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EDITORIAL: TREADING NEW GROUND: ASSESSING THE PROMISE AND PERILS OF INDIA'S PROPOSED FINTECH SRO MODEL

AKHIL RAJ

The Fintech Sector in India has grown to become the third largest globally after the United Kingdom (UK) and the United States of America (USA). The projection showcasing the upsurge in the valuation of the Fintech businesses, predicts that approximately 400 billion dollars of business will be built over the period of the next half-decade. This growth story is encouraged due to the pumping of funds by investors, particularly in Fintech businesses dealing with payment ecosystems.

This growing industry must be aided with significant and relevant regulations. The Reserve Bank of India (RBI) has repeatedly admitted the non-existence of regulations dealing with Fintech Companies directly and has also expressed the need for such regulations or statutes. However, to avoid bringing sudden regulations that can disrupt the industry, setting up a self-regulatory body is a good option at this stage.

Existence of such a self-regulatory body in a prior unregulated sector has two main benefits. First, it means the industry being regulated does not fall directly under the main regulator's oversight and authority. Here, the financial technology sector would not be controlled straight by the Reserve Bank of India. This provides some flexibility and independence for fintech companies. At the same time, self-regulation fosters accountability and responsibility within the industry to efficiently deal with the different facets, like risks, special to that field.

In pursuance of these objectives, RBI has recently released the "Draft Framework for Self-Regulatory Organisation(s) in the FinTech Sector." To establish such a Self-Regulatory Organization (SRO), the RBI draft framework outlines eligibility criteria that must be met.

Eligibility criteria of a fintech SRO

The RBI's draft framework sets out few particular and other ambiguous eligibility requirements that an organization needs to fulfil to be considered for recognition as an SRO in the FinTech sector.

The basic requirements are that the entity should be a Section 8 company (not-for-profit) under the Companies Act, 2013, and the Memorandum of Association of Association (MoA) of such company should disclose its primary activity as an SRO. Albeit, while propounding the need for net worth and technological capabilities, the draft becomes vague and suggests reasonability in both these aspects, without clarifying any specifications.

Attributes of a fintech self-regulatory organization

RBI, in its draft, enlists six specific characteristics of a FinTech (SRO). Firstly, the draft states that a large membership base of such an SRO is advantageous and would enable the SRO to understand the sector's needs and accordingly frame such rules and regulations that can be adopted by FinTech entities without making cumbersome modifications to their business structures. The membership base would also generate a sense of credibility and accountability in the SRO.

Secondly, an SRO shall be accountable for promoting such activities and programs (for instance training programs) that lead to the growth and development of the industry. For this, an SRO must extend its expertise and offer guidance to its members.

Thirdly, although the credibility is to be derived by the SRO from its members, however, that should not bring it under the influence of its members and absolute independence of the SRO should be ensured, keeping in mind that the organization shall be framing the ground rules for everyone.

Fourthly, a distinct dispute-resolution mechanism should be put in place by the SRO to settle disputes arising among its members.

Fifthly, the biggest role of an SRO would be to ensure the compliance of the standards set by it for the smooth functioning of the sector, and in pursuance of this, it shall be the responsibility and the duty of such SRO to encourage its members for compliance and it should create channels for effective communication between the industry players and the regulators. Additionally, since the SRO shall be responsible for the compliance, it shall also be its responsibility to take appropriate actions against the violations by members.

Lastly, since the SRO would be acting like a parental authority, collecting adequate data and information about its members would be its prerogative and it should devise mechanisms for such collection.

Membership & Board of an SRO

Through the membership criteria, the SRO should attempt to bring inclusivity, taking within its fold, entities of all sizes and kinds. Furthermore, the RBI's role comes into the picture in terms of promoting the membership of SRO for the FinTech's. At the same time, the draft is unclear as to the adequate number of members for an SRO at the time it presents an application for being qualified as an SRO.

The draft also recommends the presence of Board of Members and Key Managerial personnel (KMP) but fails to explicitly provide for the minimum level of professional competence requisite for such persons to be part of the Board or to be a KMP.

Primary functions of the SRO

The SRO's current goal has been widely addressed, but more details are still needed about the precise tasks the organization will carry out. Among other things, the main responsibilities include handling grievances, resolving disputes, and establishing protection for customers, confidentiality, and data security standards.

Among the compliance requirements that the SRO itself must follow are sharing non-confidential and sector-specific information with RBI to help them with policymaking and updating the RBI regularly about its operations—however the frequency of these updates has not been specified.

Concerns with the draft framework

Unduly restrictive requirements for membership

Even though some well-intentioned steps have been taken, the central bank needs to understand that for such a novel organization to establish itself in a sector that has largely been unregulated in the past, some relaxations must be extended and gradually stringency could be increased. For instance, several governance standards, such as having one-third of

independent directors and RBI monitors on board, are mandated by the draft. The self-regulatory spirit and industry representation may be compromised by this.

Lack of Clarity on the ambit of Self-Regulation

Fin-Tech is a diverse sector that brings within its fold entities like, “InsurTech”, “RegTech”, “PayTech”, etc. Hence, the draft fails to acknowledge and identify the domains that shall be regulated, like lending, payments, etc. as it has to be realized that certain standards and codes already exist in this area that play a regulatory role, for instance, Master Direction on Issuance and Operation of Prepaid Payment Instruments, 2017, Guidelines on Regulation of Payment Aggregators and Payment Gateways, 2020, Reserve Bank of India Guidelines on Digital Lending, 2022, etc. Besides, if it is assumed that an SRO would be for the entire FinTech industry, it would have to be a ‘One-Size-Fits-All’ Approach, which can be counter-productive.

Overlapping Authorities

The draft does not clarify how the proposed FinTech SRO will work with the industry groups that are currently in place in the field. This obscurity can lead to confusion and effort duplication. Examples of organizations that already bring together participants in the payments and lending domains are the Payments Council of India (PCI) and the Digital Lenders Association of India (DLAI). In addition to creating standards of behaviour, PCI leads training sessions and represents the industry in legislative affairs, among other things. In a similar vein, DLAI conducts outreach programs, offers assistance for grievance redress, and has established consensus on lending procedures. Given that SROs goals and operations appear to have a lot in common with those of these well-established associations, a lack of cooperation may result in inconsistent policies, redundant monitoring, and ineffective use of resources.

No incentives for Membership

Since FinTech is not completely regulated by RBI or any other authority, it gives them self-autonomy and freedom. Any business entity that has been enjoying such flexibility, would not be inclined to be a member of a regulatory organization, which only allows voluntary

membership unless they are lured with any incentives, as without it, no entity would be willing to impose upon itself, a plethora of standards and codes.

Certain incentives that can be offered

Obtaining recognition from the Reserve Bank of India (RBI) can be a major benefit for financial technology companies that are part of a Self-Regulatory Organization (SRO). RBI approval may add credibility and trust in the eyes of investors, customers, and other interested parties. This boost to their reputation can increase brand value.

Additionally, being part of an SRO gives FinTechs a chance to collectively provide input to the RBI on regulatory and policy matters affecting their industry. By taking a proactive role in shaping regulations, fintech companies can avoid abrupt policy changes through this collaboration with the central bank. In essence, RBI endorsement lends credibility while SRO participation allows steering policy versus reacting to it.

Conclusion

The framework that has been proposed offers a structure that facilitates self-regulation in the FinTech sector. The planned SRO seeks to foster ethical norms, guarantee compliance, and direct behaviour while encouraging innovation. However, some parts of the draft need to be improved for the SRO to develop into a credible and capable self-governing organization within the ecosystem. The secret is to find a balance with the regulator, minimize overlaps with current forums, and define suitable membership incentives. The benefits of self-regulation are inherently agile, timely, and knowledgeable about the field. However, participant adoption must be voluntary for it to succeed in the end. To do this, the SRO proposal must reduce compliance overload and offer definite benefits.

EMPOWERING POLICYHOLDERS: IRDAI'S DIRECTIVE ENHANCES TRANSPARENCY AND SIMPLIFIES HEALTH INSURANCE

DEWANSH RAJ

Introduction

Your health insurance policy is about to change, in a bid to make the health insurance policies more customer-friendly the IRDAI issued a directive to the insurance companies to provide the customers with a simplified customer information sheet. The overhaul is aimed at simplifying your complex insurance policies and making it more customer friendly. Additionally, the insurers, intermediaries, and agents are required to disseminate the revised Customer Information Sheet (CIS) to all policyholders, ensuring that confirmation is documented either in physical or digital form. The change is expected to not only improve policyholders' experience but also reduce the time required for settlement after hospitalisation. The new format which became enforceable this year comes after the IRDAI set up an eight-member committee last year to investigate simplifying the wording of insurance policies. The panel had been asked to examine the existing insurance policies and suggest "simple and plain" wording that is legally enforceable. The step comes as a part of the larger goal of insurance for all by 2047.

What's about to change?

Apart from the overhaul of the format of the CIS, the directive also mandates the insurance companies to provide the CIS in the local language as well if the customer demands it. Under the new format, the insurance companies are required to specify the sum insured an essential detail that was not available earlier to the customers. The insurance companies are further required to provide important information like the web links to hospitals, hotline numbers, and the turnaround time for claim settlements, which necessitates policyholder signatures to confirm receipt of the CIS details.

The need for change

The change comes after a steep rise in complaints against the insurers for not providing proper and in some cases even correct information. The policy documents were more often

than not clustered and crammed with legal and complicated jargon which made it difficult for the average customer to understand. The IRDAI while unravelling the directions acknowledged the problems that the customers had to face and stated that "It is important for a policyholder to understand the terms and conditions of the policy that has been purchased. Since a policy document may be fraught with legalese, it is imperative to have a document that explains, in simple words, the basic features concerning the policy and provides necessary information." The new format is aimed at fulfilling the long-standing demand for enhancing transparency and empowering policyholders to make informed and literate decisions.

Conclusion

The new format of policy is expected to increase the insurance coverage among the citizens as this would help in making a more informed choice. This might have a greater positive impact, especially in the rural areas where people often used to hesitate from buying the policies of the lacklustre nature of the policies and lack of them being available in their local language. The change is a step in the right direction for making health insurance more accessible, but still, there is a long way to go to universal health coverage. More than 400 million people still don't have any sought of insurance coverage and most of these people are from the lower strata which makes it even more challenging for the authorities, but taking continuous progressive steps would help the country reach its goal.

RBI'S BLIND EYE TO SOARING LOAN INTEREST RATES

SUBHASHMIN MOHARANA

Have you ever taken a loan from a bank and felt that you were paying too much interest? If yes, then you are not alone. The Allahabad High Court has recently observed that the RBI has been a "mute spectator" while banks are imposing arbitrarily high-interest rates on customers despite the guidelines issued by the banking regulator. In this article, we will analyse ***the case of Manmeet Singh****, who had taken a loan of Rs 9 lakh from Standard Chartered Bank at an interest rate of 12.5% per annum, which was variable and subject to revision every three months. In addition to the Court's observation of the bank's unfair conduct and the RBI's incompetence.*

Background of the case

Manmeet Singh had obtained a loan of Rs 9 lakh from Standard Chartered Bank in 2019 with a variable interest rate of 12.5% per annum, which was subject to revision every three months. After repaying the entire amount, he requested a **'no dues certificate'** and property document release from the bank, which were promptly provided. Later, on closing the loan account, he discovered an unauthorized debit of Rs 27 lakh from his account. At 12.5% interest per annum, the amount to be paid was a little over Rs 17 lakh. Therefore, he filed a complaint with Standard Chartered Bank. The bank replied that the interest rate had been revised to 16-18% per annum as per market conditions and that the petitioner had agreed to it. The petitioner denied this and sought resolution from the banking ombudsman of the RBI. However, the banking ombudsman closed his complaint without providing him with a copy of the bank's reply or an opportunity to present his case. The petitioner then approached the Allahabad High Court.

The Allahabad High Court heard the petition filed by Manmeet Singh and observed that the bank had not adopted a transparent method of charging interest and had changed it arbitrarily. It was held that **no change of interest rate could be applied without informing the borrower and obtaining his consent.** The court further observed that the RBI had been issuing guidelines for regulating the interest rates charged by banks but had done nothing for their implementation. Therefore, the RBI had merely been a "mute spectator", allowing the banks to charge arbitrarily high interest rates. The court held that even if the banks were free

to charge interest rates as per market conditions, it was the duty of the RBI to see that the customers were not inconvenienced by huge rates of interest. The court ordered the bank to refund the excess amount of Rs 10 lakh to the petitioner with interest and imposed a fine of Rs 1 lakh on the bank for its unfair practices. The court also directed the RBI to ensure banks compliance with the guidelines to protect the customers from exploitation.

The case highlights a common problem: banks imposing undisclosed high interest rates. The Court exposes RBI's failure to protect customers and suggests solutions like transparent rates and borrower notifications. The court urges the RBI to regulate responsibly, thus, setting a pertinent precedent.

What is the role of the RBI in regulating the interest rates charged by banks?

The RBI is the central bank of India and the banking regulator. It is responsible for maintaining the monetary stability and the financial system of the country. One of its functions is to regulate the interest rates charged by banks to their customers. The RBI guidelines and circulars to the banks regarding the interest rates. It also has a banking ombudsman, which serves as a mechanism for resolving the complaints of the customers against the banks.

What are the guidelines issued by the RBI regarding the interest rates charged by banks?

The RBI has issued various guidelines and circulars to the banks regarding the interest rates charged by them to their customers. Some of them are:

1. RBI advises banks on a base rate system with minimum lending rates based on costs, mandating disclosure on websites and in branches.
2. RBI recommends marginal cost of funds-based lending rate (MCLR) system for dynamic interest rates, considering factors like marginal cost of funds, negative carry, and operating costs; banks must publish MCLR on websites and in branches.
3. RBI suggests external benchmark system, allowing banks to link interest rates to specified benchmarks, including repo rate and treasury bill yields, disclosed on websites and in branches.

What are the rights of the customers regarding the interest rates charged by banks?

The customers have the following rights regarding the interest rates charged by banks:

1. Customers must be informed by the bank about the interest rate, base rate, MCLR, or external benchmark, along with the applicable spread or margin. The bank must also disclose the frequency of interest rate revisions and the calculation method.
2. Banks must notify customers in advance of any interest rate changes, seek their consent, and explain the reasons and impact on the loan amount and repayment schedule.
3. Customers have the right to opt out of the loan agreement if dissatisfied with the revised interest rate. The bank should offer options like penalty-free prepayment or switching to another bank or loan scheme with a lower interest rate, facilitating a hassle-free transfer.

ENHANCING GRIEVANCE REDRESS MECHANISMS: THE IMPERATIVE OF INTERNAL OMBUDSMAN IN REGULATED ENTITIES

KUSHAGRA KESHAV

Introduction:

In a dynamic financial landscape, the efficient resolution of customer grievances is paramount for maintaining trust and integrity within regulated entities. Deputy Governor Swaminathan J. of the Reserve Bank of India (RBI) recently underscored the importance of reorienting grievance redress frameworks within such entities to better leverage the Internal Ombudsman (IO) mechanism. This article delves into the key insights shared by the Deputy Governor and explores the significance of enhancing the IO mechanism for ensuring smoother functioning and improved outcomes in resolving customer complaints.

Challenges in Grievance Redress Mechanisms:

Deputy Governor Swaminathan highlighted a concerning trend of escalating complaints against regulated entities, including banks, non-bank system participants, non-banking financial companies, and Credit Information Companies. Despite being materially compliant with regulatory requirements on IO mechanisms, the efficacy of these mechanisms often falls short of expectations. Many grievances that could have been resolved internally are unnecessarily escalated to the RBI Ombudsman, indicating a gap in the current grievance redressal process.

Evaluating the Efficacy of Internal Ombudsman:

One of the key concerns raised by Deputy Governor Swaminathan revolves around the efficacy and independence of the IO mechanism. Instances where decisions made by regulated entities are overturned by higher authorities raise questions about the impartiality and effectiveness of IOs. To address these concerns, it is essential for IOs to adopt an independent and impartial approach while adjudicating complaints, prioritizing transparency and objectivity in decision-making processes.

The Importance of Impartiality and Transparency:

Deputy Governor Swaminathan emphasized the need for IOs to cultivate a culture of impartiality and transparency in evaluating complaints. Recording reasoned decisions and articulating the rationale behind resolutions instils confidence in customers and ensures accountability within regulated entities. Furthermore, IOs should identify instances of policy misinterpretation or misapplication and provide constructive feedback to facilitate qualitative improvements in systems and procedures.

Fostering a Culture of Responsiveness and Excellence:

IOs play a pivotal role in fostering a culture of responsiveness and excellence in customer service within regulated entities. By proactively providing feedback and guidance on recurring complaints, IOs contribute to continuous improvement and enhance the overall customer experience. It is imperative for IOs to act as partners in driving qualitative improvements, thereby mitigating reputation risks and ensuring regulatory compliance.

Addressing Perceptions and Misconceptions

There exists a perception that the involvement of IOs may introduce complexities or delays in grievance redress mechanisms. However, Deputy Governor Swaminathan emphasized that the role of IOs is not to impede but rather to ensure fairness, transparency, and adherence to regulatory standards. Regulated entities must recognize the value of the IO mechanism in safeguarding their reputation and fostering trust among customers.

Conclusion:

In conclusion, Deputy Governor Swaminathan's insights underscore the critical role of Internal Ombudsmen in enhancing grievance redress mechanisms within regulated entities. By prioritizing impartiality, transparency, and responsiveness, IOs can contribute to smoother functioning, improved outcomes, and greater stakeholder satisfaction. It is imperative for regulated entities to embrace the IO mechanism as a catalyst for continuous improvement and excellence in customer service.

Bombay HC Upholds Bank's Autonomy In MSME NPA Declarations

Soumya Dubey

The Bombay High Court, in the recent case of A Navinchandra Steels Pvt. Ltd. V. Union of India & Ors, dismissed petitions filed by nineteen Micro, Small and Medium Enterprises (MSMEs) that challenged the actions of banks and non-banking financial companies (NBFCs) wherein they had designated the petitioners' accounts as Non-Performing Assets (NPAs). The division bench rejected the argument presented by the petitioner that the banks and NBFCs ought to have first undertaken measures for revival and rehabilitation as outlined under the 2015 notification issued under the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) before taking any action against the petitioners.

The Hon'ble Court held that it is the responsibility of the MSMEs to initiate the process by submitting an application to the banks or NBFCs as per the notification, rather than the financial institutions taking the initiative themselves. The court, with a combined reading of Clause 1(1) and Clause 1(3) of the 2015 notification, emphasised that it can only be invoked after the MSMEs approach the banks or NBFCs with an appropriate application supported by an affidavit from an authorised person. The court further held that it is unreasonable and impractical to expect from financial institutions to identify struggling businesses without having any application or information of similar nature.

The focal point of the dispute was the May 29, 2015, notification issued under Section 9 of the MSMED Act which classified MSMEs into various Special Mention Accounts (SMA). The notification also provided for the formation of a committee consisting of bank officials and independent experts on MSMEs to implement measures to assist in resolving the financial stress such businesses are undergoing.

The petitioners argued that because proper procedures were not followed in this case, the declarations of Non-Performing Assets under Section 13(2) of the SARFAESI Act were invalid. This was contented due to the absence of a constituted committee, rendering the recovery proceedings invalid.

It was contented by the respondents that the notification under SARFAESI Act was issued to provide for a mechanism for MSMEs to start the restructuring proceedings, without obstructing the recovery process. Ultimately, the HC dismissed the petition and refused to take action against respondents empathising upon the need for MSMEs to submit application to initiate the process under the 2015 notification.

The judgement underscores the importance of proactive engagement by MSMEs in seeking financial assistance while at the same time acknowledging the practical challenges faced by financial institutions in identifying struggling businesses without specific information or requests. This perspective aligns with the economic expectation of fostering a collaborative approach between MSMEs and financial institutions.

THE POLICY WILL BE DEEMED EFFECTIVE FROM THE DATE OF ISSUANCE OF POLICY: SUPREME COURT

PRATHA BARLA

Recently on 3rd January 2024, a 2-judge bench in the Supreme Court comprising Hon'ble Justice Vikram Nath and Justice Rajesh Bindal in the case of Reliance Life Insurance Co. Ltd. and Ors. v. Jaya Wadhwani was presented with a question of law: "From which date the insurance policy becomes effective? Would it be the date of the policy issued? Or the date of commencement mentioned in the policy? Or issuance of the receipt of the premium paid?"

The brief facts of the case were a proposal form, and a deposit receipt were issued on 14th July 2012. The policy was issued 2 days later i.e., on 16th July 2012 and the commencement date was to be the same. The insurance policy was effective from 16th July 2012 to 15th July 2013. On the last of the policy i.e., on 15th July 2013, the assured committed suicide and thus the question of law as previously mentioned was raised.

Although, the claim was denied on the ground that no claim can be made if the assured commits suicide which is part of IRDAI guidelines as well as part of one of the clauses of the said insurance company's policy. With respect to the question of law raised, the DCDRC (District Consumer Disputes Redressal Commission), SCDRC (State Consumer Disputes Redressal Commission) and the NCRDC (National Consumer Disputes Redressal Commission) passed orders that the policy would be effective **from the date when the deposit receipt was issued.** However, the apex court observed that the policy wouldn't be effective from the date of proposal or the date of the issuance of the deposit receipt but from the date of issuance of the policy.

Those dates will only be considered if all of them coincide with the date when the policy was issued, thus the policy will be said to be effective. The court observed the following:

"9. Now, coming to the case of Jaya Wadhwani, the proposal form, no doubt, was submitted on 14.07.2012 with respect to the cheque dated 13.07.2012 of the premium amount wherein also it was mentioned that ***the receipt is issued subject to the clearance of the cheque and further that the insurance protection shall only be provided effective from the date of***

***acceptance of the risk**, which happened on 16.07.2012, when the policy was issued and the date of commencement was notified to be the same date."*

The court finally held that **the date of issuance of policy will be deemed relevant or significant for all purposes** not the date of proposal nor the date of issuance of receipt. The impugned orders passed by the DCDRC, SCDRC and NCDRC were set aside thus rejecting the perspectives taken by the previous forums. Further the court relied on the precedents of Life Insurance Corporation of India and Anr. v. Dharam Vir Anand & Life Insurance Corporation of India v. Mani Ram.

This ruling implies that the commencement and effectiveness of the insurance policy, as well as any associated rights and obligations, are to be determined based on the date of issuance of the policy. This decision may have far-reaching implications for insurance-related disputes and could serve as a precedent for future cases.

It's essential for stakeholders in the insurance industry, legal professionals, and those involved in consumer protection to take note of this court decision, as it establishes a clear precedent for the prioritization of the policy issuance date in legal matters related to insurance policies. The implications of this ruling may also be analyzed in terms of its impact on existing and future insurance contracts, as well as its alignment with broader legal principles governing contractual relationships.

DECODING RBI'S DRAFT HFC REGULATIONS AND THEIR IMPLICATIONS ON THE INDIA'S HOUSING LANDSCAPE

SPARSHA.S.

On January 15th, 2024, the Reserve Bank of India unveiled a draft proposal to tighten regulations for Housing Finance Companies (HFCs). This move, while ostensibly aimed at bolstering financial stability and consumer protection, has ignited debate within the housing finance ecosystem, raising concerns about potential unintended consequences. Therefore, understanding the rationale behind these proposed changes and their potential impact on HFCs, borrowers, and the broader housing market is crucial for navigating the path forward.

The proposed framework rests on a multi-pronged approach: enhancing HFCs' financial resilience and strengthening consumer safeguards. The key elements of the proposal include:

- **Capital Adequacy**: Doubling the minimum capital requirement for HFCs over a two-year period aims to build a sturdier capital buffer against potential financial shocks. This, while enhancing stability, could constrain HFCs' lending capacity in the short term.
- **Deposit Limits**: Reducing the ceiling on public deposits HFCs can accept and imposing stricter eligibility criteria aims to mitigate dependence on volatile deposits and encourage reliance on more stable funding sources. This could potentially restrict the reach of smaller HFCs, particularly those catering to underserved markets.
- **Liquidity Requirements**: Raising the mandatory liquid asset ratio for HFCs ensures readily available resources to address loan defaults or liquidity shortfalls. While enhancing preparedness, this may entail higher borrowing costs for HFCs, potentially translating into higher loan rates for borrowers.
- **Risk Management**: The proposal emphasizes robust risk management practices, including stricter guidelines for loan classification, provisioning, and stress testing. This aims to better anticipate and mitigate credit risks, promoting a more prudent lending environment. However, complying with these stricter norms may entail technological upgrades and increased operational costs for HFCs.

The RBI's intentions are to create a more resilient and consumer-centric housing finance landscape. However, the potential downsides of these changes cannot be ignored. Smaller HFCs, particularly those focused on rural or low-income segments, could face significant challenges in meeting the revised capital and liquidity requirements. This could restrict their lending capacity and hamper affordability for first-time borrowers in underserved markets. Furthermore, stricter regulations may inadvertently increase the cost of borrowing for homebuyers.

Navigating this transition requires a delicate balancing act. The RBI must ensure that the proposed framework fosters financial stability without stifling growth and affordability. Open dialogue and stakeholder engagement are crucial in this process. Industry players, consumer groups, and policymakers must collaborate to address concerns and refine the framework to ensure a balanced and effective regulatory environment.

Several key considerations that could guide this collaborative effort are:

- Phased implementation: A gradual approach to implementing the revised norms could allow HFCs, particularly smaller ones, to adjust and adapt without facing immediate financial constraints.
- Targeted exemptions: Exemptions or modified regulations for HFCs catering to underserved markets could ensure continued access to housing finance for low-income segments and rural areas.
- Technological support: Providing technological assistance and resources could help HFCs comply with stricter risk management and reporting requirements.

In conclusion, the RBI's draft proposal on HFC regulations represents a significant step towards a more stable and consumer-centric housing finance landscape. However, navigating the path forward requires careful consideration of potential unintended consequences and a collaborative approach to ensure financial stability, affordability, and inclusive access to housing finance remain key pillars of the evolving system.

LIC'S PROPOSAL CLEARED BY RBI FOR 9.99% STAKE IN HDFC BANK

- ***SUHANI SHARMA***

In compliance with regulation 30 of the SEBI regulations, it is recently notified that the Reserve Bank of India (RBI) has granted approval to Life Insurance Corporation of India (LIC) which is India's top state- run insurer, for acquiring a cumulative stake of up to 9.99% in HDFC bank limited. This includes an aggregate of all the paid-up share capital value of 9.99% in HDFC banking branch. Paid up share capital refers to the accumulative portion of all the voting rights of the bank. This move was in pursuance of a letter dated January 25, 2024, issued by RBI. This step for approval was not a Suo motu cognizance by the central bank but was in furtherance of the application issued by LIC earlier. This application was an inquiry cum request application to acquire voting rights of HDFC Bank.

The approval has some important conditional dimensions for the LIC to follow. These are:

1. Duration for acquisition- As per RBI regulations, LIC is mandated to secure the 9.99% stake within the upcoming year i.e., Till January 24, 2025, while also ensuring that its ownership remains below this threshold.
2. Limit on the holding: RBI's regulations stipulate that LIC must prevent itself from exceeding a 9.99% ownership stake in HDFC Bank, a measure aimed at upholding regulatory compliance and market stability.
3. Compliance with Legal Provisions: The approval granted by the RBI is contingent upon adherence to specified conditions, including compliance with the pertinent provisions of the Banking Regulation Act, 1949, RBI's Master Direction and Guidelines on Acquisition and Holding of Shares or Voting Rights in Banking Companies dated January 16, 2023 (subject to amendments), regulations outlined by the Securities and Exchange Board of India, and guidelines set forth by the Foreign Exchange Management Act, 1999, alongside any additional directives.
4. Market situation background- HDFC Bank's stock plummeted to a new 52-week low after lackluster third-quarter results and selling pressure from Foreign Portfolio Investors. According to HDFC Bank's shareholding report for the December quarter, LIC holds a 5.19% stake in the private lender.

According to RBI regulations, entities intending to acquire substantial stakes in banks, defined as holdings of 5% or more of share capital or voting rights, must obtain prior approval. This mirrors a previous authorization granted to SBI Funds Management Ltd in May last year to secure up to a 9.99% share in HDFC Bank. Entities deemed fit and proper can hold up to 5% without RBI approval in banking contexts. However, any increase beyond this threshold necessitates regulatory clearance, prompting LIC to seek approval due to its stake exceeding 5% post-merger.

Moreover, the approval for LIC to acquire a 9.99% stake in HDFC Bank is viewed positively by shareholders amidst the bank's recent challenges. The move to enhance LIC's holding is anticipated to inject confidence in the bank's prospects and stabilize its share price. This strategic development aligns with HDFC Bank's efforts to bolster investor sentiment and navigate through the turbulent market conditions, signaling potential recovery and resilience in the banking sector.