FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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Shri Rajeshwar Rao
Deputy Governor
Reserve Bank of India
19th Floor, Central Office Building
Shahid Bhagat Singh Road
Mumbai-400 001

Respected Sir,

Sub: Allowing NBFCs to Offer Credit Lines on the UPI

We would like to draw your kind attention to the fact that currently, only banks and small finance banks can offer this facility. We believe that extending it to regulated NBFCs will strongly align with India's financial inclusion and digital credit goals. In this letter, we outline our reasoning and recommendations and also address potential concerns from a regulatory perspective:

<u>NBFCs as Pioneers of Financial Innovation in India</u>

NBFCs have historically been at the forefront of financial innovation in India, often introducing new products and reaching customer segments before traditional banks. NBFCs have driven innovations in vehicle financing, consumer durable loans, microfinance, over the decades, filling gaps that banks initially hesitated to serve. NBFCs' agility and specialized focus have thus repeatedly contributed to India's financial sector development.

<u>Deeper Reach to Underserved Segments – Advancing Financial Inclusion</u>

By virtue of their business models, NBFCs often cater to underserved and underbanked customer segments that large banks find challenging to reach. NBFCs account for over 20% of India's total credit market, and notably, they have a strong presence in remote, rural, and priority sectors . Through digital lending, NBFCs have brought innovation in the manner that customers can access credit.

Allowing NBFCs to offer credit lines via UPI would leverage this deep outreach to advance financial inclusion further. UPI-based credit could be extended to customers who have UPI access but lack credit cards or bank credit today. While permitting small finance banks to issue credit lines on UPI, the then Hon'ble Governor of the Reserve Bank of India had noted "this will further deepen financial inclusion and enhance formal credit, particularly for 'new to credit' customers" . NBFCs, with their business experience in these customer segments, are well placed to identify creditworthy individuals in underserved segments and provide them these UPI-linked credit lines. This will bring many new borrowers into the formal credit system in a responsible manner.

Better End-Use Monitoring

One distinct advantage of channeling credit through UPI is the digital trail of end-use. Every transaction made using a UPI-linked credit line is recorded and tagged to a specific merchant or recipient. This means that unlike a lump-sum loan disbursal (where the lender has little visibility on how the money is spent), a UPI credit line allows the lender to monitor the usage of funds in real time. It provides transparency in both usage and repayment, making it easier for lenders and borrowers alike to track loan utilization.

Greater transparency on end-use will help NBFCs ensure credit is not diverted in ways that could jeopardize repayment. It effectively enhances borrower-level visibility and can alert lenders to any misuse early in the cycle.

Crucially, this structure can also mitigate risks like loan stacking (where a borrower takes multiple concurrent loans from different lenders unbeknownst to each). The real-time data from UPI transactions enables lenders to assess a borrower's current credit exposure and spending patterns, reducing the chance of invisible debt accumulation. Industry observers note that such UPI-based credit lines foster a healthier credit ecosystem where consumers build credit history and lenders can more accurately assess risk. By integrating NBFC credit offerings into the UPI framework, the RBI would gain better oversight of retail credit usage across the system, thus directly addressing problems of over-leverage and evergreening of loans.

Democratizing Consumer Credit – An Alternative to Credit Cards

Allowing NBFCs to extend credit via UPI will democratize consumer credit, providing a much-needed alternative to traditional credit cards. Today, formal short-term credit in India is largely synonymous with credit cards – and these are almost exclusively issued by banks. This has resulted in limited penetration: India's credit card coverage stands at roughly 5–6% of the population, concentrated in urban and affluent segments. In contrast, UPI has over 300 million active users across urban and rural areas. Empowering NBFCs to offer UPI-linked credit lines means potentially hundreds of millions of consumers who do not have a credit card could access a comparable credit facility through their UPI app.

Such a move would level the playing field in consumer credit. It provides consumers– even in smaller towns and villages – a digital credit option for everyday purchases, without needing a bank-issued card. Expert analyses predict that UPI-linked credit lines can plug the huge gap in credit card ownership between rural and urban India and even serve as an alternative to low-limit credit cards in cities The existing UPI infrastructure (accepted by tens of millions of merchants) means these credit lines would be instantly usable for payments anywhere UPI is accepted, unlike credit cards which have relatively fewer acceptance points in smaller outlets. This greatly enhances consumer choice: borrowers can decide to use a UPI credit line from an NBFC or a bank card as per convenience, promoting competition and innovation in the lending market. Ultimately, this will drive cost-effective credit access, as more providers (including NBFCs) compete, we expect lower fees and better terms for consumers, much as UPI itself reduced costs in payments.

Strategic Advantage

Credit over UPI to NBFC will have strategic advantage for the country as it will dilute the stranglehold of foreign credit card companies in this space. The objective that the government is trying to achieve by promoting RuPay cards can be achieved easily by proliferating the credit line over UPI to the NBFCs. This option will help achieve the goals without any conflict with the foreign companies and the governments.

Addressing RBI's Key Concerns and Ensuring Robust Oversight

We fully recognize the RBI's emphasis on consumer protection, prudent credit practices, and systemic stability, and believe that permitting NBFCs to offer credit lines on UPI can be structured to meet these regulatory expectations by a phased enablement through "Financially Sound and Well Managed" NBFCs.

As a calibrated approach, we respectfully submit that the Reserve Bank of India may consider extending this facility initially to Financially Sound and Well Managed (FSWM) NBFCs, based on defined regulatory and supervisory parameters. This would be similar to the existing RBI construct used for Urban Co-operative Banks, where eligibility for certain facilities (such as higher exposure ceilings or branch expansion) is restricted to institutions meeting qualifying criteria of financial health and governance standards.

A similar classification can be created for NBFCs, whereby entities with a consistent record of compliance, sound asset quality, strong capitalisation, and robust risk management practices may be recognised as FSWM NBFCs. These NBFCs could be permitted, in the first phase, to offer UPI-linked credit lines, subject to periodic review and adherence to prescribed supervisory thresholds.

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It is respectfully submitted that relying on the Scale-Based Regulatory (SBR) classification of NBFCs to determine eligibility , while essential for risk-based supervision and systemic oversight, may inadvertently exclude smaller yet well-managed and technologically advanced NBFCs that are capable of responsibly deploying such offerings. The SBR framework primarily considers size, interconnectedness, complexity, and group structure, factors that are vital for macroprudential surveillance, but may not reflect the institutional governance quality, customer protection safeguards, or digital readiness required for launching agile, high-touch retail products such as credit lines on UPI. Therefore, A bespoke "FSWM NBFC" framework would allow the RBI to selectively permit market participants based on functional capability and operational soundness, rather than systemic footprint alone.

Conclusion

In conclusion, we believe that permitting NBFCs to offer credit lines on the UPI platform is a timely and progressive step that aligns with India's digital financial inclusion objectives. NBFCs have a proven record of innovation and outreach, which can be harnessed to make UPI-linked credit a success – reaching new customer segments, offering agile and affordable credit, and doing so under the ambit of regulated institutions. The technology and market demand are already in place: UPI is ubiquitous, and consumers (especially those without credit cards) are seeking convenient credit. By extending the regulatory enabling of UPI credit lines to NBFCs, the RBI would unleash the next wave of innovation in digital lending, much as it did with payments. This measure would democratize access to short-term credit by creating alternatives, foster healthy competition, and accelerate the formalization of credit at the grassroots level.

We look forward to receiving a positive reply from your end. Assuring you of our full cooperation always and Thanking you in anticipation

Yours Sincerely,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

RAMAN AGGARWAL
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