediate attention, as it leads to:

- **Fraudulent Ownership Transfers:** Forged NOCs can lead to illegal ownership transfers, with vehicles being sold without clearing the original financier's lien.



- **Loss of Financial Security:** Financial institutions face a loss of financial security when the hypothecation is fraudulently removed.
- **Legal Implications:** This fraudulent practice exposes financial institutions and vehicle owners to potential legal disputes and challenges in ownership verification.

PROPOSED SOLUTION: A UNIFORM, PAN-INDIA SYSTEM TO CURB FORGED NOCs

To combat these fraudulent activities and create a secure and transparent system for hypothecation removal, I propose the development of a uniform, pan-India digital platform that ensures proper verification of NOCs with the lending institutions such as verification by submission of one-time password (OTPs) or by sending verification links to the registered e-mail IDs of the lending institution to verify the genuineness of the NOCs furnished etc. which will provide safeguards against the submission of forged documents. The system would work across all states and RTOs, creating a uniform, secure, transparent, and streamlined process that benefits all stakeholders.

Key Objectives of the Proposed System:

- 1. Standardization of Procedures:** A uniform procedure for the removal/ satisfaction of hypothecation across all states and RTOs in India will ensure that vehicle owners, financial institutions, and the RTO staff are on the same page, leading to a seamless experience for all stakeholders.
- 2. Simplification of Process:** The current process involves multiple steps that vary from state to state, sometimes requiring physical visits to multiple offices. A uniform system can simplify the process and reduce time-consuming steps for vehicle owners and financial institutions alike.
- 3. Reduction of Paperwork:** A digital platform can help reduce paperwork and manual intervention, leading to faster processing and reducing the scope for errors or delays.
- 4. To strengthen compliance:** A digital platform will help in ensuring the genuineness of the proposed removal of hypothecation from the vehicle so that the resulting removal does not result into loss to any financial institution/lender.
- 5. To mitigate fraud risk:** In many cases it has been observed that borrowers remove/satisfy hypothecation against their vehicle by forging and furnishing fake NOC (No objection certificate), a document which is issued by the lender only after



repayment of full borrowed amount by the borrower to the lender. Such practices result in loss for the lender and is hurting the financial position of the financial institutions in the country who are financing these vehicles.

Key Features of the Proposed System:

1. Centralized Digital Platform for Verification

Integration with Financial Institutions: Create a centralized digital platform that directly links all financial institutions (banks, NBFCs, etc.) with the RTO system. The platform should allow financial institutions to directly upload and verify the genuine NOCs they issue after the loan is cleared.

Real-time Verification: RTOs should have immediate access to this platform to verify the authenticity of NOCs. This will make it impossible to submit forged NOCs because the RTO can cross-check the details in real-time.

2. Secure Digital Issuance of NOCs

Digital NOCs: Financial institutions should issue NOCs digitally through the centralized platform. These NOCs should be cryptographically secured, with unique digital signatures that make it impossible for them to be tampered with.

Blockchain Technology: Implement blockchain technology for storing NOCs. This would ensure immutability and transparency, preventing any alterations or unauthorized submissions.

3. Automatic Cross-Verification with RTO Databases

Centralized Database: The platform should have an integrated link with the RTO's vehicle registration database, allowing for automatic verification of whether a vehicle is still under a hypothecation agreement or has already been cleared.

Flagging of Suspicious Submissions: Any attempt to remove hypothecation without proper clearance from the concerned financial institution should trigger an automatic flag within the system. These flagged applications should be subject to further investigation.



4. Mandatory Verification before Hypothecation Removal

Strict RTO Protocols: Make it mandatory for the RTO to check the digital verification of the NOC before processing the hypothecation removal request. The RTO should not accept any NOC without verifying it through the centralized platform.

Multiple Authentication Layers: The system should allow multiple forms of authentication for NOC verification, including OTP-based checks for both the financial institution and the vehicle owner, ensuring no fraudulent submissions go undetected.

5. Data Privacy and Security

End-to-End Encryption: Ensure the entire process of NOC verification is encrypted to protect sensitive financial data and prevent misuse.

Access Controls: Implement robust access controls that allow only authorized personnel from financial institutions and RTOs to interact with the platform, preventing unauthorized manipulation of records.

6. Awareness and Training for RTOs and Financial Institutions

Training Programs: Conduct awareness campaigns and training sessions for RTO staff and financial institutions about the new system, the importance of digital verification, and how to prevent fraudulent activities.

Public Awareness Campaign: Educate the public about the dangers of forging NOCs and the importance of using legitimate channels for hypothecation removal.

Benefits of the Proposed System:

Prevention of Fraudulent Practices: The real-time digital verification of NOCs will prevent any fraudulent activity related to hypothecation removal, ensuring that the system is fool-proof and transparent.

Transparency and Accountability: The use of a centralized platform with blockchain technology ensures transparency in the process, holding both financial institutions and RTOs accountable for their actions.

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Efficiency and Speed: By automating the verification and processing of NOCs, the system will speed up the hypothecation removal process, reducing delays and human errors.

Legal Security: The system will offer greater legal security to both financial institutions and vehicle owners, reducing the risk of legal disputes related to forged documents.

Simplified Process: The digitization of the entire process simplifies the journey for vehicle owners, ensuring that they do not have to deal with multiple departments and paperwork.

Conclusion:

A uniform, pan-India system for the removal of hypothecation that incorporates real-time digital NOC verification, blockchain technology, and centralized databases would effectively eliminate the practice of submitting forged NOCs. By making the process transparent, efficient, and secure, we can protect the interests of vehicle owners, financial institutions, and the integrity of the RTO system.

Thanking you,

Yours Faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL