

RBI Governor's pre-policy consultations on 24.09.2020
Policy suggestions of INAFI India

(i) Loan restructuring and recasting :

The resolution framework announced by RBI on 6th August, 2020, has not covered loans to self-help groups for agriculture and allied activities. The framework makes a specific mention that they are not applicable to farm credit. Fresh guidelines are awaited for farm credit to self help groups and individual farmers.

(ii) Interest waiver/subvention during moratorium :

Considering the vulnerabilities of the farming sector as also SHGs of indigent women, interest subvention is in vogue even in the normal times. Now in the "anything but normal" situation, this segment of public faces dire financial situation/ fragility. There is, therefore, a compelling case for extending interest waiver during the moratorium for the loans granted to SHGs and small farmers/migrant workers.

(iii) P2P lending - Opening ECB Window :

Thanks to RBI's regulatory framework, P2P lending has become another alternative, facile option to take small and moderate doses of credit for public at large and in particular low-income families. Many socially conscious donors / funders, family foundations / philanthropies are coming forward to lend at very soft rates or even zero cost. Unsurprisingly, popularity of platform lending is growing in tune with global trends. Given its inherent potential for being global platform in the digital age, it is time that we take the next logical step to make P2P lending international. In fact, when we advocated for an enabling regulatory frame work for crowd funding in April 2015, we

have sought for access to domestic as well as global sources. With a vast Indian Diaspora, the case for P2P ECB cannot be over emphasised. Prudential safeguards of loan caps both at systemic and peer levels and flow of funds through banking channel and other regulatory provisions associated with ECB could be put in place. It is suggested that loan caps could be pegged at USD 10,000 or its equivalents. Being a technology platform with loans flowing through banking channels, P2P ECB loans can be tracked real time with the tools of Big Data/AI. It is time RBI allows opening of ECB window for P2P lending.

(iv) Differentiated interest rate to the bank deposits of Senior citizens:

For the millions of senior citizens – now at 15 crores and growing at a faster pace, banks are the haven for some semblance of financial security in their old age. They don't seek to play in the high-risk financial markets for higher returns. They depend wholly on the interest income from the bank deposits for a decent living. With interest rates at historic low due to aggressive monetary policy of easy money, the interest yield from deposits has fallen drastically hitting hard their quality of life.

Recognizing their financial vulnerability, already there is a fiscal response from the Central Government keeping the tax exemption limit at higher levels for those above 60 and 80 with differentiated slabs. The very same logic would call for higher rate of interest for deposits, to align with yields of pension schemes or EPF to begin with for those senior citizens above 65.

(v) Dispensing with rating for loans up to a limit of 50 crores :

Banks have been increasingly resorting to misplaced comfort of rating for loans/limits above 5 crores – be it natural persons or legal persons. The issues of moral hazard, the cost burden for the borrowing clients and the attendant slack/laxity of inhouse appraisal of loans have been highlighted time and again. In fact, it redounds to the credit of RBI that to wean away the banks from routine reference to rating agencies even for small ticket loans, the risk weights for both rated and unrated exposures have been harmonized.

Yet, banks continue to be enamoured by the rating agencies. MFIs including not-for-profit ones now, and going forward FPOs/FPCs would be negatively impacted. It is high time RBI issues a regulatory fiat exempting bank loans/limits upto 50 crores from rating by external agencies, leaving no discretion to the banks.