

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs – AFCs)

December 16, 2010

Shri Y. H. Malegam
Chairman
RBI Sub-Committee to Study Issues & Concerns in MFI Sector
Reserve Bank of India,
Central Office,
Mumbai

Respected Sir,

Reg.: **RBI Sub-Committee of the Central Board of Directors to Study Issues & Concerns in MFI Sector – Views of NBFC-AFCs**

The Asset Financing Non-Banking Finance Companies (NBFC-AFCs) registered with Reserve Bank of India, have joined hands and formed a **Self Regulatory Organization (SRO)** under the name of **Finance Industry Development Council (FIDC)**. FIDC is an All India body and is registered as a Company U/s. 25 of Companies Act, 1956. Our main objective is to work towards bringing discipline amongst our members by enforcing a model code of conduct, represent the views of the industry to the appropriate authorities where necessary and present a unified face of this sector.

Recognising the role played by the NBFCs engaged in asset financing, RBI has given a separate classification for Asset financing NBFCs: **NBFC-AFCs**. We would like to present our views on the following points which are part of the Terms of Reference of the sub-committee:

1. **To Review the Definition of Micro Finance Institutions (MFIs) for the purpose of regulation of NBFCs undertaking micro finance by the RBI**
 - i) The nature of asset backed lending, specially moveable assets like vehicles, is totally distinct from any other form of lending activity.
 - ii) The fact that the assets financed by NBFC-AFCs can be easily sold / liquefied, put this activity in the lower end of the risk spectrum. This has been stated by the credit rating agencies after their study on the risk profile of various forms of lending.

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- iii) The key role being played by NBFC-AFCs in the growth of important sectors like transport and infrastructure has been widely recognized and appreciated by all the expert committees/ taskforces setup by RBI and Govt. of India.

Suggestion

Any new regulation of MFIs registered as NBFCs with RBI should not over lap or affect the prevailing regulations prescribed for NBFC-AFCs.

2. To Delineate the Objectives and Scope of Regulation of NBFCs Undertaking Micro Finance

- i) NBFC-AFCs have a long history of stringent regulation which is almost at par with banks. Some of the key areas of prevailing regulations are:
- Registration with the regulator (RBI)
 - Minimum Size (Net Owned Fund)
 - Minimum Capital Adequacy Ratio
 - Know Your Customer(KYC) & Anti Money Laundering Guidelines
 - Prudential Norms on Asset Classification, Income Recognition & Provisioning
 - Credit Concentration Norms
 - Maintenance of prescribed SLR
 - Creation of a mandatory reserve

Comment

The existing RBI regulations governing NBFC-AFCs are comprehensive and bank-like in nature. MFIs are placed on a different footing since their lending is mostly unsecured. Regulations governing them may have to address their specific issues.

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3. **To Examine and Make Recommendation in Regard to Applicability of State Money Lending Legislations to NBFCs/ MFIs**

Since NBFC-AFCs are well regulated under The RBI Act, 1934 (as amended in 1997), any coverage under the State Money Lenders laws creates avoidable confusion. Moreover, experience shows that any such development leads to undue harassment.

Suggestion

All NBFC-AFCs should be clearly exempted from the provisions of all Money Lending Legislation of the states since they are fully regulated by RBI.

We hope you will consider our above referred suggestions favourably.

We look forward to an **immediate positive response** and are confident that we are in the process of a **long and beneficial relationship**.

Thanking you,

Yours faithfully,
For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL