

NHB Circular on Early Warning Signals Framework in HFCs dated April 26, 2023

In term of the abovementioned circular, HFCs are required to adopt an early warning signals framework, so that an alert is triggered before the account turns into NPA or is declared as a fraud account. The early warning signals framework shall be put in place by the HFCs by April 1, 2024. Further, as per the circular, tracking of the early warning signals must be integrated with the credit monitoring process in the systems of the HFCs so that it becomes a continuous activity.

The circular lays down a suggestive list of early warning signals indicators which *inter alia* includes (i) disbursement of loan done without meeting all pre-disbursement conditions; (ii) disbursement of loan done without collecting all the documents as prescribed in the legal report or valuation report; and (iii) adverse developments in the sector in which the borrower is employed, etc. The circular contains an indicative list of indicators and HFCs are advised to add other indicators based on their experience.

Master Direction – Reserve Bank of India (Outsourcing of Information Technology Services) Directions, 2023 (“IT Outsourcing Directions”)

The master direction by the RBI provides guidelines for outsourcing information technology services by regulated entities, including the HFCs. The directions recognise the extensive usage of information technology and information technology enabled services to support the business models, products and services offered by regulated entities to their customers. The aim of the IT Outsourcing Directions is to ensure that outsourcing arrangements neither diminish the regulated entities’ ability to fulfil its obligations to customers nor impede effective supervision by the RBI. As per the IT Outsourcing Directions, a regulated entity shall take steps to ensure that the service provider employs the same high standard of care in performing the services as would have been employed by the regulated entity, had the same activity not been outsourced. The regulated entities are required to ensure that their service providers develop and establish a robust framework for documenting, maintaining, and testing business continuity plan and disaster recovery plan.

A regulated entity can also outsource any IT activity or IT enabled service within its business group/conglomerate, subject to conditions specified in the directions. Regulated entities intending to outsource any of its IT activities are required put in place a comprehensive board approved IT outsourcing policy which shall incorporate, inter alia, the roles and responsibilities of the board, committees of the board (if any) and senior management, IT function, business function as well as oversight and assurance functions in respect of outsourcing of IT services. The IT Outsourcing Directions also require regulated entities to immediately notify the RBI in the event of breach of security and leakage of confidential customer related information. Further, the RBI has the power to impose penalties for violations of the directions.

RBI Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2023 (“IRACP Norms”)

In terms of the IRACP Norms, banks are required to classify NPAs into (i) sub-standard assets; (ii) doubtful assets; and (iii) loss assets. Banks are required to establish appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs and shall not take into account the availability of security or net worth of the borrower or guarantor for the purpose of treating an advance as an NPA or otherwise, except in the cases laid down in the IRACP Norms. Further, the IRACP Norms also lay down provisioning requirements specific to the classification of the assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.

RBI circular on Responsible Lending Conduct – Release of Movable / Immovable Property Documents on Repayment/Settlement of Personal Loans dated September 13, 2023

The abovementioned circular mandates the regulated entities to release of all original movable or immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment or settlement of loan account. Further, in case of delay in releasing of original movable or immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment or settlement of loan, the regulated entity shall communicate to the borrower reasons for such delay and in case where the delay is attributable to the regulated entity, it is required compensate the borrower at the rate of ₹ 5,000 for each day of delay.

RBI circular on Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans dated August 18, 2023 (“EMI Circular”)

RBI allows the regulated entities including HFCs, to offer all categories of advances either on fixed or on floating interest rates basis. In terms of the EMI Circular, HFCs and other regulated entities are advised to put in place an appropriate policy framework meeting several requirements for implementation and compliance including (i) at the time of reset of interest rates, regulated entities shall provide the option to the borrowers to switch over to a fixed rate as per their board approved policy. The policy, inter alia, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan; (ii) at the time of sanction, regulated entities shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI