FIDC NEWS

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

VOLUME – 13 NO. – 3 | October - December – 2021 | e-Edition No. 3 | FOR PRIVATE CIRCULATION

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. The key point is to envisage the capacity for loss absorption as an ongoing responsibility of the lending institutions. It is expected that banks will exhibit prudent risk-taking behaviour and use their capital efficiently.

Second, good governance is a necessary condition for having well-functioning, strong and resilient financial institutions. Banks have the privilege of raising deposits from the public, which also puts the onus on them to conduct their business in a very responsible manner. The Board of Directors carry the responsibility of being guardians of the trust that depositors have reposed in a bank. A bank's responsibility towards depositors should, therefore, be weighed against its responsibility towards shareholders of the bank. To ensure good governance, the Reserve Bank has high expectations from the oversight role of the Board, its composition, Directors' skill profile, strong risk and compliance structure and processes, more transparency and a robust mechanism of balancing various stakeholder interests. Thus, business priorities need to be complemented with responsible governance and ethical actions.

Third, banks should ensure that their business models and business strategies are conscious choices, following a robust strategic discussion in the Board, instead of being driven by mechanical 'follow the market' approach. In their endeavour to grow, banks should avoid herd mentality and look for differentiated business strategies. At the RBI, we have started taking a closer look on the business models and strategies of banks. Certain banks had followed the high risk and high return business strategy, with a skewed priority for serving only the interest of their investors. The active role of the Board, especially in challenging the proposals of the management, thus becomes critical. This will contribute towards a more diligent and balanced approach to decision making.

Fourth, another major challenge would be in dealing with the stressed borrowers impacted by COVID-19. During the two waves of COVID-19, the Reserve Bank announced Resolution Framework 1.0 and 2.0 to provide relief to the borrowers and banks. While the resolution in respect of large borrower accounts restructured under Resolution Framework 1.0 was to be implemented by June 30, 2021, they have time till September 30, 2022 to achieve the operational parameters. On the other hand, resolutions invoked under Resolution Framework 2.0 before September 30, 2021 in respect of individuals, MSMEs and other small businesses, have to be implemented by December 31, 2021. As the support measures start unwinding, some of these restructured accounts might face solvency issues over the coming quarters. Prudence would warrant proactive recognition of such non-viable firms for pragmatic resolution measures.

Fifth, it may not be an overstatement to say that financial services industry today is in the midst of a 'technological invasion'. The ongoing digitalisation of finance has led to positive disruptions on many fronts. Needless to say, the Reserve Bank has been actively fostering innovation in this cross-fertilised space by envisaging mechanisms like regulatory sandbox for fintechs, co-lending models, account aggregators, etc. We would expect lending institutions to leverage upon these mechanisms to enhance the overall customer experience, product customisation, adoption of alternative credit appraisal methodologies, monitoring measures, among others. A word of caution is in order: globally, the 'phygital' revolution has played out into several collaborative models between banks, NBFCs and fintech players such as incubation, capital investment, co-creation, distribution and

AT A GLANCE

EDITORIAL COMMITTEE

integration. While lenders are free to explore any of these models, the regulatory expectation is that the eventual tie-up decision should be as per their own commercial wisdom in terms of their internal policies subject to extant regulatory guardrails. They should also ensure that compliance requirements in terms of regulations such as the Banking Regulation Act, the Information Technology Act, outsourcing guidelines, fair practice codes, etc. are met for data security, data privacy and redress of grievances. Further, sufficient safeguards in contracts with fintech and bigtech entities should also be ensured. Therefore, as we take this journey of innovation forward, it must be recognised that the risks ultimately lie in the books of banks and NBFCs and hence the collaboration should be appropriately strategised.

Sixth, lenders should never lose sight of their raison d'etre - the customer. As you are aware, under the Integrated Ombudsman Scheme, and even under the earlier Ombudsman Schemes, only the complaints pending beyond 30 days with the Regulated Entities (including banks) are dealt with by the RBI Ombudsman. Thirty days is a very reasonable period for resolution of customer complaints. I would urge the banks to pay particular attention and take measures, as necessary, to revamp/strengthen their grievance redress mechanisms and minimise the escalation of grievances to the RBI ombudsman in the interest of the customers. Banks should also ensure fair treatment of customers and avoid mis-selling through proper sensitisation of staff and direct selling agents. The product sold to the customer should be suitable and appropriate for his/her risk profile.

Conclusion: 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. I wish to see the senior bankers here as the 'change agents' in their respective institutions to catalyse this whole transformation.

[Excerpts from Inaugural Address by Shri Shaktikanta Das, Governor, Reserve Bank of India - Delivered at the 8th SBI Banking & Economics Conclave November 16, 2021, Mumbai Contours of Economic Recovery]

LENDERS FUEL HIGHER CONSUMER SPENDING IN INDIA WITH EASY CREDIT

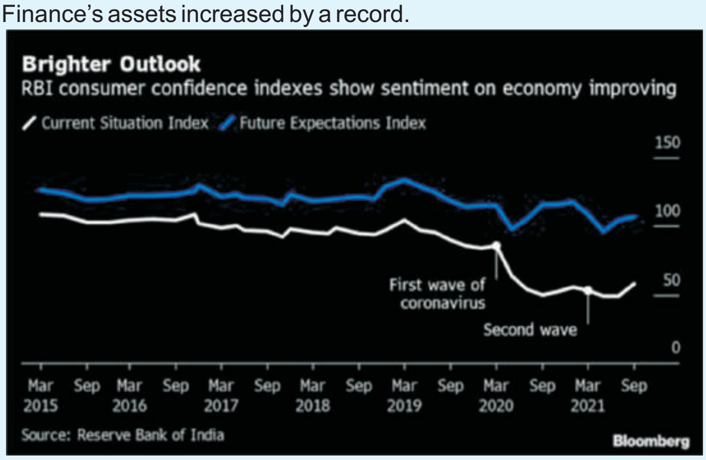
- Rahul Satija, Malavika Kaur Makol & Suvashree Ghosh

Financiers, sitting on a huge pile of excess cash, are eager to lend with outstanding consumer durable loans already at its highest in more than three years. Borrowers want to take advantage of record low interest rates.

Some of India's top lenders and NBFCs are helping fuel demand among consumers wanting to splurge on everything from clothes to two-wheelers and homes, offering hopes of a consumption-driven recovery in Asia's third-largest economy.

Businesses are expecting sales during Diwali will pick up to levels seen before the pandemic struck early last year. That is in part because financiers, sitting on a huge pile of excess cash, are eager to lend with outstanding consumer durable loans already at its highest in more than three years. Borrowers want to take advantage of record low interest rates, an improving labor market as lockdowns ease and a better economic outlook as vaccinations gather pace.

HDFC Bank's retail loans surged 12.9% in the three months ended September from a year earlier, the lender's first double-digit growth in such loans since the onslaught of the pandemic. The country's third-largest private lender, Axis Bank's retail loans rose by 16%, the fastest pace in five quarters, and India's top consumer lender Bajaj Finance's assets increased by a record.



"We expect economic activity to recover further, driven by festive season, pick up in vaccination and the likely increase in government spending," Srinivasan Vaidyanathan, chief financial officer at HDFC Bank said at a recent earnings call. Spending by the government on better health services, roads and infrastructure is crucial as it lifts growth and incomes, economists say.

Vaidyanathan added that loans to the retail sector were going up. For the country's largest private lender that's a shift in strategy after it had pulled back on retail lending last year.

Overall, personal loans offered by banks grew 12.1% in September as compared to 8.4% a year earlier, driven by consumer durables, housing, vehicle loans and borrowings against gold jewellery, according to the Reserve Bank of India.

And it's not only banks, but also some shadow lenders — a sector hobbled by a damaging default in 2018 — that are keen to jump in by offering loans for as little as 10,000 rupees ($134).

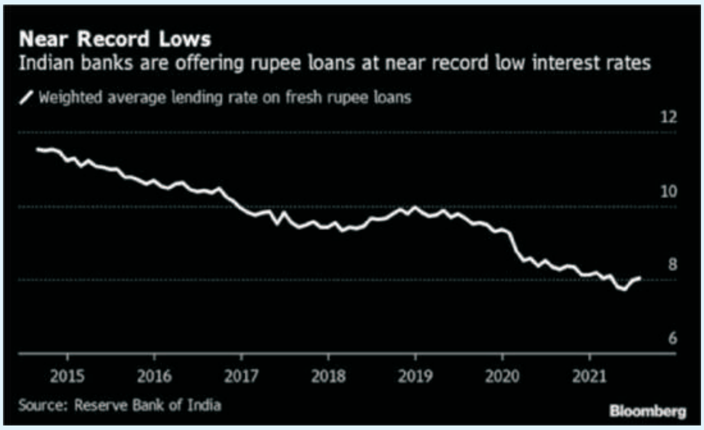
Mumbai-based Mehul Kumar, a 24-year old Youtuber decided to buy a sports bike recently availing a loan of 1.3 million rupees. "Interest rates are low, banks are keen to lend during Diwali and the winter season is great for biking. I got my loan approved in just 24 hours," he said over the phone.

Buy-Now, Pay-Later Loans Help Fuel India's Festive Recovery

'Feast' Times

Indian lenders have used the pandemic to shore up their capital base, which is now allowing them to increase lending, especially to the household sector. Private-sector banks which have been at the forefront of stepping up consumer loans, raised 536 billion rupees of equity money in the last financial year while their state-run peers raised 120 billion rupees in capital.

"Growth is looking better at this time across a wider set of segments,



recoveries are in control," said Dipak Gupta, joint managing director at Kotak Mahindra Bank Ltd. "All of that gives a comforting feeling to take the foot off the brake and start moving it to the accelerate.

According to Rajeev Jain, managing director at Bajaj Finance Ltd, there has been a strong revival in growth in recent months, compared to when the second wave was at its peak — a period he described as a "famine".

"We live in some famine and feast times," Jain added. In the absence of another wave "we are quite confident about the second half of the year on growth." [Bloomberg, Nov. 1]

INDIA IN GLOBAL FAMILY

India is currently one of the fastest-growing major economies in the world. In purchasing power parity (PPP) terms, India is the third largest economy in the world. Projections show that by 2040 India will be the second largest economy in the world.

- Michael Debabrata Patra, Deputy Governor, Reserve Bank of India

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Prompt Corrective Action (PCA) Framework for Non-Banking Financial Companies (NBFCs): RBI/2021-2022/139; DoS. CO. PPG.SEC.7/11.01.005/2021-22; 14.12.2021; Department of Supervision. [All Deposit Taking NBFCs [Excluding Government Companies] All Non-Deposit Taking NBFCs in Middle, Upper and Top Layers [Excluding – (i) NBFCs not accepting/not intending to accept public funds; (ii) Government Companies, (iii) Primary Dealers and (iv) Housing Finance Companies]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of one entry: RBI/2021-2022/134; DOR. AML. REC.71/14.06.001/2021-22; 26.11.2021; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

Regulations Review Authority (RRA 2.0) – Interim Recommendations – Withdrawal of Circular: RBI/2021-2022/129 FMRD.DIRD.09/14.03.059/2021-22; 16.11.2021; Financial Markets Regulation Department. [All Eligible Market Participants]

Appointment of Internal Ombudsman by Non-Banking Financial Companies: RBI/2021-2022/126; CO. CEPD. PRS. No.S874/13-01-008/2021-2022; 15.11.2021; Customer Service Department. [The Chairman/Managing Director & CEO a) NBFCs-D with 10 or more branches, and b) NBFCs-ND with asset size of Rs 5,000 crore and above (excluding NBFCs given in para 3 of this direction)]

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications: RBI/2021-2022/125; DOR. STR. REC. 68/21. 04.048/2021-22; 12.11.2021. Department of Regulation; [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks All Primary (Urban) Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks All-India Financial Institutions (Exim Bank, NABARD, NHB and SIDBI) All Non-Banking Financial Companies (including Housing Finance Companies)]

Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs: RBI/2021-2022/112; DOR. CRE. REC.No.60/03.10.001/2021-22 22.10.2021; Department of Regulation. [All Non-Banking Financial Companies]

Data Format for Furnishing of Credit Information to Credit Information Companies: RBI/ 2021-2022/ 111; DoR. FIN. REC. 59/20. 16. 056 / 2021-22;14.10.2021; Department of Regulation; [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 (Exim Bank, NABARD, NHB and SIDBI) All Non-Banking Financial Companies (including Housing Finance Companies) All Credit Information Companies]

Four-tier scale-based regulatory guidelines for NBFCs from Oct 2022: RBI

A four-layered scale-based approach to regulate NBFCs in the country will kick in from October 1, 2022 to ensure tight oversight of the sector. The regulatory structure will comprise four layers based on their size, activity, and perceived risk. The lowest layer will be the base layer, followed by the middle, upper and top layers. The top layer might remain empty, the RBI.

The base layer will have non-deposit-taking NBFCs with assets worth up to Rs 1,000 crore. Finance firms working as peer-to-peer (P2P) lending, account aggregator firms, non-operative financial holding company (NOFHC) and entities that do not avail of public funds or have any customer interface will also be in this layer.

The middle layer will comprise deposit-taking NBFCs irrespective of asset size, non-deposit-taking firms with assets worth Rs 1,000 crore or more, as well as housing finance firms. Standalone primary dealers, infrastructure debt fund investment companies and infrastructure finance companies will also come under this category.

NBFCs which warrant enhanced regulatory requirements based on a set of parameters and scoring methodology will feature in the upper layer. The top-10 eligible NBFCs in terms of asset size will always be in the upper layer, irrespective of any other factor.

The top layer can get populated if the regulator thinks there is a substantial increase in the potential risk from specific NBFCs in the upper layer. Government-owned NBFCs will be placed in the base or middle layer and not in the upper layer until further notice.

The regulatory minimum net-owned fund for finance companies acting as microfinance firms and those factoring business will be increased to Rs.10 crore.

The RBI has set a three-year glide path for the existing NBFCs to achieve the net-owned funds (NOF) of Rs 10 crore. However, for NBFC-P2P, NBFC-AA, and those with no public funds and no customer interface, the NOF shall continue to be Rs 2 crore.

The RBI has revised existing norms for classifying loans as non-performing assets (NPAs). Now, the overdue of more than 90 days will be termed NPAs for all categories of NBFCs. The central bank has provided a three-year transit period to NBFCs in the base layer to adhere to the revision. [Business Standard, Oct. 23]

RBI caps IPO funding by NBFCs at Rs.1 cr per borrower

The RBI on October 22 announced a scale-based regulation of NBFCs, which include a ceiling on IPO funding per borrower as well as changes in the minimum net owned fund, classification of non-performing assets, and capital requirements. Under the new framework, there will be a ceiling of Rs. 1 crore per borrower for financing subscription to an initial public offering (IPO). "NBFCs can fix more conservative limits," the RBI said in the 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs'. While the overall guidelines shall be effective from October 1, 2022, the instructions relating to the ceiling on IPO funding will come into effect from April 1, 2022.

Layer-based structure: Under the new framework, the regulatory structure for NBFCs shall comprise four layers based on their size, activity, and perceived riskiness — base, middle, upper and top layer.

Sensitive exposure: In the new framework, the RBI has also proposed sensitive sector exposure norms for NBFCs in the middle and upper layers. "Exposure to the capital market (direct and indirect) and commercial real estate shall be reckoned as sensitive exposure for NBFCs. NBFCs shall fix board-approved internal limits for SSE separately for capital market and commercial real estate exposures," the RBI said. A sub-limit within the commercial real estate exposure ceiling shall be fixed internally for financing land acquisition. Housing finance companies shall continue to follow specific regulations on sensitive sector exposure, it added.

Further, the regulatory minimum net owned fund (NOF) for NBFC-Investment and Credit Companies, NBFC-MFI and NBFC-Factors shall be increased to Rs.10 crore by March 2027 through a prescribed glide path.

The extant NPA classification norm also stands changed to the overdue period of more than 90 days for all categories of NBFCs. A glide path is provided to NBFCs in the base layer to adhere to the 90 days NPA norm, the RBI said.

Considering the need for professional experience in managing the affairs of NBFCs, the RBI said at least one of the directors should have relevant experience of having worked in a bank or an NBFC. [Business Line, Oct. 22]

RBI extends banks' priority sector lending facility through NBFCs till March 31

The Reserve Bank of India has extended the banks' priority sector lending facility through non-bank lenders till March 31, 2022, due to the increased traction observed in delivering credit to the underserved segments of the country.

"With a view to increase the credit flow to certain priority sectors which contribute significantly to economy, and recognising the role played by NBFCs in providing credit to these sectors- bank lending to registered NBFCs (other than MFIs) for on lending to Agriculture (investment credit), MSMEs and housing was permitted to be classified as priority sector lending up to certain limits in August 2019, which was last extended on April 07, 2021 and was valid up to September 30, 2021," said RBI's 'Statement on Developmental and Regulatory Policies'. [ET BFSI, Oct. 9]

RBI introduces internal ombudsman mechanism for select NBFCs

The RBI on Nov. 15 introduced the Internal Ombudsman [IO] mechanism for select NBFCs, i. e. Deposit-taking NBFCs (NBFCs-D) with 10 or more branches and non-deposit taking NBFCs (NBFCs-ND) with asset size of Rs. 5,000 crore and above having public customer interface which are directed to appoint Internal Ombudsman (IO) at the apex of their internal grievance redress mechanism within a period of six months from the date of issue of the direction.

"The IO shall deal only with the complaints that have already been examined by the NBFC but have been partly or wholly rejected by the NBFC. In other words, the IO shall not handle complaints received directly from the customers or members of the public," the RBI said. "The implementation of the IO mechanism will be monitored by the NBFC's internal audit system apart from regulatory oversight by RBI," it further said.

The person appointed as the IO shall be either a retired or a serving officer, not below the rank of Deputy General Manager or equivalent in any financial sector regulatory body or any other NBFC, bank, with necessary skills and experience of minimum of seven years of working in areas such as non-banking finance, banking, financial sector regulation or supervision, or consumer protection, the RBI said.

The NBFC shall put in place a system of periodic reporting of information to Reserve Bank on a quarterly and annual basis. [Business Line, Nov. 16]

RBI introduces tough PCA framework for large NBFCs, effective October 2022

An NBFC under the framework, caused by triggering the first threshold, will face restrictions on dividend distribution and promoters will be asked to infuse capital and reduce leverage

RBI on Dec. 14 introduced a prompt corrective action (PCA) framework for large NBFCs, putting restrictions on para-banks whenever vital financial metrics dip below the prescribed threshold. This brings them almost on a par with banks in terms of supervision and regulatory reach. This follows the scale-based regulations and revision in non-performing asset (NPA) norms brought in by the regulator for the sector.

The PCA framework for NBFCs comes into effect on October 1 next year on the basis of their financial position on or after March 31. It will be applicable for all deposit-taking NBFCs and other large ones that sit in the middle, upper, and top layers of the central bank's scale-based regulation for the sector. However, those not taking deposits and with an asset size of less than Rs 1,000 crore, primary dealers, government-owned NBFCs, and housing finance companies are exempt from this framework.

This will, therefore, be applicable for only a few NBFCs while the vast majority of the nearly 10,000 such entities will be excluded. However, the central bank can take any action irrespective of the size of an NBFC.

The central bank cited the growing size of the NBFC sector and "substantial interconnectedness with other segments of the financial system" as the reason for the PCA framework. It said it would further strengthen the supervisory tools for NBFCs.

"The objective of the PCA Framework is to enable supervisory intervention at appropriate time and require the supervised entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health," the RBI said in its statement. [Business Standard, December 15]

RBI revamps loan transfer and securtisation rules

The Reserve Bank has issued Master Direction on loan transfer, requiring banks and other lending institutions to have a comprehensive board-approved policy for such transactions. Loan transfers are resorted to by lending institutions for various reasons, ranging from liquidity management, rebalancing their exposures or strategic sales. Also, a robust secondary market in loans will help in creating additional avenues for raising liquidity, the RBI said. The provisions of the direction are applicable to banks, all NBFCs, including HFCs, NABARD, NHB, EXIM Bank, and SIDBI.

The Master Direction has also prescribed a minimum holding period for different categories of loans after which they shall become eligible for transfer. "These guidelines [Board approved policy] must...lay down the minimum quantitative and qualitative standards relating to due diligence, valuation, requisite IT systems for capture, storage and management of data, risk management, periodic Board level oversight, etc," said the Master Direction. [ET BFSI, Sept. 27]

Shaktikanta Das

FIDC's Hearty Congratulations on Reappointment as RBI Governor for three year term

RBI's fourth regulatory sandbox cohort is on prevention of financial frauds

The RBI announced that 'prevention and mitigation of financial frauds' will be the fourth cohort under the regulatory sandbox structure. "The focus would be on using technology to reduce the lag between the occurrence and detection of frauds, strengthening the fraud governance structure, and minimising response time to frauds," the RBI said.

The RBI has also decided to facilitate on-tap applications for themes of cohorts earlier closed. This measure is expected to ensure continuous innovation and engagement with industry to enable a proactive response to the rapidly evolving Fintech scenario. [Business Standard, Oct. 9]

Soon, RBI to launch new on-device wallet for small value UPI transactions, product for feature phones

The RBI is going to simplify process flow through a new "on-device" wallet for small value UPI transactions. The Central Bank is also going to launch a UPI-based payment product for feature phone users. In the 'Statement on Developmental and Regulatory Policies' released on December 8, 2021, the RBI announced proposals to ease the process for small value transactions and popularise UPI payment through feature phones.

Currently, feature phone users can use NUUP (National Unified USSD Platform) as an option for availing basic payment services using the shortcode of *99#. However, the use of this feature has not picked up. Hence, the central bank has proposed to launch a UPI-based payment product for feature phone users. "It is proposed to launch a UPI-based payment product for feature phone users," the RBI said, adding that more details will be announced shortly. [Financial Express, Dec. 8]

RBI set to monitor digital banking and cyber security, asks banks to be vigilant

RBI set to monitor digital banking and cyber security, asks banks to be vigilant too. RBI will soon launch a web-based supervisory system that will enable off-site and on-site monitoring of modern functions like digital banking, cyber security, said RBI deputy governor MK Jain. At the same time banks need to be careful in complying with rules and invest in technologies to meet the supervisory challenges as they experiment with new services in the post COVID world though ultimately its governance standards, business model, risk culture, and assurance functions will decide how well it fares in the long run, he said.

"For continuous engagement with supervised entities, a web-based and an end-to-end workflow automation system has been developed (by RBI)" said Jain in a keynote address at a summit. It has various functionalities including inspection, compliance and incident reporting for cyber security, etc. with a built-in remediation workflow, time tracking, notifications and alerts, Management Information System reports and dashboards. "This is being launched shortly".

With the proliferation of digital banking, cyber security has become an extremely important area of supervisory concern. To address this concern, the Reserve Bank has developed a model-based framework for assessing cyber risk in banks using various risk indicators, risk incidents. "Cyber drills are conducted based on hypothetical scenarios". While a lot is being done in the cyber security space, these risks are continuously evolving in the dynamic environment we operate in, and hence there should be constant vigil and continuous enhancements of IT systems, warned Jain. [ET Bureau, Nov. 4]

RBI panel favours sale of stressed assets by lenders at early stage

A committee appointed by the RBI has proposed that sale of stressed assets by lenders must be done at an early stage to allow for optimal recovery by asset reconstruction companies. The committee also recommended that if 66 per cent of lenders by value decide to accept an offer made by an asset reconstruction company (ARC), it should be binding on the remaining lenders and it must be implemented within 60 days of approval. The Committee feels that an online platform may be created for sale of stressed assets. Infrastructure created by the Secondary Loan Market Association (SLMA) may be utilised for this purpose.

The panel has suggest that the SARFAESI Act may be expanded to allow ARCs to acquire 'financial assets' not only from banks and 'financial institutions' but also from such entities as may be notified by the Reserve Bank. "Under these proposed powers, Reserve Bank may consider permitting ARCs to acquire financial assets from all regulated entities, including AIFs, FPIs, AMCs making investment on behalf of MFs and all NBFCs (including HFCs) irrespective of asset size and from retail investors," it added. [Business Line, Nov. 2]

RBI report urges new nodal agency, SRO, law to ban illegal digital lending

The report by a working group formed by the RBI on digital lending, including lending through apps and digital platforms, has recommended setting up of a nodal agency which will verify the technological credentials of the digital lending apps. It has also called for the creation of a self-regulatory organization, and bringing in legislation to prevent illegal lending activities. "A nodal agency should be set up which will primarily verify the technological credentials of digital lending apps (DLAs) of the balance sheet lenders and loan service providers (LSPs) operating in the digital lending ecosystem", the working group said in its recommendations. The nodal agency that the report has suggested will be tasked with maintaining a public register of the verified apps on its website.

It also said that balance sheet lending through DLAs should be restricted to entities regulated and authorized by RBI or entities registered under any other law for specifically undertaking lending business. Further, the working group has suggested that self-regulatory organizations have to be set up covering the participants in the ecosystem. In the medium term, the working group has suggested that the central government may consider bringing in legislation to prevent illegal lending activities by introducing the 'Banning of Unregulated Lending Activities Act'. [Business standard, Nov. 18]

RBI to raise all-in-cost ceiling over alternative reference rates for overseas borrowings

RBI plans to revise all-in-cost ceiling for new Foreign Currency (FCY) External Commercial Borrowings (ECB)/Trade Credit (TC) for India Inc from 450 basis points (bps) to 500 bps and from 250 bps to 300 bps, respectively, over the alternative reference rates (ARRs). In view of the imminent discontinuance of LIBOR (London Interbank Offered Rate), the RBI said any widely accepted interbank rate or ARR applicable to the currency of borrowing may be used as a benchmark, post discontinuation. The proposed all-in-cost ceiling for new FCY ECB/TC takes into account differences in the credit risk and term premia between LIBOR and the ARRs. Currently, the benchmark rate for FCY ECB/TC is specified as 6-months LIBOR rate or any other 6-month interbank interest rate applicable to the currency of borrowing. [Business Line, Dec. 08]

RBI withdraws 100 redundant circulars following recommendations from RRA

The Reserve Bank on Nov. 16 withdrew more than 100 redundant circulars following recommendations made by the Regulations Review Authority. The redundant circulars withdrawn relate to certain norms concerning Foreign Investment in India by Foreign Portfolio Investors, RTGS, Know Your Customer (KYC), and Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) Standards.

The Regulations Review Authority (RRA 2.0) was set up by the RBI in April this year to review the regulatory instructions, remove redundant and duplicate instructions, reduce the compliance burden on regulated entities by streamlining reporting structure, revoking obsolete instructions and wherever possible obviating paper-based submission of returns.

"The RRA has been engaging in extensive consultations with both internal as well as external stakeholders, on review of the regulatory and supervisory instructions for their simplification and ease of implementation."Based on these consultations and the suggestions of the Advisory Group, the RRA has recommended withdrawal of 150 circulars in the first tranche of recommendations," the RBI said. [Business Standard, Nov. 16]

Specify due dates in loan agreements: RBI to lenders

The RBI on Nov. 12 issued a set of clarifications to its prudential norms on income recognition, asset classification and provisioning (IRACP), including directions on more transparent loan agreements and upgrades of non-performing assets (NPAs). Henceforth, banks and NBFCs must clearly specify the exact due dates for repayment of a loan, frequency of repayment, break-up between principal and interest, as also examples of special mention account (SMA)/ NPA classification dates in the loan agreement. The borrower shall be apprised of these details at the time of loan sanction and also at the time of subsequent changes to the sanction terms or loan agreement till full repayment of the loan.

"The extant instructions on IRACP norms specify that an amount is to be treated as overdue if it is not paid on the due date fixed by the bank. It has been observed that due dates for repayments are sometimes not specifically mentioned in the loan agreements, and instead a description of due dates is mentioned, leaving scope for different interpretations," the RBI said.

In cases of loans with moratorium on payment of principal or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. The deadline for complying with this guideline is December 31, 2021 for fresh loans. In case of existing loans, compliance to these instructions will have to be ensured as and when such loans become due for renewal or review. [FE Bureau, November 13]

Borrowers moving towards fixed rate loans: RBI chief

'RBI has started taking a closer look at the business models and strategies of banks' There is a trend among borrowers to move towards fixed rate loans even as the Reserve Bank of India (RBI) moves towards rebalancing liquidity, according to Governor Shaktikanta Das.

"I think most of the banks till now have been giving floating interest rate loans. Now, there is a trend of people is moving towards fixed rate loans," said Das in reply to a question posed by State Bank of India (SBI) Chairman Dinesh Kumar Khara at the SBI Banking and Economics Conclave. [Business Line, Nov. 16]

RBI clarifies norms for upgrading of accounts classified as NPAs

RBI on Nov. 12 clarified that lenders should reclassify a non-performing asset to "standard" asset only when the entire arrears of interest and principal are paid by the borrower. The regulator has noted that some lending institutions were upgrading accounts classified as non-performing assets (NPAs) to 'standard' asset category upon payment of only interest overdues, partial overdues, etc.

"It has been observed that some lending institutions upgrade accounts classified as NPAs to 'standard' asset category upon payment of only interest overdues, partial overdues, etc. In order to avoid any ambiguity in this regard, it is clarified that loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower," the RBI said.

"Henceforth, the exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan", the RBI said. Also, accounts which have availed off the moratorium facility, the exact date of commencement of repayment shall also be specified in the loan agreements, the regulator said.

The RBI has said the lenders have to follow these instructions by December 31, 2021, as far as fresh loans are concerned but in case of existing loans, these instructions should be followed as and when such loans become due for renewal/review. [Business Standard, Nov. 13]

RBI commits to integrate climate-related risks into fin stability monitoring activities

RBI on November 3 said it is committed to integrating climate-related risks into financial stability monitoring as well as exploring use of climate scenario exercises to identify vulnerabilities in the central bank-supervised entities. On Monday, RBI published its 'Statement of Commitment to Support Greening India's Financial System - NGFS', coinciding with the 2021 United Nations Climate Change Conference (COP26).

Specifically, RBI, keeping in view the national commitments, priorities and complexity of the country's financial system, is committed to integrating climate-related risks into financial stability monitoring, according to the statement. Further, the central bank said it was committed to "exploring how climate scenario exercises can be used to identify vulnerabilities in RBI supervised entities' balance sheets, business models and gaps in their capabilities for measuring and managing climate-related financial risks".

The apex bank joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS) as a Member on April 23, and aims to learn from as well as contribute to global efforts on green finance. [ET BFSI/PTI, Nov. 3]

RBI's Loan Transfer Guidelines Could Change Bad Loan Sales in India

A revised set of rules issued by the RBI on the transfer of loans between banks and non-banks could lead to a broader market for such transactions. Not only has the door been opened for direct sales of bad loans between banks and stressed asset funds, lenders can now oûoad loans tagged as "fraud" accounts. The changes came in as part of guidelines issued on Sept. 24.

Direct Sales To Stressed Funds?: The guidelines say that if lenders decide to sell their exposures in a loan account under the June 2019 restructuring guidelines, they may do so to "any class of entities". This could include banks, non-banks, asset reconstruction companies, companies or other buyers.

"The guidelines allow, in spirit, all body corporates to acquire stressed assets," said Eshwar Karra, chief executive officer of Kotak Special Situations Fund. "There's a reference to allow all entities to acquire such loans as long as they are approved by their regulator."

In case the buyer of a stressed loan exposure isn't a designated bank, non-bank or ARC, the lenders selling their exposures must follow certain specific guidelines, the RBI said. See for details: https://www.bloombergquint.com/business/rbis-loan-transfer-guidelines-could-change-bad-loan-sales-in-india [Bloomberg, Sept. 28]

Reserve Bank turns down NBFC plea for relaxing Asset Quality Norms

The Reserve Bank has rejected a plea by the NBFCs to relax asset classification and provisioning norms. According to some people in the know, FIDC, the NBFC body, had approached the RBI to offer relaxation in the NPA norms, however, the central bank has declined to comply with the request.

In a November 12 circular, the RBI directed all lenders, including NBFCs, to recognise bad loans if overdue for more than 90 days and upgrade such accounts only after the full overdue amount is cleared. Banks have been following this rule.

NBFCs, especially the smaller ones, often deviate from this and upgrade NPA accounts to standard even if they get partial payments. The large NBFCs already follow this practice, but smaller NBFCs make an account standardised only if one monthly instalment is paid after the borrower defaults on three monthly instalments. This is because of the nature of the credit profile the NBFCs lend money.

The NBFCs mainly borrow money from banks to lend it further. Therefore, the lending rates of the NBFCs are always higher for borrowers who do not get funds from banks because of their low credit profile. Given the element of risk in these customers, the NBFCs follow a delayed NPA recognition and generally classify an account as an NPA only when it is due for 180 days. Earlier, NBFCs were officially allowed by the RBI to let bad debts be recognised only when they were not serviced for 180 days. [ABP News Bureau, 17 Dec.]

[Continued from Page-23]

the Union Budget 2022-23.

FIDC has impressed upon the government on the need to harmonise provisions on taxation and recovery as well, even as the RBI is harmonising regulations governing finance companies with that of banks

The Council has asked the government to exempt tax deduction at source (TDS) on interest payment made to NBFCs. Under Section 194A of Income Tax Act, tax is required to be deducted at the rate of 10 per cent from interest paid to NBFCs, FIDC said. But the section allows exemptions to persons making interest payment to institutions such as banks, life insurance companies and UTI.

"This creates severe cash flow constraints since NBFCs operate on a thin spread/ margin on interest which at times is even lesser than the TDS on the gross interest. Further, due to enormous transactions, NBFCs have to face severe administrative hardship in terms of collection of TDS certificates from their thousands of customers," FIDC said in its letter to the finance minister.

Further they have said that the threshold for NBFCs to initiate recovery proceedings against loan defaulters under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, 2002, should be reduced from Rs 20 lakh to Rs 1 lakh in order to bring NBFCs at par with HFCs, Banks, SFBs and other financial institutions as asset classification norms are also at par for all the institutions.

Smaller loans (retail and MSME) up to Rs 2 crore may be permitted to be marked as Special Mention Account (SMA) & Non-performing Assets (NPA) as on month-end and upgradation in respect of loans up to Rs 2 crore from NPA to standard category may be allowed to continue, FIDC director Raman Aggarwal said

They have also asked for a refinance mechanism for NBFCs. "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", FIDC said in its letter. Hence, they have suggested Small Industries Development Bank of India (SIDBI) to provide a refinance facility to NBFCs for onward lending to MSMEs and other appropriate sectors. [Business Standard, Dec. 17]

Financial sector seeks flexibility in NBFC norms, sustained credit flow

Finance minister Nirmala Sitharaman on Thursday held virtual pre-Budget consultations with representatives of the financial sector and capital markets, who submitted a raft of proposals, including the need for flexibility while regulating NBFCs.

Sustained credit flow to critical sectors of the economy, structured development of the corporate bond market and need for parity between banks and NBFCs in certain tax provisions, too, featured in the consultation meeting.

Amid greater thrust in recent months by the central bank on the harmonisation of regulations for all lending institutions, the Finance Industry Development Council (FIDC), a body of NBFCs, said regulating NBFCs like banks will damage the "typical NBFC model of lending", most of the beneficiaries of which are "the unbanked and under-banked segments of society".

At the same time, there is a need to extend the more attractive provisions relating to taxation and recovery that banks currently enjoy to NBFCs as well. For instance, while high-street banks are exempted from tax deducted at source (TDS) on their interest income, NBFCs don't get that waiver, analysts said. [Financial Express, Dec. 17]

Request for a webinar for KUA licence

FIDC has requested Shri Saurav Sinha, Executive Director, Reserve Bank of India that FIDC members are desirous to understand the time, procedure and other formalities or other proactive steps which they may need to initiate so that they can commence utilizing the Aadhaar Authentication services, immediately after the licence is granted by RBI / UIDAI. Holding of a brief webinar has been proposed by FIDC where any suitable officer of RBI may be deputed who can clarify about RBI expectation from the applicants and the process for grant of the licence by RBI / UIDAI.

M RAJESHWAR RAO
Dy. Governor, RBI

CHASING THE HORIZON

Over the last five years the NBFC sector assets have grown at cumulative average growth rate of 17.91 per cent. It has to be noted that many recent financial sector credit delivery innovations, for example micro-credit and sachetisation of credit, were popularised by non-banking financial entities.

NBFC sector has received wide ranging attention for past few years for various reasons. As an important cog of the financial system, it holds immense potential with its ability to reach out to vast cross-section of the population and diverse geographies and my focus today is going to be outlining a path for achieving this potential.

2. As many of you might recall, almost a year back in the National E-Summit on Non-Banking Financial Companies organised by ASSOCHAM, I dwelt upon how the regulations for NBFC sector might shape up in future. The year has passed by and I would like to think we have made significant progress in many of those areas. One important point that we had highlighted back then was the principle of proportionality for regulating the non-banking financial entities. The idea was to calibrate the degree of regulatory prescriptions based on the systemic importance of NBFCs and the contagion risk they pose to other entities in the financial system. To give shape to our principle of proportionality idea, we came out with the Discussion Paper on Revised Regulatory Framework for NBFCs- A Scale-Based Approach in January this year for stakeholder comments. We have received and examined these comments internally and I plan to discuss on the approach a bit later in my talk.

3. In today's talk, I would like to focus on three key aspects. First, the uniqueness of non-banking financial sector and its importance in the overall scheme of things for development of the country; second, discuss a bit on the Scale Based Regulations as the way forward for regulatory landscape of NBFC sector. Finally, a few asks from the sector, you may call them asks, suggestions or regulatory expectations or by some other name, essentially these are the issues which I believe the industry needs to pay more attention to.

NBFCs: Immense Diversity and Complexity

4. Non-Banking Finance Companies (NBFCs) ecosystem in our country is a place of immense diversity and may I add, complexity as well. There are 9651 NBFCs across twelve different categories focussed on a diverse set of products, customer segments, and geographies. As on March 31, 2021, NBFC sector (including HFCs) has assets worth more than Rs. 54 lakh crore, equivalent to about 25% of the asset size of the banking sector. Therefore, there can be no doubt regarding its significance and role within the financial system in meeting the credit needs of a large segment of the society. Over the last five years the NBFC sector assets have grown at cumulative average growth rate of 17.91 per cent. However, one needs to understand whether it is a demand side pull or supply side push which is contributing to growth of NBFC sector. This distinction becomes important as it has significant implications for the efficiency of the sector. Conventional wisdom tells us that growth consequential to demand side pull factors translates into increased efficiency and better services to the customers. Supply driven growth could, on the other hand, arise out of entry by entrepreneurs who would like to enter financial services industries but are unable to meet the scale and stringent norms meant for banks.

NBFCs playing a significant complementary role in financial intermediation

5. The preamble to the Reserve Bank of India Act, 1934, enjoins on the Bank, to operate the currency and the credit system of the country to its advantage. Thus, promotion of an efficient financial intermediation system, which facilitates adequate credit flow to every segment of the society, more so to the financially disadvantaged population, is an embedded goal for us at the Reserve Bank. Non-banking financial sector assumes an important role in the process as it is a valuable source of financing for many firms, micro and small units as well as individuals and small business, facilitating competition and diversity among credit providers. Further, niche NFBCs fulfill the unmet and exclusive credit needs of various segments such as infrastructure, factoring, leasing, etc. NBFC- MFIs reach out to the underprivileged sections of the society. Along with banking, which is the primary channel of financial intermediation, NBFCs have been increasingly playing a significant complementary role in financial intermediation and provision of last mile delivery of financial services.

NBFCs: light touch regulation

6. Non-banking financial entities, by their regulatory design, enjoy freedom to undertake a wider spectrum of activities as compared to banks for which the permissible activities are enshrined in the statute itself. This freedom, coupled with a light touch regulatory prescription, gives them a greater risk-taking capacity to engage in financial intermediation in the segments which are often underserved by other players. Hence, even with large universal banking's reach across the country, the NBFC sector has the ability to create a space for itself with customized services with a local feel.

7. Apart from furthering the financial inclusion agenda, the added advantage of a well-functioning NBFC sector is that it can promote resilience in the financial system by being innovative and agile in offering tailored financial products and solutions as a supplemental source of credit alongside banks. It has to be noted that many recent financial sector credit delivery innovations, for example micro-credit and sachetisation of credit, were popularised by non-banking financial entities. This capability and freedom to innovate spurs competitive advantage in the financial services sector with the ultimate beneficiary in the process being the customer.

8. However, the reputation of non-banking financial sector has been dented in recent times by failure of certain entities due to idiosyncratic factors. The challenge therefore is to restore trust in the sector by ensuring that few entities or activities do not generate vulnerabilities which go undetected and create shocks and give rise to systemic risk through their interlinkages with the financial system. Forestalling and where necessary, decisively resolving such episodes become a key focus of our regulatory and supervisory efforts.

SCALE BASED REGULATORY [SBR] APPROACH

9. Before we discuss further, it would be interesting to make an assessment as to where the Indian NBFC sector stands with respect to significance, activity and regulation as compared to global jurisdictions. The Global monitoring report on NBFI by Financial Stability Board (FSB) classifies non-banking financial activities into five economic functions, (i) collective investment vehicles, (ii) loan companies which depend on short-term funding, (iii) market intermediaries, (iv) entities which engage in facilitation of credit creation (such as credit insurance companies, financial guarantors) and (v), entities undertaking securitisation-based credit intermediation. Globally, the collective investment vehicles are the most dominant category of the non-banking financial activity and account for 73 per cent of the global NBFI sector. In the global context, the second function of NBFIs i.e., loan companies depending on short term funding is a small segment constituting just around 7 per cent of the total NBFI sector, but in India the non-banking sector is largely into direct credit intermediation.

10. The regulatory challenge in India is thus different with the focus on designing prudential regulations specifically meant for lending activities of NBFCs without compromising on their operational flexibility.

A historical perspective on NBFC regulation

11. Before I talk about SBR, let me step back a bit to give a historical perspective on regulation of NBFC sector in India. While the powers for regulation and Registration of Non-Banking Financial Institutions receiving deposits and Financial Institutions was vested in RBI by the insertion of Chapter III B to the RBI act in 1963, it was only in the late nineties that some semblance of structured regulation commenced. However, the general premise for regulation at that time was based on the fact that the sector would cater to niche activities and geographies. It would make its presence felt in remote and inaccessible areas of the country where formal financial services were difficult to reach, complementing the existing banking sector. This was coupled with an implicit assumption that the sector would mostly function on a lower scale and not pose any tangible risks to the financial system. Hence, taking in to account their unique business model, vast reach and operations on lower scale, their regulations were placed on a different pedestal. The arbitrage in favour of NBFCs was by design and not by default.

12. Over the years, the NBFC sector has evolved in terms of its size, operations, technological sophistication with entry into newer areas of financial services and products. To keep pace with the same, regulations have also evolved to address various accompanying risks and concerns. Reserve Bank had introduced an element of differential regulation way back in 2006 when regulatory framework for systematically important NBFCs was strengthened. Further in 2014, a revised regulatory framework was announced and many of the regulatory parameters with regard to net owned fund, prudential requirements and corporate governance standards were strengthened. It may not be out of place to say that the regulatory framework for NBFCs has remained a work in progress and it continues to be so. The fundamental premise has, however, been to allow operational flexibility to NBFCs and help them grow and develop expertise.

13. Now, the non-banking sector has grown significantly and several NBFCs match the size of the largest Urban Cooperative Bank or the largest Regional Rural bank. In fact, few of them are as big as some of the new generation private sector banks. Further, they have become more and more interconnected with the financial system. NBFCs are the largest net borrowers of funds from the financial system and banks provide a substantial part of the funding to NBFCs and HFCs. Therefore, failure of any large NBFC or HFC may translate into a risk to its lenders with the potential to create a contagion. Failure of any large and deeply interconnected NBFC can also cause disruption to the operations of the small and mid-sized NBFCs through domino effect by limiting their ability to raise funds. Liquidity stress in the sector triggered by failure of a large CIC broke the myth that NBFCs do not pose any systemic risk to the financial system.

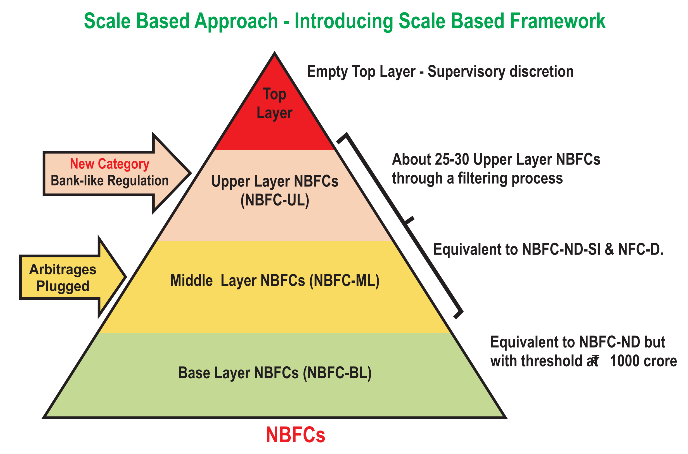
14. While we are aware that differential regulation in the NBFC sector is required to allow it to bridge the gap in last mile connectivity and exhibit dynamism, this premise remains valid till the time their scale of operations is low. As and when they attain the size and complexity which poses risk for the financial system, the case becomes stronger for greater regulatory oversight. It is in this background that we have conceptualized the scale based regulatory framework aligning it with the changing risk profile of NBFCs while addressing systemic risk issues. A scale-based regulatory framework, proportionate to the systemic significance of NBFCs, may be optimal approach where the level of regulation and supervision will be a function of the size, activity, and riskiness of NBFCs. As regulations would be proportional to the scale of NBFCs, it would not impose undue costs on the Regulated Entities (REs). While certain arbitrages that could potentially have adverse impact would be minimized the fundamental premise of allowing operational flexibility to NBFCs in conducting their business would not be diluted.

15. Under the proposed scale-based framework, NBFCs would be categorized into four layers - Base Layer, Middle Layer, Upper Layer, and a possible Top Layer. Base Layer will broadly be equivalent to existing non-deposit taking non-systemically important NBFCs (NBFC-NDs), NBFCs without public funds and customer interface and certain NBFCs undertaking specific activities. It is proposed to mostly continue with the 'light touch regulation' and focus is not to burden such entities with higher level of prudential regulations but increase transparency by way of greater disclosures and improved governance standards.

16. Middle Layer will, broadly, be equivalent to existing deposit taking NBFCs and systemically important non-deposit taking NBFCs (NBFC-NDSI). In the middle layer, we had proposed to plug the areas of arbitrage between banks and NBFCs where it is felt continuance of the arbitrage would be detrimental to orderly growth in the sector and may contribute to marginal risk to financial system. NBFC - Upper Layer was conceived of as a new category of NBFCs in which a chosen few, around 25-30 systemically significant NBFCs, would be specifically identified by the RBI through certain objective criteria and will be subjected to enhanced regulatory rigour. The NBFCs in this layer would be identified by way of a scoring methodology based on size, interconnectedness, complexity, and supervisory inputs. The idea is to introduce prudential regulations and intensive supervision for such entities proportionate to their systemic significance. Further, to enhance transparency and disclosure, it is also proposed that NBFCs-UL would have to mandatorily list in a stock exchange within a given time frame.

17. There is also a top layer envisaged in the pyramidical structure of SBR. Ideally, this layer would remain empty, and an Institution would be slotted into this layer at the discretion of the supervisor if he is of the opinion that the entity is contributing significantly to systemic risk. Such entities in Top Layer would be required to comply with significantly higher and bespoke regulatory / supervisory requirements.

SBR Framework – Pictographic Representation



18. RBI's regulatory approach towards non-banking financial sector has been dynamic and has evolved with passage of time with the regulatory initiatives and structures built over the years. There has been a consistent and conscious understanding that a "one size fits all" approach is not suitable for NBFC sector, which are a diverse set of financial intermediaries, with different business models, serve heterogenous group of customers and are exposed to different risks. As I have enunciated earlier also, the overarching goal of the Reserve Bank is to ensure that risks to financial stability are minimized and contained, be it from a sector or an entity.

REGULATORY EXPECTATIONS

19. Let me now turn to what we envisage as four key cornerstones which I feel not only NBFCs, but every financial entity needs to adopt to become a resilient, customer centric and responsible organisation contributing to economic growth of the country.

Responsible financial Innovation

20. The non-banking financial space has been a hotbed of financial innovation. The inherent structure of NBFCs as an agile force makes them capable of and likely to experiment with innovative technologies and devise newer ways, methods, and vehicles to deliver financial products and services to every nook and corner of the country. The NBFCs have been in the forefront in the adoption of innovative fintech based products and services which are transforming the ways of carrying out credit intermediation and extending financial services. As an enabling regulator, the Reserve Bank has also been on the forefront of creating an environment for growth of digital technology. Peer to Peer (P2P) lending, Account

Aggregator (AA) and digital-only NBFCs are cases in point where the regulations are helping the segment and entities to grow in a systematic and orderly manner.

21. However, point of caution here is that the innovation should not be at the cost of prudence and should not be designed to cut corners around regulatory, prudential and disclosure requirements. Responsible financial innovation should always have customer at its centre and should be aimed at creating positive impact on the financial ecosystem and the society. One should therefore consider the impact of new ideas on the financial fabric at the conceptualization stage itself. This is somewhat similar to the concept of evaluating the impact of business on the environment or greening the financial system but applies to every new innovative idea floated by buzzing entrepreneurial energy of financial entities.

Accountable Conduct

22. Second point which I wish to highlight is the imperative need for accountable conduct by financial entities. On the digital finance front, the pandemic gave us several new learning points. During the pandemic there was surge in digital credit delivery, with lenders either lending through their own balance sheet and in-house digital modes or using third party apps to onboard customers. While the benefits accruing from digital financial services is not a point of debate, the business conduct issues, and governance standards adopted by such digital lenders have shaken the trust reposed in digital means of finance in India. We were and are inundated with the complaints of harsh recovery practices, breach of data privacy, increasing fraudulent transactions, cybercrime, excessive interest rates and harassment.

23. Responding quickly to such complaints, RBI on June 24, 2020 came out with a circular reiterating that banks and NBFCs must adhere to fair practices and outsourcing guidelines for loans sourced over proprietary digital platforms or third-party apps under an outsourcing arrangement. Unfortunately, such developments spurred by purely commercial considerations have dented the credibility of the whole system which flourishes and thrives on trust. My ask here is that we should not compromise on the ethos of the finance for mercurial or ephemeral gains. These gains would anyway accrue to the Institutions over the long term if and when it is built on an edifice of trust and mutual benefit.

Responsible Governance

24. Governance as a regulatory theme has engaged our attention for quite some time now. Governance requirements for NBFCs have been less rigorous as compared to banks. Under SBR, some steps to institute an enhanced governance framework for NBFCs in the Middle and Upper Layers have been suggested. These changes pertain to key managerial personnel, appointment and qualification of independent directors, constitution of board committees, compensation guidelines and disclosures. However, while governance structures within an entity can be enforced through legislation or regulations, responsible governance practices cannot. These need to be built by developing appropriate governance culture and traditions. All of us would agree that the governance is more of a cultural issue than a regulatory issue. Therefore, I urge all of you to create a culture of responsible governance in your respective organisations where every employee feels responsible towards the customer, organisation, and society. Good governance is key to long term resilience, efficiency and might I add, survival of the entities.

Centrality of the Customer

26. The natural transition from these discussions is protection of the customers. This in my view is non-negotiable and I have taken every opportunity to voice my concerns on this issue. To us at RBI, any regulatory move has always, the larger public interest as its core theme and we have been doing our best having regard to public interest in general for the financial system. Putting in place an elaborate grievance redressal machinery, an RBI Ombudsman scheme, Fair Practices Code, etc. are pointers in this direction. More recently, the Scheme for Internal Ombudsman [IO] has been extended to NBFCs on a selective basis. The IO at the apex of the NBFC's internal grievance redressal mechanism, shall independently review the resolution provided by the NBFC in the case of wholly or partially rejected complaints.

27. However, regulatory measures alone may not suffice. Protecting customers against unfair, deceptive, or fraudulent practices has to become top priority of every entity and permeate the organisation culturally and become a part of its ethos. Customer service would mean, amongst many other things, that a customer has similar pre-sale and post-sale experience, she/he is not disadvantaged vis-à-vis another customer because he or she approached the financial entity through a different delivery channel, and he or she has a right to hassle-free exit from the contractual obligation. This issue has been deliberated often enough and it's time to act now.

Conclusion

28. Let me conclude by saying that non-banking financial sector is at an inflection point right now. From here the entities which put interest of the customer above everything else, are responsible while innovating and have strong governance culture, will thrive while others will fade with the passage of time. The Reserve Bank has been carrying out calibrated modifications and adjustments to mould the NBFC regulations in the changing business environment. However, many a times when I think of the regulations in non-banking segment, I am reminded of the metaphoric man of Stephane Crane* who is pursuing the horizon, determined to achieve its vision.

[Remarks delivered by Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India at the virtual CII NBFC Summit on Role of NBFCs in Achieving $5 trillion Economy - October 22, 2021. The inputs provided by Shri Chandan Kumar and Pradeep Kumar are gratefully acknowledged. Some sub headings added to facilitate readers.]

**"I saw a man pursuing the horizon" - a poem by Stephen Crane*

[Continued from Page-11]

Reserve Bank cautioning public against unauthorised digital lending platforms/ mobile apps and creating awareness to register complaints against such lenders on Sachet, a significant increase in complaints was observed with December 2020 recording the maximum number of complaints at over 35 per cent of the total complaints. These are still early days, but the trends are indicating a steady decline in complaints since January 2021. ***[Extract from Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps, submitted to Reserve Bank of India, by the Working Group headed by Shri Jayant Kumar Dash Executive Director, RBI, on Nov. 18.]***

Ombudsman Scheme for Digital Transactions in India

The RBI introduced the Ombudsman Scheme for Digital Transactions36 in January 2019. It is an expeditious and cost-free apex level complaint redressal mechanism for resolution of complaints relating to deficiency in customer services in digital transactions undertaken by customers through the System Participants. The Ombudsman can receive the complaints pertaining to deficiency in prepaid payment instruments, mobile/electronic fund transfer or non-adherence to instructions of the Reserve Bank/respective System Provider to System Participants, on payment transactions through Unified Payments Interface (UPI)/Bharat Bill Payment System (BBPS)/Bharat QR Code/UPI QR Code. Under the scheme, first the complainant has to lodge the complaint with the concerned system participant. If the complainant does not receive a response within one month or is not satisfied with the reply, he can file a complaint with the Ombudsman for Digital Transactions. The Ombudsman has the power to award compensation under the scheme limited to the amount involved, or two million rupees, whichever is lower. In 2019-20, 2,481 complaints were handled by the Ombudsman for digital transactions, with 91 percent complaints getting resolved. This Scheme is a step forward towards forming a redressal framework for an emerging digital transaction system in India. [Source: BRICS Digital Financial Inclusion Report India, 2021]

DIGITAL LENDING IN INDIA

Share of NBFCs has increased from 6.3 per cent in 2017 to 30.3 per cent in 2020 indicating their increasing adoption of technological innovations…The prominent role of NBFCs in fostering digital mode of lending is reflective of the flexible regulatory regime (vis-à-vis banks) meant for NBFCs.

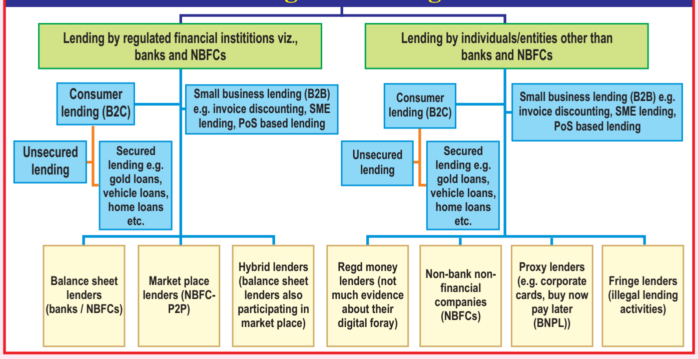
Digital Lending Eco-System

In India, digital lending ecosystem is still evolving and presents a patchy picture. While banks have been increasingly adopting innovative approaches in digital processes, NBFCs have been at the forefront of partnered digital lending. From the digital lending perspectives, such lending takes two forms, viz. balance sheet lending (BSL) and market place lending (MPL), aka platform lending. The difference between BSL and MPL lies where the lending capital comes from and where the credit risks of such loans reside. Balance Sheet Lenders are in the business of lending who carry the credit risk in their balance sheet and provide capital for such assets and associated credit risk, generated organically or non-organically. Market Place Lenders (MPLs) or Market Place Aggregators (MPAs) are those who essentially perform the role of matching the needs of a lender and borrower without any intention to carry the loans in their balance sheet. While P2P lending in India is a clear example of MPL, many other players who are in the business of originating digital loans, (e.g., MPAs, FinTech platforms or the so called 'neo banks' or BNPL players) with the intention of transferring such digital loans to BSLs, can also be bracketed with MPLs/ MPAs. These categories of market players form part of the broader class of Lending Service Providers (LSPs).

An illustration of digital lending taxonomy in a universal context is provided in Chart-1 below.

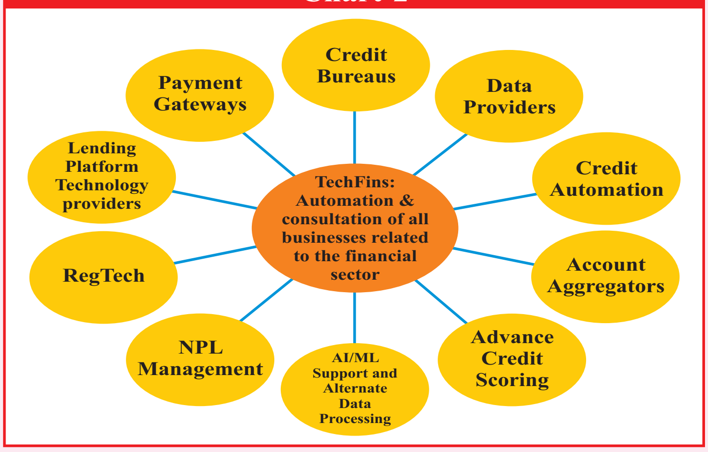
Chart-1

Digital Lending



Another noteworthy development in recent years has been the entry of technology service providers of various forms, in addition to the existing ones, into the financial sector creating a larger universe for the ecosystem (Chart-2).

Chart-2



For this study, the ecosystem of entities engaged in digital lending has been broadly segregated into two categories, viz. (i) Balance Sheet Lenders (BSLs) and, (ii) Lending Service Providers (LSPs). The latter category encompasses both the services being provided and the service providers. An entity can perform the roles of both BSL as well as LSP, as is usually the case of traditional lenders.

Global Scene

Post global financial crisis, financial markets around the world have undergone a significant transformation driven by technological innovation. In credit segment, P2P lending platforms have emerged as a new category of intermediaries, which are either providing direct access to credit or facilitating access to credit through online platforms. Besides, there are companies primarily engaged in technology business which have also ventured into lending either directly or in partnership with financial institutions. Such companies include 'BigTechs', e-commerce platforms, telecommunication service providers, etc. In digital lending space, we have global examples of Person-to-Person (P2P), Person-to-Business (P2B), Business-to-Person (B2P), Business-to-Business (B2B) lending models.

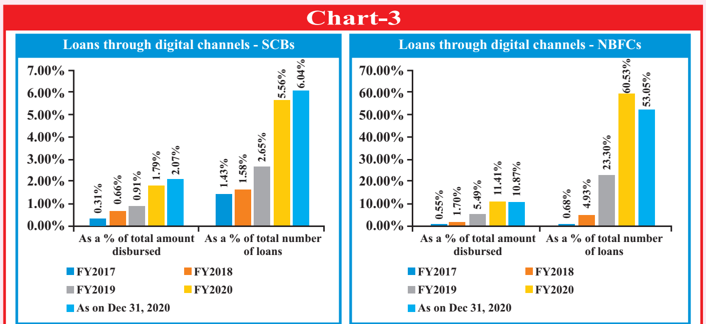
A paper published by BIS has estimated total global alternative credit (i.e., credit through FinTechs and BigTechs) in 2019 at USD 795 billion in which share of FinTechs and BigTechs is around USD 223 billion and USD 572 billion respectively. China, USA and UK are the largest markets for FinTech credit. BigTech has exhibited rapid growth in Asia (China, Japan, Korea and Southeast Asia), and some countries in Africa and Latin America. The largest market for both FinTech credit and BigTech credit is China, although of late, it has shown signs of contraction due to certain market and regulatory developments. While USA is the second largest market for FinTech credit, its share in BigTech credit is comparatively small. In BigTech credit, Japan is the second largest market with USD 23.5 billion lending in 2019. In UK, FinTech credit volumes are estimated at USD 11.5 billion in 2019 (up from USD 9.3 billion in 2018). The BIS paper has highlighted that FinTech credit volumes are growing decently in European Union, Australia and New Zealand while these have stagnated in USA and UK and declined in China. In many emerging market and developing countries, FinTech lenders are attaining economic significance in specific segments such as small and medium-sized enterprises.

Indian Scene

Digital Lending vis-à-vis Physical Lending

Based on data received from a representative sample of banks and NBFCs (representing 75 per cent and 10 per cent of total assets of banks and NBFCs respectively as on March 31, 2020), it is observed that lending through digital mode relative to physical mode is still at a nascent stage in case of banks (Rs. 1.12 lakh crore via digital mode vis-à-vis Rs. 53.08 lakh crore via physical mode) whereas for

Chart-3



Source : Analysis based on representative data collected from banks and NBFCs

NBFCs, higher proportion of lending (Rs. 0.23 lakh crore via digital mode vis-à-vis Rs. 1.93 lakh crore via physical mode) is happening through digital mode.

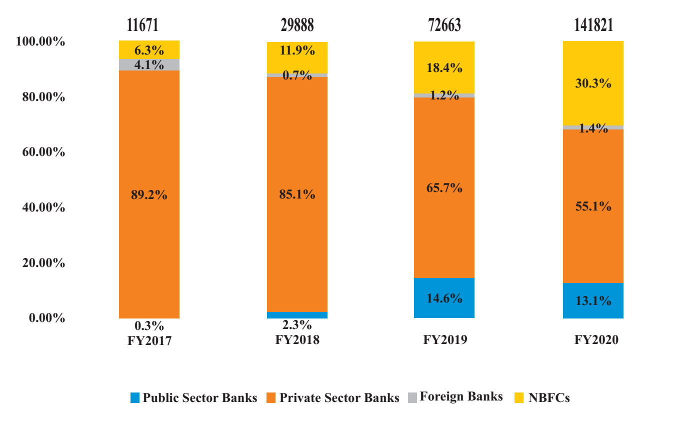
In 2017, there was not much difference between banks (0.31 per cent) and NBFCs (0.55 per cent) in terms of the share of total amount of loan disbursed through digital mode whereas NBFCs were lagging in terms of total number of loans with a share of 0.68 per cent vis-à-vis 1.43 per cent for banks. Since then, NBFCs have made great strides in lending through digital mode.

Share of Digital Lending

Overall volume of disbursement through digital mode for the sampled entities has exhibited a growth of more than twelvefold between 2017 and 2020 (from Rs. 11,671 crore to Rs. 1,41,821 crore).

Chart-4

Share of different lenders in loans disbursed through digital channels (Amount in ₹ crore)



Soruce : Analysis based on representative data collected from banks and NBFCs

Private sector banks and NBFCs with 55 per cent and 30 per cent share respectively are the dominant entities in digital lending ecosystem. Also, share of NBFCs has increased from 6.3 per cent in 2017 to 30.3 per cent in 2020 indicating their increasing adoption of technological innovations. During the same period, public sector banks have also increased their share significantly from 0.3 per cent to 13.1 per cent. The prominent role of NBFCs in fostering digital mode of lending is reflective of the flexible regulatory regime (vis-à-vis banks) meant for NBFCs.

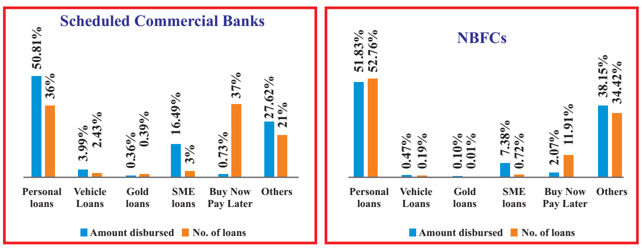
Product Profile

1. Product mix based on loan purpose

The major products disbursed digitally by banks are personal loans followed by SME loans. A few private sector banks and foreign banks are also offering Buy Now Pay Later (BNPL) loans. Loans under 'others' category for banks comprise mostly of small business and trade loans, home loans and education loans.

Chart-5

Percentage share of different types of loans in total loans (both amount as well as number of loans) disbursed through digital channels



Source : Analysis based on representative data collected from banks and NBFCs

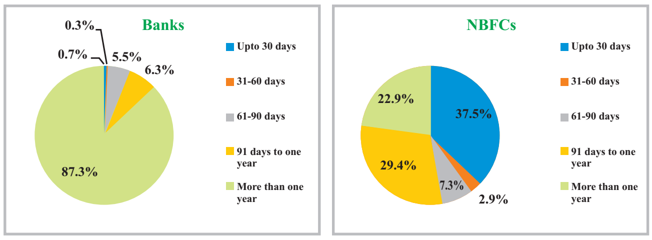
Majority of loans disbursed digitally by NBFCs are personal loans followed by 'others' loans. In case of NBFCs, 'others' loans primarily include consumer finance loans. Even though the amount disbursed under BNPL loans is only 0.73 per cent (SCBs) and 2.07 per cent (NBFCs) of the total amount disbursed, the volumes are quite significant indicating a large number of small size loans for consumption.

2. Product mix based on loan tenure

One difference between banks and NBFCs is in terms of tenure of loans disbursed through digital channels. While around 87 per cent of loans amounting to Rs. 0.98 lakh crore disbursed by banks have tenure of more than one year, for NBFCs only 23 per cent of the loans amounting to Rs. 0.05 lakh crore fall under this bucket.

Chart-6

Tenure wise distribution of loans as a percentage of total amount disbursed



Source : Analysis based on representative data collected from banks and NBFCs

On the contrary, loans with tenure of less than 30 days have maximum share in case of NBFCs (37.5 per cent amounting to Rs. 0.9 lakh crore) vis-à-vis 0.7 per cent amounting to Rs. 0.007 lakh crore for banks.

3. Source of DLAs among Regulated Entities

While public sector banks and foreign banks have been observed to largely depend on their own apps/ websites for disbursal of digital loans, the dependency of private sector banks on outsourced/ third-party apps is significantly higher. Credit offered through digital channels by public sector banks is mostly secured whereas for private sector banks and foreign banks, most of the digital lending portfolio is unsecured and specifically, the third-party app sourced loans in private sector banks are unsecured. In case of NBFCs, there is not much difference between disbursal through own digital channels and third party digital channels with some skew towards own channels (57 per cent).

4. Density of DLAs and illegal players

[a] Lending Apps: As per the findings of the WG, there were approximately 1100 lending apps available for Indian Android users across 80+ application stores (from January 01, 2021 to February 28, 2021). Details are as under:

No. of App Stores in which Indian loan apps are available	~ 81
No. of unique Indian loan apps that have the keywords : loan, instant loan, quick loan, etc.	~ 1100
No. of illegal[4] loan apps	~ 600

[b] Complaints: Complaints against DLAs – Sachet, a portal established by the Reserve Bank under State Level Coordination Committee (SLCC) mechanism for registering complaints by public, has been receiving significantly increasing number of complaints against digital lending apps (around 2562 complaints from January 2020 to March 2021). Majority of the complaints pertain to lending apps promoted by entities not regulated by the Reserve Bank such as companies other than NBFCs, unincorporated bodies and individuals. Another significant chunk of complaints pertains to lending apps partnering with NBFCs especially smaller NBFCs (asset size of less than Rs. 1000 crore).

Post issuance of the press release dated December 23, 2020 by the

[Continued on Page-9]

IT'S RAINING UNICORNS AMID A FANTASTIC FUNDING SPREE FOR STARTUPS ACROSS SECTORS

- Sunil K. Goyal & Mohit Hira

"The investment outlook is bolstered by the entry of next generation firms, or the Start-ups. India has emerged as one of the top performers in the Start-up landscape, which is a reflection of the immense potential for innovation and dynamic entrepreneurship. A large proportion of the investment flowing into tech Start-ups has been in response to the post-pandemic spurt in demand for internet-based services across various sectors such as food delivery, education and health. Policy emphasis on Start-up development through exemption of angel tax and improved governance measures have also supported this sector."

- Shri Shaktikanta Das, Governor, Reserve Bank of India *

The Olympics continually reinforce the belief that there is no greater sporting spectacle than the Games. In fact, a sportsperson aiming for an Olympic medal is akin to a startup founder: both enter the field with a burning passion to accomplish something that no one has done before. Failures and defeats strengthen both, and both believe in that magical trait called timing.

There is also no better time than now from an investment perspective: a July Venture Intelligence report said that the first half of 2021 witnessed 693 private equity, venture capital (PE/VC) investments in India worth $28.9 billion, up by 33% compared to H1 2020, when $21.3 billion was invested across 708 deals.

Unprecedented funding spree for start-ups in 2021

In the Indian VC space, it's raining unicorns amid an unprecedented funding spree for startups across sectors. Well over $20 billion has been raised till July, with several of the rounds producing unicorns in 2021.With 13 large startup deals worth $2.9 billion, the first half of this year broke all records. Consequently, the average deal size was also the largest-ever in H1 at approximately $24 million—double the previous year's average.

We are also fortunate to be living in a time when India's startup ecosystem saw most investors waiting for VCs to begin delivering cash exits for their early finds and a year with a record number of IPOs (initial public offerings) from young entrepreneurs who have scaled and demonstrated unwavering commitment to their mission.

Acquisitions of startups by legacy business houses

At the same time, we are also witnessing acquisitions of startups by legacy business houses and domestic corporations in addition to the well-funded startups themselves.

The size of cash acquisitions touching $1 billion or a Zomato IPO raising over $1.25 billion has set new benchmarks for startups to cross. The Indian ecosystem has matured and is now headed upwards—for investors who supported these entrepreneurs, their patience is being handsomely rewarded.

Apart from investments and exits, records continue to be broken on a third front as well. This accelerated pace is already evident in the number of unicorns being added every year: from eight, 11 and 12, respectively, in 2018, 2019 and 2020, the first 10 months of 2021 saw 32 unicorns joining the league. It is further supplemented with exits similar to dragons (a company that returns the entire fund in an exit—a fund maker) in startups, such as Uniphore (YourNest: 16x/6.6x), Purplle (Ivy Capital: 22x), Policybazaar (Inventus: 22.3x), WhiteHat Jr (Nexus: 14.4x) and boAt (Fireside part exit to Warburg Pincus).

International studies have shown that having a dragon in the portfolio is 4-10 times more complicated than having a unicorn. While we consider at least four startups as dragons from the YourNest portfolio, there are many others emerging across our peer early-stage funds: nothing gives us more pleasure than to see the ranks swelling with such large potential exits.

The VC ecosystem has also seen stellar acquisitions this year: the Tata group buying a 64% stake in BigBasket for $1 billion and then 1mg; Reliance Jio acquiring at least 23 startups in the telecom vertical alone… established business houses are acknowledging and acquiring startups that have scaled and stood out.

Family offices are stepping out boldly to invest in tech-enabled software-as-a-service (SaaS) sector. There are several more mega startup IPOs lined up that will give handsome exits to early investors. And, last year, Google allocated $10 billion for investments over 5-7 years in India—the impact of it will be felt now.

All these can be summed up in a single word: timing. All indications are that 2021 is a landmark year for startup investments and as an alternative investment class, early-stage funds are bound to perform exceptionally well. For any investor, there is no better time than now to enter the field.

Because only when we believe and invest in the India tech-enabled startup story can we live up to the Olympics motto: Citius, Altius, Fortius… Swifter, Higher, Stronger. [Mint, 27 Oct. Sunil K. Goyal is Managing Director and fund manager, and Mohit Hira is venture partner at YourNest Venture Capital.]

The tech firms are taking the e-commerce battle to India's hinterlands

They are using social commerce to democratise e-retail by tapping community group buyers from Tier 2 and smaller towns, who obtain huge discounts through bulk purchases. DealShare, a startup, that has built an e-commerce platform for middle and lower-income group of consumers in India. DealShare is known for pioneering the community group buying (CGB) model in India. Such a model is very relevant for millions of customers of Bharat (tier-2 and tier-3 cities and rural India) who are still not leveraging the benefit of e-commerce. Focused approach has helped DealShare to reach $600 Million in GMV (gross merchandise value) ARR (annual run rate), over 1,200 pin codes and 60 cities in just three years.

DealShare is not alone. In the area of social commerce, it is competing with players such as SoftBank-backed Meesho, BulBul, GlowRoad, Mall91, simsim and Flipkart's social commerce platform Shopsy.

India's unorganised retail sector, estimated to be $792 billion, is set for the next wave of growth, with digitisation enabling rapid expansion and greater reach across the country. Nearly 600 million people in India are still unconnected to the internet, with a majority of them from non-metros. Meesho entrepreneurs are unlocking this market by influencing demand, and providing value-conscious customers access to affordable products.

Flipkart also launched its social commerce platform Shopsy this year. Shopsy continues to witness strong growth through its consumers, sellers and resellers from across the country. "With the (new) 200 million digital consumers coming from Tier 2 and 3 cities, we want to build a community that truly democratizes commerce in the country," says Prakash Sikaria, senior vice president - growth and monetization, Flipkart.

According to a recent Bain & Company report on 'How India Shops Online - 2021', social commerce is set to democratize e-retail, with three in five social shoppers coming from Tier 2 and smaller towns. [Business Standard, Dec. 7]

✤ From Inaugural Address Delivered at the 8th SBI Banking & Economics Conclave November 16, 2021, Mumbai) on "**Contours of Economic Recovery**"

SMALL COMPANIES SUFFER AS THE BIG GET BIGGER: PANDEMIC EFFECT

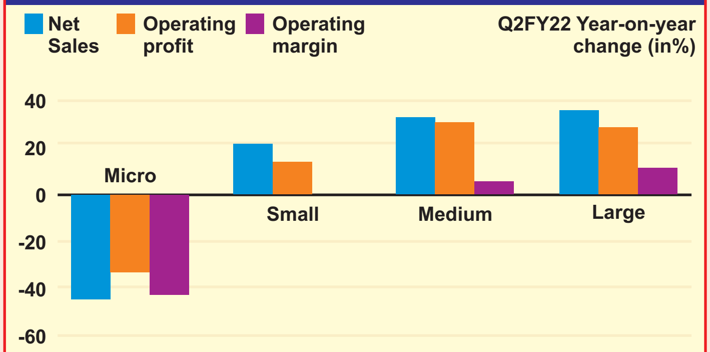
- Harsha Jethmalani

An analysis by Care Ratings Ltd based on net sales shows that larger firms have better corporate performance. The corona virus pandemic has dealt a severe blow to small companies—so much so that even after nearly two years into the event, they are struggling to survive. To understand the severity of the situation, investors need to look at their September quarter earnings.

A size-wise analysis by Care Ratings Ltd based on net sales shows that the improvement in corporate performance is skewed towards the larger companies. The ratings agency has analyzed the quarterly earnings results of 2,113 companies covering around 40 industries and spanning the last five quarters as well as of the pre-crisis period, i.e. Q2 FY20. It should be noted that this analysis does not include companies from the banking and financial services industry.

Small is not beautiful

Small companies have borne the brunt of the pandemic more than their large peers.



Source : ACE Equity and CARE Rating calculations

Large companies comprise 34% of the sample size and account for 96% of the net sales, 96% of operating profit and 98% of profit after tax in Q2 FY22, showed the analysis. Further, large companies have seen their volume of sales, operating profits and profit after tax surpass the pre-pandemic levels of September 2019. On the other hand, micro-sized companies witnessed a sequential decline in sales and their volume of sales is well below September 2019 and that too by over 70%. These companies comprise around 15% of the sample, said the report. Barring the micro companies, there has been a sequential improvement in net sales, operating profit and profit after tax in the latest quarter, added the Care Ratings report.

Analysts say small companies have been facing a double-whammy of weak demand and elevated cost pressures post the pandemic. This led to stretched working capital needs and rise in debt, which have weighed on their overall finances. Simply put, the big are getting bigger due to the accelerating pace of consolidation across industries. [Harsha Jethmalani, Live Mint, Nov. 25]

Corporate Performance Q2 and H1 FY21

Unlocking from the pandemic induced lockdown initiated from June 2020 has resulted in recovery in the economic activities. Subsequently, the financial performance of the corporates has also picked up sequentially in the second quarter of financial year 2020-21. Weak consumer demand during the pandemic times driven by cautiousness regarding discretionary spending amongst the consumers has weighed on the top line of the companies. Low exports with weak demand from global markets amidst pandemic and certain restrictions on imports imposed by the countries too weighed on the net sales of the sample companies. The bottom line however has improved as companies have undertaken cost rationalization measures to curtail expenditure.

The ensuing study assesses the corporate performance for Q2 FY21 on the basis of sample of 1,878 companies, which is sourced from Ace equity. For the analysis, the companies with net sales less than Rs. 1 crore has been excluded to avoid any bias in the sample. The study further delves into the size wise and industry-wise performance for 65 select industries while attributing reasons for certain specific industries. There has been a perceptible decline in the top line of the companies due to subdued demand while the profitability has improved considerably with cost rationalization measures and lower tax burden.

Key highlights:

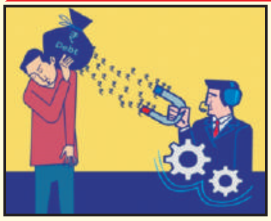
- For the aggregate sample (1,878 companies), net sales have declined at a faster pace at 4.4% in Q2 FY21 than de-growth of 2% in Q2 FY20, the profitability of the companies has improved considerably in Q2 FY21 with cost rationalization measures undertaken by the companies during pandemic times, reduction in interest cost and lower tax burden following corporate tax rate cut.
- The net sales of 1,686 sample companies (excluding banks and finance) have declined at a faster rate of 7.5% yoy in Q2 FY21 compared with the 5.2% de-growth in the same quarter of last year.
- Net profits of the sample companies surged to near 3 times in the quarter under consideration on yoy basis, registering a growth by 188.4% in Q2 FY21.
- Segregation of companies in different sales bands indicates that large companies having net sales greater than Rs. 250 crore dominated the corporates performance when the sample excluded banks and finance companies.
- Industries such as automobile, finance, public sector banks, consumer durables, fertilizers, household and personal care have witnessed improved profitability. On the other hand, real estate, metals, passenger cars, NBFCs, engineering have showcased some stress on profitability.

Performance of banking and Finance Sector Q2 and H1 FY21

Industry*	No. of Companies	Net Sales FY19 Q2	Net Sales Q2 FY20	Net Sales Q2 FY21	% growth Q2 FY20	% growth Q2 Q2 FY21
Banking	32	2,13,792	2,48,742	2,65,171	16.3	6.6
Bank-Private	20	94,343	1,11,837	1,12,932	18.5	1.0
Bank-Public	12	1,35,768	1,53,531	1,80,687	13.1	17.7
Finance	113	59,780	68,774	75,889	15.0	10.3
Asset Management	1	379	284	241	-25.2	-15.2
Housing	13	23,735	27,068	24,258	14.0	-10.4
Investment	47	1,044	1,774	1,657	69.9	-6.6
NBFC	66	22,312	25,070	25,591	12.4	2.1
Industry Profitability	No. of Companies	PAT FY19 Q2	PAT Q2 FY20	PAT Q2 FY21	% growth Q2 FY20	% growth Q2 FY21
NBFC	66	4,933	3,108	2,491	-37.0	-19.8
*[Source : Care Rating, November 26; Study on Corporate Performance Q2 and H1 FY21]						

[Mint, Nov. 25. and Care Ratings Ltd.]

WHY DEBT COLLECTION NEEDS TO BE SMART & EASY



- Anshuman Panwar

When customers are empowered by digital experiences specific to their needs, the debt collection process is seamless and pain-free

It is time for the debt collections industry to go beyond digital by offering customers an intelligent personalised experience with a full range of access points and options to resolve debt on their terms.

Sending emails or text messages, or hosting a digital payment gateway, does not add up to a truly intelligent digital collections strategy. It is time for the debt collections industry to go beyond digital by offering customers an intelligent personalised experience with a full range of access points and options to resolve debt on their terms. Changing customer expectations and regulatory mandates are forcing lenders to take a holistic approach. Here are the factors driving this change:

Personalisation for a unique experience

Personalised consumer experience today is ubiquitous and consumers expect relevant communication. It drives consumer expectations higher and compels lenders to use AI algorithms that respond to consumer engagement in real-time. This creates the need for personal experiences at each point in the customer journey, from initial communication to the final resolution. Personalisation communications tailormade for specific personas drive 40-60% higher engagement rate.

Empowering customers digitally

When customers are empowered by creating digital experiences that are specific to their needs and preferences, the debt collection process becomes seamless and recovery rates are better. Consumers today are self-motivated to become debt free. Lenders should adopt a collaborative approach in offering customers every opportunity to find a solution.

Demand for superior value

Customer loyalty is no longer driven only by price, product, or service. Customers seek value in every communication and engagement. Drawing on data and analytics should help lenders devise customer-centric strategies to drive contextual interactions, thus making repayment more manageable and holistic.

Mitigate compliance risk

Compliance regulations in the debt collection industry are designed to protect consumers from intimidating practices. The debt collections platform should have built-in protections against compliance risk. Practices ranging from creating compliant communication to having an experienced in-house legal team that oversees all engagement are vital for compliant collections. [Financial Express, Nov. 19. The writer is co-founder, Creditas Solutions]

Finance is the lifeblood of an economy and technology is its carrier and both are equally important for achieving Antyodaya and Sarvodaya.... the fintech industry in the country is innovating to increase access to finance and the formal credit system to every person in the country and now is the time to convert fintech initiatives into a fintech revolution.

- Prime Minister Narendra Modi

BS BFSI INSIGHT SUMMIT: NBFCS READY TO HARNESS GROWTH, SAYS VISHWANATHAN

- Subrata Panda

Says RBI deserves part of the credit because of strong regulatory framework: N S Vishwanathan

Non-banking financial companies (NBFC) are ready to harness the country's growth potential as it shrugs off the effects of the pandemic and part of the credit should go to the regulator, said N S Vishwanathan, former deputy governor, Reserve Bank of India (RBI).

"A strong regulatory framework, the successful resolution of a large housing finance company (HFC), a host of measures to ensure adequate flow of funds to the sector, strengthening the co-lending model, and this combined with the ability of the NBFCs to be nimble and flexible mean that the sector has a lot going for it in the ecosystem", Vishwanathan said, while delivering the keynote address at the *Business Standard BFSI Insight Summit*.

Batting for convergence of the regulatory framework of NBFCs with that of banks, he said though strong regulations are often perceived as anti-market and anti-growth, they actually give entities a sustainable growth environment.

WHILE THERE IS A MOVE TOWARDS GREATER CONVERGENCE IN THE REGULATORY FRAMEWORK, THERE ARE STILL AREAS WHERE NBFCs HAVE GREATER FLEXIBILITY

N S VISHWANATHAN
FORMER DEPUTY GOVERNOR, RBI

NBFCs enjoyed light-touch regulations because they catered to customers that were not served by big banks. But recent events forced the RBI to strengthen the regulatory framework for finance companies. After the IL&FS crisis, liquidity became scarce in the sector, causing asset-liability mismatches, resulting in a handful of NBFCs going bust and shaking confidence in the sector. This was accentuated by the pandemic, at least initially.

"While there is a move towards greater convergence in the regulatory framework, there are still areas where NBFCs have greater flexibility," Vishwanathan said.

"Recent guidelines recognised one of the basic permutations for the regulation and supervision of NBFCs —systemic risk. Consequently, the regulations get closer and closer to the banks as the size of the NBFCs grow," he said.

Last week, the RBI proposed a scale-based approach for NBFCs to ensure tight oversight. Recently, RBI Deputy Governor M Rajeshwar Rao had said that while some arbitrage that finance firms enjoy may be lost, the scale-based approach would not hamper the operational flexibility.

Vishwanathan said a well-regulated and supervised framework avoids market failures. A framework that is implemented consistently and transparently is more often than not a bulwark for a strong and sustainable market. "Every financial crisis has shown that the cost of putting in place fire-fighting equipment is much lesser than the cost of fighting a fire," he added.

According to a recent report by the RBI, the credit intensity of NBFCs, i.e., NBFCs' credit to GDP, grew consistently from 8.6 per cent in 2013 to 12.3 per cent in 2019 before moderating to 11.6 per cent in 2020 because of Covid. NBFC credit grew by an unsustainably 32.6 per cent in 2018 and moderated to 17.8 per cent in 2019 and further to 1.9 per cent in 2020 because the customers NBFCs cater to were more vulnerable and may have felt the pandemic's impact more. [Business Standard, Oct. 26]

I BELIEVE IN INDIA'S FUTURE, WILL SUPPORT WITH INVESTMENTS: MASAYOSHI SON

His firm Soft Bank is the biggest foreign investor in India today and has funded 10% of all unicorns

Masayoshi Son
Founder Softbank Group

SoftBank Group founder Masayoshi Son said that he believes in the future of India, which is going to be bright and he believes in the passion of the young entrepreneurs in the country.

"India will be great. There's a bright future. I tell young people in India let's make it (innovation) happen. I would support," said Son at InFinity Forum organised by International Financial Services Centres Authority (IFSCA) and Bloomberg. "I believe in the future of India. I believe in the passion of young entrepreneurs in India."

The discussion was about his vision as investor behind the $100 billion Vision Fund, the world's largest tech-focused investment fund, on creating a level playing field, and looking beyond the short term to develop the FinTech industry across the world, and harnessing it for global good.

Several years ago, Son said when Prime Minister of India Narendra Modi came to Tokyo, he met him there. "I said 'I believe in the future of India and I'd like to invest'. He met other big-shots in Japan and he didn't know me (well) enough. But I gave him the biggest commitment that I would invest $5 billion in India," said Son.

Now after 10 years, Son said SoftBank has already invested $14 billion in India. "We are the biggest foreign investor in India. This year alone, we invested $3 billion into India. We provide about 10 per cent of the funding of all of the unicorns in India," said Son.

Funded Unicorns:

In India, SoftBank has backed many companies and unicorns or startups with over $1 billion in valuation. These include Paytm, Oyo, Ola, Lenskart, Policybazaar, FirstCry, Meesho, Unacademy, Zeta, Swiggy, Ola Electric and InMobi.

This July, food delivery firm Swiggy closed a $1.25-billion fundraise, marking the first investment in the category by SoftBank Vision Fund 2. This took the valuation of the Bengaluru-based startup up by more than 50 per cent to $5.5 billion from $3.6 billion earlier. In September this year, social e-commerce start-up Meesho raised $570 million, led by Fidelity Management & Research Company and B Capital Group, a venture capital firm co-founded by Facebook Co-Founder Eduardo Luiz Saverin and existing investors including SoftBank. In September this year, edtech startup Unacademy became a unicorn after it raised $150 million in a round led by Japanese conglomerate SoftBank valuing it at $1.45 billion, a three-fold jump in just six months.

"Some of those companies in which we have invested have created one million new jobs in India," said Son. "When I first met Mr. Modi (Prime Minister) this was zero."

According to the sources, SoftBank could invest over $4 billion in India this year in the technology sector. These include edtech, healthtech, e-commerce, B2B marketplaces and software-as-a-service (SaaS). The investments will come from SoftBank's Vision Fund 2. It has an investment outlay of up to $30 billion for this year.

Journey from Industrial to Information revolution:

The Industrial Revolution occurred approximately 200 years ago. It was not possible only due to inventions such as the steam engine or Henry Ford starting Ford Motor Company. But, Son said they took the risk of investing capital, when innovations had not been proven. "Inventors, entrepreneurs and capitalists took the risk and then the Industrial Revolution happened."

"Now we are living in the Information Revolution age and there are great entrepreneurs, inventors and business models. I would like to support them by providing the risk capital, when the things have not been proven yet," said Son.

He said SoftBank is crazy enough to believe in their vision and sometimes it loses all the money it has invested and sometimes also gets a great return. "Overall our return is bigger than the loss," Son added.

Difference between investors and capitalists:

There is a difference between investors and capitalists. Investors invest to make money and for them interest rates, currency exchange and employment rates are important.

Those are not the important parameters for capitalists like Son or SoftBank officials, who are more focused on technology, new business models and innovations.

Long term goal of creating a future for mankind

"We're not trying to make money. We're trying to make the future," said Son, who wants to be viewed as the 21st century Rothschild of the Information Era. This is like how Mayer Amschel Rothschild was a capital provider for the industrial revolution in the 19th century.

In this era, when people value instant gratification, what does it take to make long term bets and how does one balance the near term results with long term progress? Son said his organisation gets criticised every 3-4 years when the stock markets go down. But Son reminds himself about the long term goal of creating a future for mankind. "For short term criticism, I don't care," said Son. "Because of our long stance view, our return on investment for the last 20 years is 43 per cent compounded for 20 years. We have got the highest return for the 20-year scale."

When Son was a boy growing up on Japan's southern island of Kyushu, he had a notebook to write down new inventions he hoped to create one day. As a student, he invented an electronic translator that he sold to Sharp Corporation, making his first $1 million. He said now younger people are fortunate as when he was young venture capital was not available to him. "I had to go and borrow money from the bank, begging every month," said Son. "Today, if you're just a college student or come from a humble home. But if you have ideas, a vision and lots of passion and can bring your friends and partners to create a business plan and prove a little bit to the investors, the money would come. Money is no longer a constraint. It's just your dream, passion, intelligence and focus. That's all it takes to have a big dream come true."

Dream big, focus and go at it and don't back off:

SoftBank has backed cutting edge innovations like it has a stake in self-driving car maker Cruise, which is majority-owned by General Motors Co. This firm had been testing self-driving cars in California. It has also backed the autonomous driving business of China's Didi Chuxing. However, innovations related to job creation may be more relevant in emerging countries including India than driverless cars, how is SoftBank addressing such issues?

Despite the travel restrictions due to the Covid-19 pandemic, Son said he is investing in many such countries including Africa. "It's so far away to meet with those entrepreneurs. But because of the Zoom communication, we can see them now and they can make the presentation," said Son.

These are ventures related to fintech like lending, education, e-commerce and distribution. He said the digital divide is more due to the boundaries in the heart of the people. "People in Africa and many other countries have smartphones. You can reach (anywhere) from your handheld device and can get funding from worldwide."

When Son was a teenager, he was obsessed with meeting his idol, the Japanese entrepreneur Den Fujita, famous for heading McDonald's Japan and was inspired by his book. He wanted to seek his advice. But he went through a lot of challenges to talk to him including a long list of rejections and an expensive phone bill. So Son flew to Tokyo and showed up at Fujita's office and told the officials there that he only wanted to see the face of Fujita for 3 minutes.

At the InfinityForum event, when asked about the businesses that would thrive for the next 50 years, Son said here entrepreneurs need to pursue their passions, interests and dreams and where they don't get bored in the next few years. He said the biggest cause for the business failure is the entrepreneur getting tired of the venture after facing difficulties. "If you don't get tired and maintain your passion intellectually and physically, you can overcome them," he said.

But despite the passion, the success rate for many ventures is little. When asked about how to deal with volatility and the possibility of failure, Son said, "dream big, focus and go at it and don't back off." He said everything else is available including money, human resources and customers. [Deccan Herald, Dec. 3. Sub-headings are added.]

2022 is likely to be a breakout year for NBFCs

Non-bank lenders are ripe for re-leverage and growth post the pandemic led disruptions as they have strong balance-sheets across entities and the ability to "absorb shocks". "Presently, the balance sheets across entities in the segment are stronger than they have ever been.

NBFCs 'ability to absorb shocks has gone up significantly, which should give comfort to fixed income and equity investors. We believe the segment is thus positioned well to re-leverage and grow as the economy revives following the pandemic," brokerage Morgan Stanley said.

Tail risks for the group have diminished after significant balance sheet repair over three years. Provisioning coverage and leverage – and hence loss absorption capacity – across NBFCs are better than ever, it said. Loan mix has also moved to less riskier and more collateralised business. As the economy revives, NBFCs have balance sheet capacity to embark on a multi-year growth cycle," according to Morgan Stanley.

The brokerage firm expects loans to grow at a compound annual growth rate of 15.6% for the next three years as against a CAGR of 6% between 2017-18 (Apr-Mar) and 2020-21. It expects credit costs of non-bank lenders to halve in the next three years due to an improvement in their asset quality and higher provisioning. Over the last three years beginning September 2018, non-banking financial companies have faced funding challenges in the backdrop of the Infrastructure Leasing and Financial Services' debt crisis as well as Covid-led disruptions, the brokerage said.

Non-bank lenders are carrying excess liquidity on their balance sheets, which keep them in good stead when interest rates rise. Their assets and liability management is "very conservative with borrowing termed out and very low levels of short-term debt," it said. [ETBFSI, Dec. 15]

Loan collections for non-bank lenders surpass pre-second wave levels: ICRA

Collection efficiencies for securitised retail pools originated by NBFCs and HFCs improved significantly during the September quarter on the back of continued decline in fresh Covid-19 infections, rating agency ICRA said on Nov. 10.

Collection efficiency including overdue collection for the most affected asset classes, that is microfinance and SME loans, reached close to 100% for September 2021 from a low of 80% seen in May 2021, the rating agency said in a note.

Collections in the housing loan segment continued to remain healthy while that in commercial vehicle (CV) loans have also improved to more than 100% by September 2021 driven by higher inter/intra-state movements upon revival of businesses.

"With the operations of lenders achieving close to normalcy levels in the September quarter, the monthly collection efficiencies recovered to pre-second wave levels across the asset classes," Abhishek Dafria, Vice President and Head Structured Finance Ratings, ICRA. [Business Journal, Nov. 10]

NBFC loan sanctions indicate retail recovery in Q2, but business loans shrink: FIDC-CRIF Report

Loan sanctions by NBFCs have risen 17 per cent in the second quarter on a year on year basis, with personal loans showing growth of 90 per cent and consumer loans at 58 per cent, according to a CRIF-FIDC report. However, the sanctions for term loans and business loans continued to shrink, while in another contrast, the rural loan demand has improved over fiscal 2O19-20, but the urban demand lags.

In absolute terms, loan sanctions stood at Rs 2.17 lakh crore in July-September zo21, higher than Rs 1.85 lakh crore in Q2 FY20 and Rs 1.52 lakh crore in April-June 2021 period. However, they are still below the pre -pandemic period at Rs 2.k lakh crore. The auto, CV consumer loans sanctions have risen, but are still below fiscal 2020 levels. Gold and personal loans recovered but the loan against shares have shrunk.

The sanctions on term loans of above three years were down 77 per cent to Rs 3,660 crore from Rs 16,038 crore a year ago and 81 per cent below from Rs 19,587 crore in Q2 FY21. The secured business loan sanctions fell 17 per cent to Rs 834 crore in the last quarter from Rs 1,000 crore in Q2 of FY21. They were down 26 per cent from Rs 1,128 crore in Q2 of FY20.

Asset quality: Non-bank lenders and HFCs, which suffered during the first quarter of this fiscal, are likely to report a steady recovery in asset quality and demand for fresh loans along with improved payment collections in the September quarter. "The first quarter of fiscal 2O22 was impacted by the second Covid wave. Relative to 1Q FY22, we expect disbursement volumes of 170-230% for most Affordable Housing/Vehicle Financiers. Impact on AUM growth is likely to be higher for short duration products like Vehicle loans as collections held up well in 2Q FY22, Motilal Oswal Securities said in a note.

For vehicle financiers, or MFIs, the collection efficiencies are likely to be in the 90- 100 % range. After the high levels of restructuring witnessed in 1Q, a relatively lower incremental restructuring is likely in the second quarter. [ET BFSI Nov. 17]

NBFCs vs Banks

Crisil Rating noted that historically, gold-loan NBFCs have seen negligible losses because of robust risk management practices such as periodic interest collection (which keeps the loan-to-value, or LTV, under check) and timely auctions of gold.

"Maintaining LTV discipline adds to the comfort. But sharp swings in the price of gold impacts both, the portfolio and disbursement LTV, as it influences the cushion available with lenders."Lenders faced this issue last fiscal because gold prices fell sharply between January and March 2021, after the August 2020 peak," the agency said.

On their part, NBFCs have manoeuvred the situation well, Crisil Ratings said, adding that banks, on the contrary, were less proactive and so have seen a rise in delinquencies and faced challenges in rolling over a part of their portfolio to 75 per cent LTV (as per current RBI guidelines) after the 90 per cent LTV dispensation ended in March 31, 2021.

Banks' loan against gold jewellery portfolio grew by about 80 per cent in FY21. Ajit Velonie, Director, Crisil Ratings, observed that gold-loan NBFCs have been swift in calibrating disbursement LTV while also implementing strong risk management practices to keep portfolio LTV in check.

Besides ensuring periodic interest collection, they do not flinch from conducting auctions when required — which rose sharply in March and April 2021 — to avert potential asset-quality challenges. Velonie said timely auctions have ensured that credit costs — a more appropriate indicator of asset quality for gold-loans — remained in check at 30 basis points, well within the historical range.With leverage being low and pre-provision profitability remaining strong, Crisil Ratings expects the overall credit profile of gold-loan NBFCs to remain stable. [Business Line, Oct. 12]

Reasonable Buffers in Place for NBFCs to Manage Possible Operating Headwinds in 2HFY22

India Ratings and Research (Ind-Ra) has changed the outlook to improving from stable for retail non-banking finance companies (NBFCs) and housing finance companies (HFCs) for 2HFY22. Adequate system liquidity (because of regulatory measures), along with sufficient capital buffers, stable margins due to low funding cost and on-balance sheet provisioning buffers, provides enough cushion to navigate the challenges that may emanate from a subdued operating environment leading to an increase in asset quality challenges due to the second covid wave impacting disbursements and collections for non-banks. The operating environment is dynamic due to the possibility of a third covid wave, its intensity, regulatory stance and its impact.

In FY22, Ind-Ra expects growth for NBFCs to be maintained in range of 9%-10%, in line with earlier stated expectations, and HFC growth could be maintained at 10%. Incrementally, Ind-Ra believes diversification in product lines remains crucial for nonbanks to drive growth during cyclical downturns and have a wider product basket that negates the risk of single asset class franchise.

Growth in the commercial vehicle segment remains challenged, whereas certain sub-categories of vehicle finance such as tractors and small commercial vehicle financing could sustain their growth momentum during 2HFY22. The gold segment, which witnessed reasonable growth due to rising gold prices in FY21, is likely to witness tapered growth in FY22, in the absence of a sharp pullback in prices.

The funding costs for high-rated NBFCs have moderated, with frequent regulatory measures, along with continued on-tap targeted long-term repo operations. With system liquidity easing, rates have reduced; however, mobilising longer-tenor funds at competitive rates in the low-rated category remains challenging. There has been a rise in co-lending partnership announcements across non-banks. [India Rating & Research, press release, Sept. 1]

MFIN to launch natural catastrophe insurance cover for micro borrowers

With India becoming one of the most climate risk-prone countries and the frequency and severity of natural catastrophe (NatCat) events increasing every year, which is impacting repayment capabilities of borrowers of microloans, and the micro lenders' asset quality, the MicroFinance Institutions' Network (MFIN) is planning to introduce an insurance product for borrowers to protect them against such natural catastrophe events.

MFIN, which has applied for a pilot project to the Insurance Regulatory and Development Authority of India (IRDAI) under regulatory sandbox, has now received the nod form to conduct the project. Cholamandalam MS General Insurance will provide the insurance cover during the pilot project.

"The pilot will cover 3-4 districts in Orissa," said Alok Misra, CEO and director, MFIN. "We are now preparing the field, training the staff, to make the client understand the nuances of the scheme. There are three or four perils which will be covered like cyclones, typhoons, drought etc; the cover will be parametric insurance in nature," Misra told Business Standard.

Parametric insurance is a non-traditional insurance product that offers pre-specified payouts based upon a trigger event.

"Suppose in the policy there are three perils covered; it is up to the client how many covers they want to take. They can take all the three, or take one or two covers," he added. According to MFIN, the impact on the livelihoods because of a natural calamity, and the earning capacity of the low-income households (LIH) is more prominent due to their high vulnerability. Microfinance industry which serves around 60 million households, most of which belong to the low-income category, are highly susceptible to such events. Three to four installments of the micro borrower will be covered with the insurance. In case of a natural catastrophe, the installments will be paid by the insurer on behalf of the borrower. [Business Standard, Dec. 19]

NBFCs likely to remain buoyant going ahead: RBI report

The RBI in its report on Trend and Progress of Banking in India 2020-21 has said that non-banking financial companies (NBFCs) are expected to remain buoyant going ahead, with the increased pace of vaccinations and the broadening revival of the economy. It said the COVID-19 pandemic has tested the resilience of NBFCs, but so far, the sector has emerged stronger with reasonable balance sheet growth, increased credit intermediation, higher capital, and lower delinquency ratio and enlarged liquidity cushions.

According to the report, the financial system is maturing from a bank-dominated space to a hybrid system, wherein non-bank intermediaries are gaining prominence. The developments in the sector in 2020-21 are a harbinger of even brighter prospects in the years ahead. It said various policies in the aftermath of the pandemic ensured liquidity support, moratorium and asset classification standstill eased financial conditions and gave NBFCs adequate time and wherewithal to weather the shock and leverage on their grass-root level reach to channelise credit to productive sectors and revive growth. Many NBFCs have adopted strong credit risk assessment frameworks to ensure the quality of credit creation.

Many NBFCs have used the pandemic to reinvent their enterprise fashions, realizing the facility of information analytics and Big Data in enterprise purposes. In this regard, many have tied up with fintech corporations to leverage on technological improvements. [InvestmentGuruIndia.com, 29 Dec.]

NBFCs' AUM seen growing 8-10% in FY23: Crisil Ratings

The assets under management of NBFCs are likely to grow 8-10% in the next financial year due to improving economic activity and strong balance sheet buffers, said Crisil Ratings. The ratings agency had pegged the growth at 6-8% for FY22, and at 2% for FY21.

Organic consolidation is also underway, with larger non-bank lenders gaining share. In three fiscals through 2021, the market share of the top five NBFCs has risen 600 bps to 46%. The ability to identify niches that cater to the relatively difficult-to-address customer segments and asset classes will fuel long- term growth for the sector, the agency said.

"Many NBFCs have built higher liquidity, capital and provisioning buffers in the recent past. That, combined with improving economic activity, puts them in a comfortable position to capitalise on growth opportunities," said Gurpreet Chhatwal, managing director, at the presser discussing NBFCs revival in post COVID era, on Monday.

The agency said that though the growth is seen improving for the sector, it continues to face three headwinds - competition from banks, likely rise in gross non-performing assets, and complete normalisation of funding access for some players is yet to be done.

Overall, fragile assets, GNPAs and slippages due to the impact of regulatory norms and from the restructured book, are seen at Rs 1.3-1.6 lakh crore, tantamount to 5-6% of the industry's AUM as of March 2022, the agency said. However, the estimates do not factor in the impact of a third wave of COVID-19, especially the just-discovered Omicron variant, which could be a risk factor. [ETBFSI, Nov. 30]

Housing and realty sector heading into the best of times, says Deepak Parekh

The country's housing and real estate sector is heading into the best of times, said Deepak Parekh, Chairman, Housing Development Finance Corporation. "Right now, there is a lot of optimism in the air on the potential of the housing and real estate sector. This isn't just feel good talk, it is real. The Indian real estate market is on the cusp of a new growth cycle and it is important that we make the best of it," Parekh said at the CREDAI Financial Conclave 2021 on Friday. HDFC Chairman asked developers to focus on reputation and resolution. [Business Line, Oct. 29]

NBFCs: Stress Test carried out in December by Reserve Bank

The NBFC space reveals divergent performances. While investment and credit companies (ICC), the largest segment of NBFCs, showed subdued asset growth, infrastructure finance companies (IFCs) – a segment dominated by PSU NBFCs –decelerated in H1:2021-22. NBFC-MFIs, a category particularly affected by the pandemic, exhibited uneven recovery.

Banking sector exposure to private NBFC/ HFCs showed contrasting movements during 2021- 22. Bank lending to private NBFCs recovered in Q2:2021-22 after a steep decline in the preceding quarter. In case of private HFCs, however, banks' exposure continued to fall sharply after a surge in H2:2020-21. Bank lending to PSU NBFCs and HFCs also reflected more active usage of credit limits by NBFCs.

CRAR: The CRAR of NBFCs stood at 26.3 per cent as at end-September 2021, a marginal increase of 10 bps as compared to March 2021. The return on assets (RoA) improved to 1.7 per cent in September 2021 from 1.3 per cent in March 2021.

GNPA: The GNPA ratio of NBFCs, which had declined in September 2020 reflecting the standstill on asset classification prevalent then, rose to reach 6.5 per cent as at the end of September 2021. GNPA in the industries sector, which forms the largest share of NBFC exposure, rose from 6.7 per cent in March 2021 to 7.9 per cent in September 2021. Government owned NBFCs' share in the GNPAs of the sector stood at 31.6 per cent.

Stress Test - Credit Risk: System level stress tests for assessing the resilience of the NBFC sector to credit risk shocks have been conducted for a sample of 191 NBFCs under two scenarios – medium and high risk involving increase in GNPA ratio of the sector by 1 SD and 2 SD, respectively. As on March 2021 (baseline position), the GNPA ratio of the sample NBFCs stood at 6.5 per cent and CRAR at 26.6 per cent, with 10 NBFCs (accounting for 4.6 per cent of total assets of the sector as on March 31, 2021) reporting CRAR below the minimum regulatory requirement of 15 per cent.

In case of a high risk shock of 2 SD increase in the GNPA ratio, the CRAR of the sector would decline by 30 bps to 26.3 per cent, with no impact seen in the case of a 1 SD shock. The capital adequacy of the sector would remain above the minimum regulatory requirement of 15 per cent in both scenarios. However, on individual basis, under the impact of the shocks, the CRAR of 17 NBFCs – comprising 7.9 per cent of asset size of the sample – would fall below minimum regulatory requirements in the medium risk scenario, while 19 NBFCs – comprising 11.5 per cent of asset size of the sample – would be impacted similarly in the high risk scenario.

Stress Test - Liquidity Risk: The resilience of the NBFC sector to liquidity shocks is assessed by capturing the impact of a combination of assumed increase in cash outflows and decrease in cash inflows. Two scenarios are applied, viz., medium risk involving a shock of 5 per cent contraction in inflows and 10 per cent rise in outflows, and high risk entailing a shock of 10 per cent decline in inflows and 15 per cent surge in outflows. The results indicate that the number of NBFCs which would face a negative cumulative mismatch in liquidity positions over the next one year in the medium and high risk scenarios may work out to 52 (covering 24.5 per cent of the asset size of the sample) and 67 (34.7 per cent), respectively.[Financial Stability Report, 29 December 2021, RBI] ■

SIX CHARTS EXPLAIN RBI'S NEW PCA FRAMEWORK FOR NBFCS

Ishaan Gera
Illustration: Ajay Mohanty

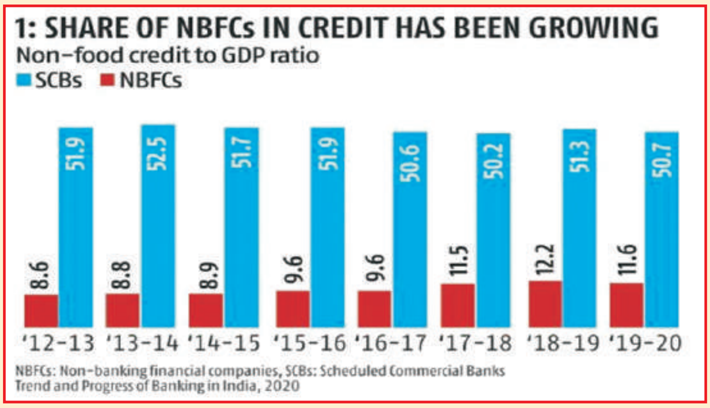
According to RBI data for January 2021, while there were 9,507 NBFCs, only 64 were deposit-taking (NBFC-D)

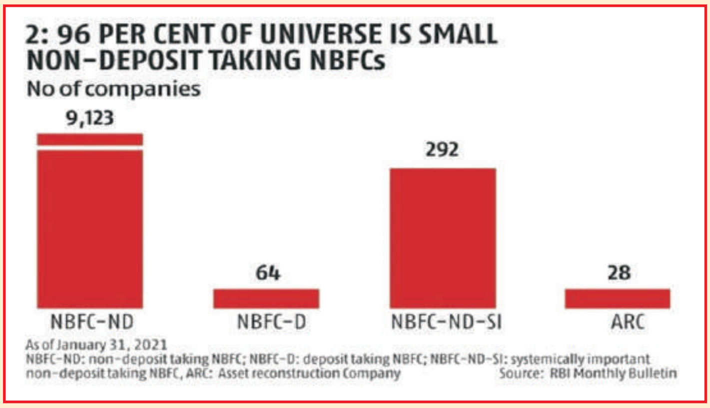
The RBI, last week, issued a prompt corrective action (PCA) framework for non-banking financial companies (NBFCs). It follows the central bank's announcement of a new framework for scheduled commercial banks (SCBs) announced last month. There was an incongruity in the classification of non-performing assets (NPAs), which the RBI has addressed with the new framework.

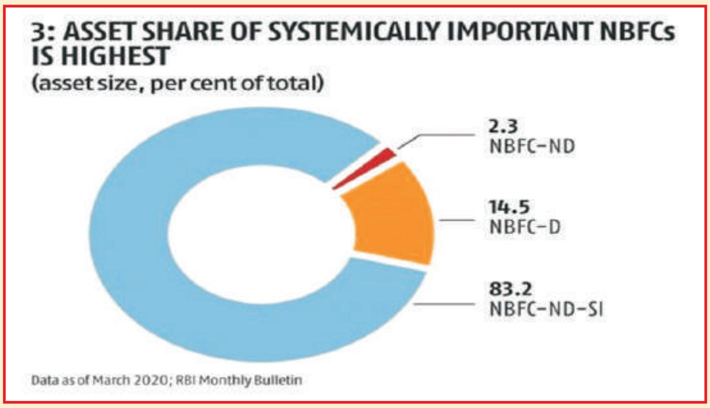
Credit of NBFCs increased from 8.6 per cent in 2012-13 to 11.6 per cent: Although NBFC lending has still not reached proportions achieved by banks, it has risen over the last few years. As a proportion of gross domestic product (GDP), non-food credit of NBFCs increased from 8.6 per cent in 2012-13 to 11.6 per cent in 2019-20, whereas bank credit as a proportion of GDP declined from 51.9 to 50.7 per cent during the same period (chart 1). According to RBI data for January 2021, while there were 9,507 NBFCs, only 64 were deposit-taking (NBFC-D). Among the non-deposit-taking NBFCs (NBFC-ND), systemically important (NBFC-ND-SI) or the ones with asset size greater than Rs 500 crore were only 292 (chart 2).

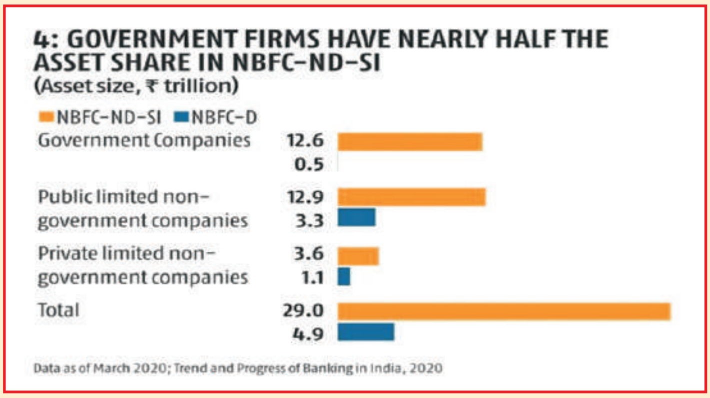
Systemically important NBFCs account for 83 per cent of total assets: However, in terms of asset size, systemically important NBFCs account for 83 per cent of total assets, followed by 14.5 per cent share of deposit-taking NBFCs (chart 3). While the RBI rules include both these categories, an exemption has been given to government entities in the space. In the case of NBFC-ND, NBFCs not accepting or not intending to accept public funds, primary dealers and housing finance companies were also excluded from PCA requirements. Analysis shows that in terms of asset size, 43.3 per cent of NBFC-ND-SI and 10.5 per cent of NBFC-D were government companies (chart 4).

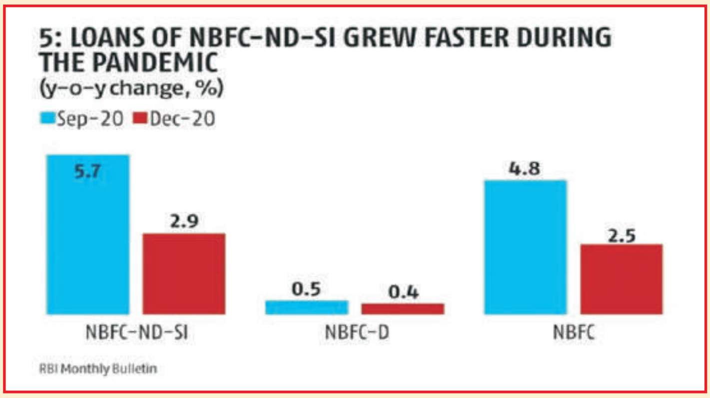
NBFC-ND-SI grew faster during pandemic: Moreover, an analysis of the performance of NBFCs during the pandemic shows that NBFC-ND-SI grew faster than NBFC-D (chart 5). While the new PCA is expected to increase the gross NPAs, NBFCs may still end up with lower NPAs than SCBs and will have better performance ratios. Even though higher than previous years, NBFCs' gross NPA in March 2021 was 6.4 per cent — 40 bps lower than last year. The capital adequacy ratio or capital to risk assets ratio was at a six-year high of 25 per cent in March 2021 (chart 6).

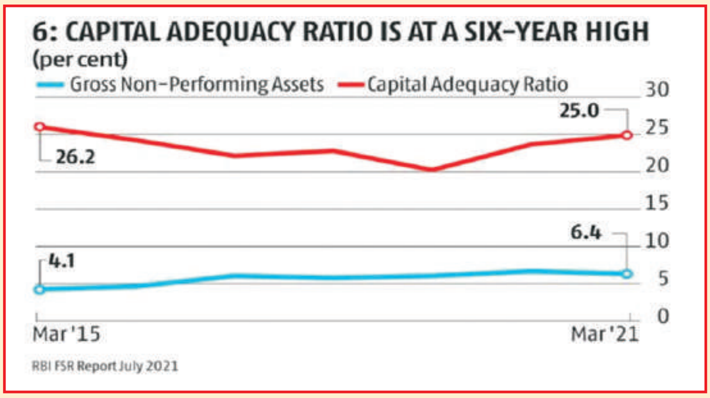












[StatsGuru: Business Standard, Dec. 20]

Govt to refund MDR losses to banks on digital payments for FY23

The Union Cabinet on Wednesday approved an incentive scheme worth Rs 1,300 crore for 2022-23 to promote RuPay debit cards and low-value Unified Payments Interface (UPI) transactions up to Rs 2,000 by reimbursing the merchant discount rate (MDR) to banks, which was brought down to zero in December 2019.

The scheme is expected to facilitate acquiring banks in building a robust digital payments ecosystem and promoting RuPay debit cards and BHIM-UPI digital transactions across all sectors and segments of the population, further deepening digital payments in the country, said the Cabinet Secretariat in a media briefing.

"This is like investment for digital payments, so that more and more people carry out digital transactions. In November, a record 4.23 billion digital transactions valued at Rs 7.56 trillion were carried out," said Minister for Communications, Electronics and Information Technology Ashwini Vaishnaw, while addressing the media. [Business Standard, Dec. 16]

MCA to roll out new statutory filing module in early '22

The ministry of corporate affairs (MCA) will roll out its new "intelligent" statutory filing system for corporations and limited liability partnerships (LLPs) early next year after the current filing season, which will peak in January, said a person with knowledge of the development.

"The most important part of the new e-governance system—MCA21 version 3.0—is the module for the statutory filings of companies and LLPs, which is the interface between businesses and the Registrar of Companies. Once the interface is seamlessly functional, other modules that are for internal use, such as analysis of data or the e-adjudication facility, can be rolled out without any hassle," the person said.

MCA21 version 3.0 will mark a significant milestone in the regulatory oversight of companies and limited liability partnerships for its extensive use of technology to detect unhealthy trends in industry and quickly analyse businesses and their transactions based on various financial parameters to identify potential wrongdoers.

With various regulatory and investigating agencies increasingly sharing data among themselves, the new compliance portal would help the government zero in on bogus transactions aimed at diversion of funds and money laundering. The revamped MCA21 portal is expected to transform the corporate regulatory environment in India. [Mint, Dec. 17]

The Committee for Development of Avenues for Ship Acquisition, Financing and Leasing from GIFT IFSC in India's Report

The Committee, constituted by IFSCA on 24 June 2021 has submitted its Report titled S.A.F.A.L. (Ship Acquisition, Financing and Leasing) to IFSCA on 28 October 2021. The Report provides useful recommendations for realizing the true transformational potential of India's shipping industry. It finds that the time is opportune for imparting a brand value to Indian-flagged vessels. This can be done by carving out a share in global cross trades, securing gainful transactions for India's marketplace, promoting decarbonization and greening of the blue oceans, and leveraging India IFSC Maritime for achieving the Maritime India Vision 2030 and beyond.

It held extensive stakeholder consultations[including ship financiers (bankers, nonbank financial institutions, alternate financiers, cash buyers)] towards working out the changes required for seeding a robust Ship Acquisition, Financing And Leasing (SAFAL) regime at India-IFSC. To this end, it also holistically considered the supportive links of ship building, flagging, operating, and repairs and recycling in the shipping value chain. Focus remained on enabling cost-effective and competitive delivery of shipping services on ships owned and leased from India-offshore IFSC which is on par with overseas competitors.

Essentially, the Committee has found that the concept of IFSC, conceived for financial services, should be naturally extended to SAFAL products and services, including ancillaries. This may entail notifying vessel leasing or operating lease of any equipment as a 'financial product' to enable ship leasing entities to set up a unit in IFSC. The Report of the Committee can be accessed through the weblink: https://ifsca.gov.in/CommitteeReport

Faceless assessment scheme draws legal ire

The Central government's faceless assessment scheme is finding itself on the wrong side of the law with unhappy assessees dragging the Income-Tax Department to the courts and multiple judicial pronouncements flaying it.

For instance, recently, the Bombay High Court issued a warning to an Assessing Officer even as it set aside the IT notice and directed the order to be circulated "right from the Revenue Secretary to everybody in the Finance Ministry". The assessee prayed for time and a personal hearing but was slapped with an assessment order that was an exact replica of its earlier draft, without any consideration for his two responses. The HC set aside the order, noting that it was passed without any application of mind.

"If such orders are continued to be passed, this Court will be constrained to impose substantial costs on the concerned Assessing Officer to be recovered from his/her salary and also direct the department to place such judicial orders in the career records of such Assessing Officer," said a division bench of the Bombay High Court in a matter pertaining to an assessee who was given just two days' time to respond to a notice-cum-draft assessment order.

In May, the Calcutta HC quashed a faceless assessment order because the password required for video conferencing was not provided by the National Faceless Appeal Centre, Delhi. In the same month, the Madras HC quashed another faceless assessment order as being "violative of principles of natural justice". [Business Line, Oct. 19]

Govt expands ECLGS coverage ahead of festive season, economic upturn

In order to increase utilisation of the Emergency Credit Line Guarantee Scheme (ECLGS) and provide support to small businesses ahead of the festive season and economic upturn, the government has expanded the scheme by increasing the borrowing limit for availing loans. The ECLG scheme has been extended by six months to March 31, 2022 or till guarantees for Rs 4.5 trillion are issued, whichever is earlier. However, loans under the scheme can be disbursed till June 30.

The scheme has been modified to provide credit support of additional 10 per cent or up to 40 per cent of total credit outstanding as on February 29, 2020 or March 31, 2021, whichever is higher, to existing borrowers of ECLGS 1.0 and 2.0. Those borrowers who have not availed ECLGS 1.0 and 2.0 can avail credit up to 30 per cent of credit outstanding as on March 31, 2021. Under ECLGS 1.0 and 2.0, loans loans were guaranteed up to 30 per cent of outstanding credit as on February 29, 2020. As the cutoff date to avail loans under the scheme has been changed to March 31, 2021 from February 29, 2020, existing borrowers can avail incremental credit under that limit.

"Borrowers who have availed assistance under ECLGS and whose credit outstanding as on March 31, 2021 (excluding support under ECLGS) is higher than that on February 29, 2020, shall be eligible for incremental support within the cap stipulated under ECLGS 1.0, 2.0 or 3.0," said a statement by Ministry of Finance.

The modification introduced would ensure businesses, adversely impacted by the second wave of COVID-19, get enhanced collateral free liquidity, the statement said. "...This provides much needed support to all the ECLGS borrowers (which mainly consist of MSME units) in time for the busy / festival season," it added. [Business Standard, Sept. 30]

India's economic recovery is expected to gain further strength in the remaining quarters of the financial year, as evident from 19 among 22 High Frequency Indicators (HFIs) in September, October and November of 2021 crossing their pre-pandemic levels in the corresponding months of 2019.

[Monthly Economic Review, Nov. 2021. Department of Economic Affairs, Ministry of Finance]

Legal Eagle

The New Framework for Mediation

A prominent feature of the Draft Mediation Bill is the requirement that before a case is filed in court, mediation should be attempted. While there is no compulsion to settle in mediation, a good faith attempt will have to be shown by attending a substantive mediation session where the concept of mediation is explained and the parties realise its potential and possibilities. This is truly a remarkable step by placing a consensual threshold bar before entering the portals of the conventional adversarial system. The Act provides that if an urgent interim relief is sought, parties may approach the court without mediating, but have to come back to mediation after the issue of interim relief has been decided upon.

A list of cases that are not suitable for mediation has been prescribed mostly consisting of enactments where the decision-making has to be done by a court or quasi-judicial body. A clear process has been spelt out for the appointment, termination, and replacement of the mediator and for avoiding any conûict of interest. The Act contemplates mediation institutes and mediation service providers, the former to render training in mediation, and the latter to provide the services of mediators on their panel.

Mediation centres have shown a fair rate of success, including cases where the stakes are large and complexities are substantial. A committee of the Supreme Court has overseen this process and the Supreme Court, all the High Courts, and District Courts now have full-fledged mediation centres, which see a large number of cases being handled by a few thousand mediators. [Bloomberg, Nov.29]

Delhi HC quashes 1,353 reassessment notices issued by Income Tax Dept-

In a major relief for about 1.33 lakh taxpayers, who had got notices for the reassessment of their returns from FY14 till date, Delhi High Court on Wednesday quashed 1,353 such notices issued by the Income Tax Department issued under Section 148. The notices were issued by the tax department under this section for reopening of assessment on the allegation that income has escaped assessment as the taxpayers did not declare correct income in their tax return filed for various assessment years starting from the assessment year 2013-14.

On receipt of such notices, several taxpayers had filed writ petitions in various state high courts across the country challenging these notices. Taxpayers had filed a large number of writ petitions challenging the validity of these reassessment notices issued under the old regime of reassessment without following the new procedure introduced by the Finance Act, 2021.

Taxpayers in their petition had pleaded that under the new law effective from April 1, 2021, which states that assessment cannot be reopened after three years from the end of relevant assessment year subject to only certain exceptions and these notices are not part of such exceptions. In the new tax regime, it is mandatory for the department to provide a hearing to the taxpayers before issuing reassessment notices to them. Further, the notices can be sent only for reassessing records up to three years or 10 years.

Noting this, the Delhi High Court upheld the petitioner's contention. The order, which is in favour of the taxpayers who had approached the court, was issued by a Division Bench. Not just this, similar writ petitions were ruled in favour of assesses by Rajasthan and Allahabad High Courts. [CNBC, Dec 15]

Govt plans law for lenders to pursue defaulters abroad

The government has proposed changes to the bankruptcy legislation by adopting a global model law that will enable lenders to apply the insolvency law to defaulters' assets lying overseas. These will include the offshore personal assets of the promoter if they have issued a personal guarantee. The changes would also allow execution of orders against defaulters by overseas courts that have adopted the model law. The model law is provided by the United Nations Commission on International Trade Law (UNCITRAL) — a subsidiary body of the UN. The model law lays down the basic framework for cooperation between domestic and foreign courts, and domestic and foreign insolvency professionals.

It also provides a framework for the commencement of domestic insolvency proceedings when a foreign insolvency proceeding has already commenced, or vice versa. Among the bills proposed for the winter session of Parliament is an amendment to the Insolvency and Bankruptcy Code (IBC). "The proposed regulations will help align our bankruptcy process with major countries like the US and the UK who have implemented a model UNCITRAL cross-border insolvency law. With the increased globalisation of business, synchronised judicial cooperation and synergy are required to obtain optimal resolution outcome," UV ARC director Hari Hara Mishra said. He added that this will also add to the ease of doing business in India and attracting foreign investors. [ET CFO, Nov. 26]

Personal guarantors may be part of cross-border insolvency framework

Taking lessons from recent big-ticket insolvency cases where creditors could not pursue the foreign assets of promoters, the government is actively considering bringing personal guarantors for corporate debtors under the purview of the cross-border insolvency regime.

The cross-border insolvency framework is yet to be notified under the Insolvency and Bankruptcy Code. So far, the regime under discussion was only for corporate insolvency resolution. The government wants to notify it together for both companies and personal guarantors for corporate debtors, according to official sources.

"Pursuing such cases under civil or criminal law is always cumbersome as the burden of proof is much more. Cross-border insolvency provides you a forum, and facilitates prevention of fraud and getting back the assets," a senior government official told Business Standard. The corporate affairs ministry is holding internal discussions on this subject and is likely to approach other economic ministries with a concept note soon, it is learnt. [Business Standard, Nov. 19]

Don't appeal against arbitration/court awards involving projects in a routine manner'

The Centre has instructed public authorities to refrain from "routinely" appealing against arbitration/court awards relating to disputes involving publicly funded projects, unless there is a compelling case to do so, including realistic probability of success in the court/higher court.

The board/committee or other authority deciding on the matter shall clarify that it has considered both legal merits and the practical chances of success and after considering the cost of, and arising through, litigation/appeal/further litigation, as the case may be, it is satisfied that such litigation/appeal/further litigation cost is likely to be financially beneficial compared to accepting the arbitration/court award, the General Instructions said.

"Litigation has adverse implications on the timelines and overall cost of the project. Before resorting to arbitration/ litigation, the parties may opt for mutual discussion, mediation, and conciliation for the resolution of disputes," it added. [Business Line, Nov. 3]

SC denies Rs 923-crore refund to Bharti Airtel, quashes HC order

The Supreme Court has set aside the Delhi High Court order, which had permitted Bharti Airtel to claim refund of Rs 923 crore of goods and services tax (GST) from the government. The telecom operator claimed that it had paid an excess GST for July-September, 2017 and wanted to rectify its relevant returns for that period to get the refund. The company had pleaded that it had paid more taxes since the GST system faced technical glitches that time because of which it could not correctly estimate its input tax credit.

Aggrieved, the Centre had moved Supreme Court. The apex court did not allow the rectification in the previous form. It agreed with the government that if the changes are allowed, it would not only be illegal but would simply lead to chaotic situations and collapse of tax administration since it would have a cascading effect on the recipients and suppliers associated with the Airtel. According to experts, the Supreme Court's verdict will have ramifications for various companies that paid higher taxes because the IT systems — both of the government and of companies — had not stabilised in the initial phase of the GST roll-out. The GST system was introduced in July, 2017. [Business Standard, Oct. 28]

SEBI MOVES

SEBI tweaks framework for determining 'fit and proper person'

Markets regulator SEBI has tweaked the criteria for determining "fit and proper person", according to a notification issued on Nov. 17. Under the new framework, these criteria will be principle-based and/or rule-based.

The principle-based criteria include integrity, honesty, ethical behaviour, reputation, fairness, and character, according to the notification.

Further, the rule-based norms will determine the fit and proper status of the person based on the disqualifications as has been prescribed. Some of such disqualifications include an order of conviction passed against such person by a court for any offence, involving moral turpitude or such person has been declared insolvent and not discharged. The disqualifications also include if such person has been categorised as a wilful defaulter or has been declared a fugitive economic offender or against whom an order has been passed by Sebi or any other financial sector regulator.

To give effect to this, the SEBI notified norms governing intermediaries, wherein the intermediary ensure persons comply with 'fit and proper person' criteria. The applicant or intermediary needs to have competence and capability in terms of infrastructure, manpower requirements and financial soundness, including meeting the net worth requirement. [Business Standard, Nov. 18]

SEBI notifies new rules governing related-party transactions

SEBI has made sweeping changes to strengthen the monitoring and enforcement of norms pertaining to related-party transactions. The regulator has tweaked the definition of 'related party' and 'related-party transactions' (RPTs), according to a notification issued on Nov. 9. Under the new rules, SEBI said the related party will be any person or entity belonging to the promoter or promoter group of the listed entity. Besides, any person or any entity, directly or indirectly (including with their relatives), holding 20 per cent or more of the holding in the listed entity during the preceding fiscal and 10 per cent or more with effect from April 1, 2023, will be considered as a related party.

It made changes to the process followed by a company's audit committee for approval of RPTs that are material. Further, there will be a format for reporting of RPTs to the stock exchanges. SEBI said approval of the audit committee will be required for all RPTs and subsequent material modifications as defined by the audit committee. In addition, approval will be needed for RPTs where the subsidiary is a party but the listed entity is not a party. This is subject to a threshold of 10 per cent of the consolidated turnover of the listed entity and 10 per cent of the standalone turnover of the subsidiary from April 1, 2023.

The amendments will come into force with effect from April 1, 2022. [Business Standard, Nov. 11]

SEBI moots big changes to preferential allotment norms on pricing, lock-in

SEBI on Friday proposed large-scale changes to the framework governing preferential allotments—issue of shares, warrants or convertibles to promoters or large investors on a privately-placed basis. In a discussion paper issued on Friday, SEBI has sought to tweak the pricing formula, lock-in requirements and valuation methodology for preferential issues.

The new formula proposed by SEBI is the higher amount between volume weighted average price [VWAP] of 60 trading days and VWAP of 10 trading days. More importantly, SEBI has said any preferential issue resulting in change in control or allotment of more than 5 per cent stake will require a valuation report from a registered valuer. SEBI has said if the preferential allotment results in change in control, the valuation report will also have to cover guidance on control premium. Further, allotment resulting in change in control will also require a reasoned recommendation from a committee of independent directors. Meanwhile, SEBI has proposed to ease the three-year lock-in requirement. Other recommendations made by SEBI include allowing pledging of securities allotted under preferential route. [Business Standard, Nov. 26]

SEBI lays the framework for gold, social stock exchanges

SEBI on Sept. 28 announced a slew of big ticket decisions, including a framework for setting up a gold exchange that will provide investors security in the form of electronic gold receipts (EGR). The market regulator also approved the creation of a social stock exchange to enable non-profit organisations and for-profit enterprises raise funds.

Under the framework for gold exchange, EGRs will be available for trading on the existing stock exchanges. Like shares, these EGRs will be held in demat form and can be converted to physical gold when needed. "India is a net importer of gold. The whole idea is to move from being price-takers to price-setters. Price discovery at the exchanges will bring transparency in gold pricing," said Ajay Tyagi, Chairman, SEBI, after the board meeting on Tuesday.

EGR denomination and its conversion to gold will be decided by the stock exchange with the approval of SEBI, said the market regulator. SEBI accredited vault managers to accept gold deposits, create EGRs, handle gold withdrawal, and periodically reconcile physical gold with the depository records. The vault manager will have a net worth of at least Rs. 50 crore. Experts said EGR will lead to one-nation one-price of the yellow metal. The gold exchange is expected to offer a host of benefits for the value-chain participants such as efficient and transparent price discovery, investment liquidity, and assurance in the quality of gold, SEBI said. [Business Line, Sept. 29]

SEBI issues revised reporting formats for issuers of non-convertible securities

SEBI issues revised reporting formats for issuers of non-convertible securities. Markets regulator SEBI on Thursday came out with revised formats for limited review and audit reports to be submitted by entities that have listed their non-convertible securities. The revised formats are for limited review and audit reports for banks and NBFCs as well as other entities, excluding insurance companies.

The formats would be applicable for limited review reports for quarterly standalone financial results for banks and NBFCs as well as entities other than banks and NBFCs. Besides, it would have to be followed for audit reports for quarterly standalone as well as annual consolidated financial results to be submitted by all these entities. SEBI said the circular will come into force with immediate effect. [ET CFO.com, Oct. 15]

SEBI amends delisting rules to make M&A more convenient

SEBI has amended rules pertaining to delisting of equity shares of a company following an open offer as part of efforts to make merger and acquisition transactions for listed companies more convenient. Under the new framework, promoters or acquirers need to disclose their intention to delist the firm through an initial public announcement, according to a notification.

If the acquirer is desirous of delisting the target company, the acquirer must propose a higher price for delisting with suitable premium over open offer price. In case the open offer is for an indirect acquisition, the open offer price and indicative price will be notified by the acquirer at the time of making the detailed public statement and in the letter of offer.

"The indicative price shall include a suitable premium reflecting the price that the acquirer is willing to pay for the delisting offer with full disclosures of the rationale and justification for the indicative price so determined that can also be revised upwards by the acquirer before the start of the tendering period," SEBI said in a notification on Monday. [PTI, Dec.8]

FIDC plea to SEBI for exempting NBFCs from disclosure of some non-applicable items in financial results' disclosures

SEBI (LODR) was amended on September 7, 2021, which inter-alia contain Regulation 52 (4) (a) to (v), under which a listed entity, while submitting Quarterly/Annual Financial Results, shall disclose various new line items along with the financial results.

FIDC pleaded that in terms of amended Regulation 52 (4) (a) to (v) of SEBI (LODR), some of these disclosures, as mentioned below, which are not applicable for NBFCs Regulation. Particularly, 52(4) out of (a) to (v) Items: (m) Current Ratio NA; (n) Long Term Debt to Working Capital NA; (o) Bad Debts to Accounts Receivable Ratio NA; (p) Current Liability Ratio NA; (r) Debtors Turnover NA; (s) Inventory Turnover NA; (t) Operating Margin (%) NA

Significant percentage of borrowers prefer securing loan online: Survey

A significant percentage of borrowers led by millennials, prefer online mode to secure loans rather than traditional offline channels, indicating an increase in digital penetration during the COVID-19 period, says a survey. Post the second wave of COVID-19 pandemic, shows a largely positive consumer borrowing trend and thereby, reflects a return to normalcy as consumer sentiments are positive and buoyant about economic revival, according to an annual survey 'How India Borrows' (HIB) conducted by financial firm Home Credit India.

Nearly 40 per cent borrowers showed willingness to move to digital platforms for taking loans. This is over and above the 15 per cent customers who have already graduated to the online loan journey instead of traditional offline channels. There has been noticeable uptick in borrowing for business set-up or expansion accounting for 28 per cent, followed by small loans or credit for consumer durables purchase at 26 per cent of the total borrowings, it said. Other positive reasons were house renovation/new construction (13 per cent), medical emergency (2 per cent), vehicle loan (9 per cent), marriage (3 per cent), education loan (2 per cent), investments and returning a previous loan etc (1 per cent). The survey identified an increase of over 50 per cent in borrowings viz-a-viz 2020, however, borrowings for running household declined, it said. [Business Standard, Nov. 16]

Banks may set up central repository to tackle gold loan frauds

Banks are exploring whether a centralised repository for reporting frauds in gold loans should be set up to tackle rising incidents of frauds amidst robust demand for these loans since the outbreak of Covid-19 pandemic. The repository could help prevent/minimise gold loan frauds as lenders will be able to cross-check prospective borrowers' record on the quality of gold they pledged for their earlier borrowings, said a senior public sector bank official. Both internal and external frauds in gold loan business are the biggest risks, per an ICICI Securities report on gold loan. "Banks are witnessing cases of these frauds in their gold loan portfolio in recent times.

Rise in gold loans: Loans against gold jewellery (LAGJ) portfolio of scheduled commercial banks (SCBs) soared by about 66 per cent year-on-yar (yoy) to Rs.62,926 crore as at August 27, 2021, against Rs. 37,860 crore as at August 28, 2020, according to RBI data. SCBs LAGJ portfolio stood at Rs.26,542 crore as at August 30, 2019.

"While specialised gold loan NBFCs are also seeing fraud cases in recent times, they are better placed in protecting themselves against such frauds," said ICICI Securities Research Analysts' Ansuman Deb, Kunal Shah and Vishal Singh. [Business Line, Oct. 21]

Easy Money drives India Inc.'s finance costs to 10-Quarter low

India Inc.'s finance costs have fallen to the lowest in 10 quarters as lower interest rates and the central bank's accommodative monetary policy help maintain ample liquidity in the markets.The finance costs of India's top 200 companies on the S&P BSE 200 Index, excluding banks and financial services firms, fell to the lowest to Rs 44,980 crore in the three months through September, according to BloombergQuint's calculations. That's the lowest since the quarter ended March 2019.

In 2020-21, the Reserve Bank of India cut the headline repo rate to a record pandemic. The fixed-rate reverse repo rate was reduced to encourage banks to withdraw their surplus funds parked with RBI and lend it in the market. The repo and reverse repo rate now stand at 4% and 3.35%, respectively. Companies also raised funds by selling stakes and also via credit markets to repay debt. Together, that helped lower borrowing-related costs. [Bloomberg, Nov. 30]

How Indian banks are leveraging blockchain technology

15 banks, including 11 private sector, and four PSBs have formed the Indian Banks' Blockchain Infrastructure Co Pvt Ltd to initiate steps to incorporate blockchain technology in trade-related operations.

Banks are looking to deploy the blockchain technology to solve issues in the processing of Letters of Credit (LCs), GST invoices and e-way bills. Currently, the process of issuing an LC is relatively slow and requires human intervention to prevent frauds, authenticate transactions, and balance the ledger. Using blockchain to issue LCs would potentially solve these issues. Even elemental fraud like the issuance of two LCs on a single invoice can be easily prevented with the help of this blockchain technology. The move is expected to eliminate paperwork, reduce transaction processing time, and ofer a secure environment. The system will be based on Infosys' Finacle Connect, a blockchain-based platform that enables digitisation and automation of trade-related Fnance processes. Disbursements on domestic LCs, which used to take four to Five days, can be done in four hours with the technology. The technology has already been deployed or piloted by the likes of SBI and Axis Bank at an individual level.

The RBI has informed that it has been proactive in providing guidance for development of blockchain-based application through its new regulatory sandbox environment, the government told the Rajya Sabha. [ETBFSI, Dec. 02]

Ransomware attacks spurt 1,100 times in last one year

Ransomware attacks have increased nearly 1100% over the last year, impacting organisations of all sizes across market sectors, according to a survey by Fortinet. Over two-thirds of companies have been the target of a ransomware attack, with one in six claiming to have been attacked three or more times, according to the survey, titled 'State of Ransomware'. According to the survey, 96% of organisations indicate that they are concerned about the threat of a ransomware attack, with 85% reporting that they are more worried about a ransomware attack than any other cyber threat. As a result, preparing for a ransomware attack has become a boardroom issue and a top priority for CISOs worldwide.

Ninety-six per cent of respondents said they are at least moderately prepared with top preparedness measures, which includes employee cyber training, ongoing risk assessment, offline data backups, and cybersecurity/ ransomware insurance. [ETBFSI, Oct. 07]

As India pledges net-zero emissions, banks move to form common ESG framework

With India agreeing to achieve net-zero emissions by 2070, the onus is on banks promote green finance.

The Indian Banks' Association is working to create a common framework for environment social and governance (ESG) issues while carrying out credit assessment and including climate risk as part of their risk management policy. To support acceleration and green financing, he said, a number of structural changes will be needed in the traditional lending approach, including evaluation and certification of the green credentials of each project and understanding of the corporate road map to achieve net zero. [ET BFSI, Nov. 6]

The Indian economy bounced back strongly in Q2:2021-22, with GDP surpassing its pre-pandemic levels: RBI

In an analysis of present State of economy of the county published on Dec. 15 the RBI notes that although "The global economy remains hostage to heightened uncertainty with Omicron sparking fresh containment measures. The Indian economy bounced back strongly in Q2:2021-22, with GDP surpassing its pre-pandemic levels, and inflation broadly aligning with the target. A host of incoming high frequency indicators are looking upbeat and consumer confidence is gradually returning.

Aggregate demand conditions point to sustained recovery, albeit, with some signs of sequential moderation. On the supply front, farm sector situation remains strong with impressive progress of Rabi sowing, while the manufacturing and services record strong improvement on strengthening demand conditions and surge in new business."

The Reserve Bank concludes that "The Indian economy continues to forge ahead, emerging out of shackles of pandemic. The ongoing revival is driven by a confluence of factors, viz., release of pent-up demand, government's push for capital expenditure, robust external demand and normal monsoon. Faster resumption of contact-intensive services and speedy restoration of consumer confidence brightens near-term prospects."

However it indicates "Going forward, the emergence of the Omicron strain has heightened the uncertainty in the global macroeconomic environment, accelerating risks to global trade with resumption of travel restrictions/quarantine rules at major ports and airports. The ongoing supply-side constraints are likely to keep input prices and freight rates at elevated levels and could act as a drag on overall exports. While the low domestic infection count and healthy pace of vaccinations augurs well for the economy, looming threat of Omicron calls for observing greater caution and readiness to respond swiftly." [RBI Bulletin, December-2021]

Technology is easing lending process by synergizing lenders and MSMEs

A colossal behavioral shift is underway as MSME owners take to digital adoption – In June 2021 alone 72% of recorded payments done by MSME's were through digital mode alone and 23% MSMEs leveraged Ecommerce to make sale. The estimate of digital adoption by MSMEs may only need to be revised further upwards post-pandemic, said Gaurav Anand, CEO & Co-Founder, Namaste Credit.

Digital Platforms are playing an instrumental role in improving lending to MSME's. The core value lies in enabling a fair, efficient and inclusive access to credit. MSME's, by connecting digitally to lenders -both traditional and NBFC's; they have visibility to a wide array of loan products. Also, the online service of document verification, credit worthiness assessment and loan approvals have cut short the overall processing time from 'many days' to a 'few hours'. This has brought about a cheaper (when compared with informal lending market rates) and quicker access to lending, he added. [Banking & Finance, Nov. 17] ■

FIDC seeks relaxation on IRACP norms

FIDC In Action

FIDC has urged the Reserve Bank of India to exempt small loans up to Rs.2 crore given by NBFCs from the new norms for SMA reporting and NPA classification. It has also requested that the new norms for SMA and NPA classification may be aligned with the date of effect of Scale Based Regulations from October 1, 2022 for NBFCs in all layers. "This line of approach will give adequate time to the NBFCs to implement changes in the IT systems," said FIDC, which is a representative body of assets and loan financing NBFCs.

"We also request RBI to clarify that the circular aims at ensuring uniformity in the implementation of IRACP norms across all lending institutions and therefore, does not impact accounting under IND-AS, which all NBFCs have adopted," FIDC said, noting that in an event where provisions under IND-AS fall short of provisions required under IRACP, the NBFC is anyway required to create an impairment reserve and therefore, adequacy of provisions under IRACP will always be ensured.

RBI's circular of Nov. 12 : The RBI had on November 12 issued clarifications on prudential norms on income recognition, asset classification and provisioning (IRACP) pertaining to advances. FIDC noted that the RBI has prescribed the date of SMA/NPA classification of borrower accounts applicable to all loans, including retail loans, irrespective of size of exposure of the lending institution, and shall reflect the asset classification status of an account at the day-end of that calendar date. Further, the upgradation of accounts classified as NPA needs to be done only when the entire arrears of interest and principal is paid by the borrower.

"We are constrained to point out that the aforesaid prescriptions have caused serious issues...We urge upon RBI to take into account the environment in which their borrowers operate and the availability of resources with the NBFCs to continue to subscribe to the economic development of the country," it said. [Business Line, Dec. 3]

RBI Clarification on Dec. 13: "We reiterate that the circular dated November 12, 2021 does not prescribe any revision to the extant prudential norms on asset classification as applicable to NBFCs. The circular clarifies the regulatory intent behind the existing prudential norms so that there is uniformity in implementation of the same, across all lending institutions. As such, we express our inability to accede to your request for granting forbearance from the prudential norms under reference. All lending institutions shall ensure compliance to the instructions issued vide the aforesaid circular as per the timelines specified therein," noted RBI in its letter to DG, FIDC in a letter No. CO.DOR.CRG.No 52853/21-04-048/2021-2022, Dated Dec. 13 by Pradip Kaur Garewal.

FIDC urges SIDBI for refinancing mechanism for non-bank lenders

FIDC has urged for a refinancing mechanism for NBFCs, among other measures, to increase credit flow to micro, small and medium enterprises. "There is a dire need for an effective refinance mechanism on similar lines as the NHB refinance to ensure diversity and greater regularity in sources of funds to NBFCs," the FIDC told SIDBI Chairman and Managing Director S Ramann, in a letter.

The Council has also suggested changes in the eligibility criteria used by SIDBI for funding NBFCs, apart from rating. "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 counterbalanced with vintage of NBFC, the track record and experience of the key personnel, financial parameters, credit quality and capital adequacy," it said.

For Credit Guarantee Fund Trust for Micro and Small Enterprises, FIDC has sought extension of coverage of loans given to educational institutions, and asked for the coverage to be restored to 75% of the non-performing assets. Currently, the coverage is not available for loans provided by NBFCs to educational institutions. Furthermore, FIDC has suggested that arbitration should be considered a valid legal step taken for debt recovery under the ECLGS scheme. [ET CFO, Oct. 4]

Shri T T Srinivasaraghavan appointed on RBI advisory committee

Reserve Bank has appointed Shri T T Srinivasaraghavan, former Managing Director, Sundaram Finance Limited and Chairman Emeritus, FIDC to an Advisory Committee to advise the Administrator in the operations of the financial service provider during the corporate insolvency resolution process consisting of three members to advise the Administrator Shri Rajneesh Sharma appointed by Reserve Bank for Srei Infrastructure Finance Limited (SIFL) and Srei Equipment Finance Limited (SEFL). [RBI press release, Oct. 4]

Dialogue with FIDC Members on December 21

FIDC had orgainised an interactive dialogue with its members on December 21. An interaction took place with FIDC Directors through video conferencing with the members and executives of the member companies.

Hearty Congratulations:

Mr. Kamlesh C.Gandhi
Founder Chairman & Managing Director
MAS Financial Services Ltd.

CMD of MAS Financial Services Ltd. is appointed as the Co-Chairman of FIDC. He is [55] the Founder, Chairman and Managing director of MAS Financial Services Ltd. based at Ahmedabad –Gujarat.

Mr. Dinanath Dubhashi
Managing Director & CEO
L&T Finance Holdings Ltd. (LTFH).

M D & CEO, L & T Finance Holdings Ltd. was appointed as an additional Director of FIDC. He is with a rich experience of over three decades and has worked in multiple domains of Financial Services including Corporate Banking, Cash Management, Credit Rating, Retail Lending & Rural Finance.

Online Program on Ind-AS for NBFCs by RBI's CAB

RBI's College of Agricultural Banking, Pune is organizing a 3 day Online Program on Ind-AS for NBFCs on January 10-12, 2022. The objectives of the programme are:

- to explain key concepts of IND-AS.
- to improve understanding about application of IND-AS standards and its impact on NBFC's financial statements It is suggested that the CFO and other concerned executives in NBFCs may participate. This is the first ever programme.

Need to harmonise rules on taxation and recovery for NBFC too: FIDC

FIDC had a personal Meeting with Hon'ble Finance Minister Smt, Nirmala Sithraman and her team on December 16, 2021 on NBFCs issues and suggestions for facilitating an enhanced role of NBFCs for

[Continued on Page-6]

Mr. Mahesh Thakkar, Director General for and on behalf of
Finance Industry Development Council,
101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar(E), Mumbai 400 077. Call: 022 - 21029898/91 9820035553
Email:directorgeneral@fidcindia.org.in;maheshthakkar45@yahoo.in
Connect: http://www.fidcindia.org.in/ https://twitter.com/FidcIndia
http://facebook.com/fidcindia/ https://www.linkedin.com/company/fidc-india
https://www.instagram.com/fidcindia/

Suggestions and feed-back

We would appreciate your views, suggestions and feed-back to make the **'FIDC News'** more useful and illuminating. Your inputs and contributions too are welcome on : directorgeneral@fidcindia.org.in

- Editorial Committee

"Next big thing in fintech, it seems! Neither a Borrower nor a lender Be, it seems!"
Courtesy: Business Line

Designed by : Aditya Print Shop (M) 9825866610