

**Subject: Proposed product – Overdraft account based credit line funded by NBFC**

Respected Sir/ Madam,

We, Redux Credit Finance Pvt Ltd (NBFC registered in New Delhi), are writing to seek your guidance on a new overdraft account product which we are in the process of developing and launching under the name 'Overdraft account based credit line funded by NBFC on Rupay & UPI network' ("Proposed Product"). The Proposed Product would provide the customers with easy access to safe credit from regulated, balance sheet lenders i.e. banks/ NBFCs ("RE") and we believe it will be a force multiplier for MSME credit in the country.

We were inspired by the construct of the "*Digital Kisan Credit Card*" to create this innovative product on top of the UPI and Rupay networks. However, we have constructed in a manner to allow NBFC to service customers at the bottom of the pyramid, without overlapping with the fiduciary rights & responsibilities of banks.

The novel features and functioning of the Proposed Product which we are planning to introduce are as under:

# 1. Overview

- 1.1. The Proposed Product will have the functionalities of an Overdraft account with a non-revolving credit line provided by REs. The procedure of opening the overdraft account with the bank, will mandatorily include an option to link their overdraft account with a non-revolving credit line offered by REs to provide seamless access to legitimate credit sources. It is critical to note that the credit line is non-replenishable. As per the directions of RBI, the NBFC would have to undertake a fresh assessment and underwriting of the customer post consumption of the original credit line.
- 1.2. The drawdown/ disbursement will be automated using services provided by the RBI & Govt of India in the banking system (e.g. NBFC-AA or IMPS or UPI API). The credit line will be triggered in case the UPI/Rupay instrument is used by the customer, either online or at a point-of-sale machine. Simultaneously, the NBFC will disburse the amount in real time into Overdraft account of the UPI handle owner.
- 1.3. The customer choice of NBFC will be taken at the time of onboarding the customer along with full KYC. Further, a second factor of authentication (e.g.. UPI OTP or card PIN) will act as an second factor consent for the loan disbursement.

# 2. Purpose - why should this product exist

- 2.1. The purpose of this product is as follows:
  - 2.1.1. To allow RE other than banks to be able to deploy their lending capabilities to the MSME and retail sector without having to invest an insurmountable amount of money to build their own network.
  - 2.1.2. The big advantage that banks have is access to the Mastercard/VISA/Rupay and UPI merchant network. As the RBI recognizes through its PIDF program, it is a fact that merchant POS network is a force multiplier for credit distribution in the country. This is a fact that is also recognised by the GOI due to which the ONDC & OCEN (Open *Credit* Enablement Network) program was created.
  - 2.1.3. NBFC can service more people in the risk pyramid than banks due to difference in risk guidelines. However, NBFC are currently deprived of access to this network because of the specific regulatory constructs that existed till 2021.
  - 2.1.4. We will proceed to show that NBFC can access this vast network via new & existing guidelines of 2022 and stay compliant with RBI regulations.
  - 2.1.5. We will proceed to show that this product is customer friendly & respects consent, data privacy and informed product choice

- 2.1.6. We will proceed to show that this will act as a force multiplier for the PIDF program as well as MSME credit initiatives by the RBI & Govt of India
- 2.1.7. We will proceed to show that this will not result in any systemic risk since there is no construct of credit guarantees or risk sharing
- 2.1.8. We will proceed to show that this will strengthen the RBI initiative for current account opening

## 3. Compliance with Master Directions

### 3.1. UPI 2.0 OD

- 3.1.1. This is a UPI account that is backed by an overdraft account. This is part of the 2.0 spec approved by the RBI & NPCI already.
- 3.1.2. **Important NOTE:** UPI 2.0 OD has MDR allowed by law. However, keeping in mind the sensitivities of the Union Ministry of Finance, this product can be architected without MDR and only interest+fee based charges.
- 3.1.3. <https://www.npci.org.in/PDF/npci/upi/circular/2021/UPI-OC-108-OD-accounts-f or-merchant-acceptance-Terms-and-Awareness.pdf>

NPCI had issued circular **NPCI/UPI/OC No. 62/2018-19** dated December 4, 2018 and **NPCI/UPI/OC No. 79/2020-21** dated 21<sup>st</sup> February 2020, for the communication of application OD interchange of 1.5% of the transaction value for the Unsecured OD account (UOD) in UPI. The banks, TPAP's should pass the OD account flag in end to end transactions, and include in the notifications appropriately.

This circular references circular **RBI/2016-17/59 DPSS.CO.PD No.639/02.14.003/2016-17** issued by Reserve Bank of India on September 1, 2016.

Member banks should provision Overdraft Accounts in UPI.

### 3.2. Credit cards on OD accounts

3.2.1. RBI has specifically allowed the construct of credit cards backed by OD accounts.

3.2.2. [https://rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=12300](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12300)

7. Types of credit cards

(a) Card-issuers may issue credit cards/charge cards to individuals for personal use together with add-on cards wherever required.

(b) Card-issuers may also issue cards linked to overdraft accounts that are in the nature of personal loans without any end-use restrictions subject to the conditions as stipulated in the overdraft account.

(c) Card-issuers may issue business credit cards to business entities/individuals for business expenses. The business credit cards may also be issued as charge cards, corporate credit cards or by linking a credit facility such as overdraft/cash credit provided for business purpose as per the terms and conditions stipulated for the facility concerned. Corporate credit cards can be issued together with add-on cards wherever required.



3.2.3. However, the history of cards backed by OD is much older. In 2019, RBI allowed electronic/debit cards for OD accounts

3.2.3.1. <https://rbi.org.in/Scripts/NotificationUser.aspx?id=11878&Mode=0>

3.2.4. SBI Bank has a product created around this

3.2.4.1. <https://sbi.co.in/web/personal-banking/cards/debit-card/electronic-cards>

Electronic Card For Overdraft Account

ELECTRONIC CARD FOR OVERDRAFT ACCOUNT	
Variant	Standard and Platinum
Type of Card	Contactless Debit Card
Issued in Account	Overdraft (Personal Loan)
Usages	Domestic (International usage is disabled from backend as per RBI guidelines, customer cannot enable it using Switch On / Switch Off facility) (Cash withdrawal permanently disabled from backend).
Daily Cash Limit at ATMs	Nil

3.2.4.2. In addition, the PM Kisan Credit Card scheme allows for credit card to be used as short term loan facility, similar to our product construct

### 3.3. Disbursal/Repayment of loan from NBFC to Overdraft accounts

#### 3.3.1. Disbursal

[https://www.rbi.org.in/scripts/FS\\_Notification.aspx?Id=12293&fn=2&Mode=0](https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=12293&fn=2&Mode=0)

ii. Where a bank's exposure<sup>1</sup> to a borrower is less than 10 per cent of the exposure of the banking system to that borrower, while credits are freely permitted, debits to the CC/OD account can only be for credit to the CC/OD account of that borrower with a bank that has 10 per cent or more of the exposure of the banking system to that borrower. Funds will be remitted from these accounts to the said transferee CC/OD account at the frequency agreed between the bank and the borrower. Further, the credit balances in

#### 3.3.2. NACH

3.3.2.1. <https://www.npci.org.in/PDF/nach/circular/2021-22/Circular-no-004-Im-proving-the-success-rate-of-NACH-mandate-registration.pdf>

2. Mandates drawn on CC account: Refer to RBI circular on opening a current account for a customer who has availed CC / OD facilities from the banking system. As per the guidelines the corporates who have availed CC / OD facility have to route all the transactions through the CC / OD account only. They have to issue mandates as well on the CC / OD account only. Reference may be taken from our circular No: NPCI/NACH/2018-19/Circular no. 022 dated August 24, 2018 on processing of mandates drawn on CC accounts on the basis of purpose provided by the issuer of the mandate. Banks should evaluate mandates on the basis of the purpose tag provided by the originator so that the mandates issues for genuine business purpose are not rejected causing inconvenience to the customer.

3.3.2.2. RBI allows a NBFC to disburse loans to a OD account. Also, it even promotes and highly recommends it. In fact, it has created the provision for NACH and periodic repayment between 2 OD accounts.

### 3.3.2.3. Points to note

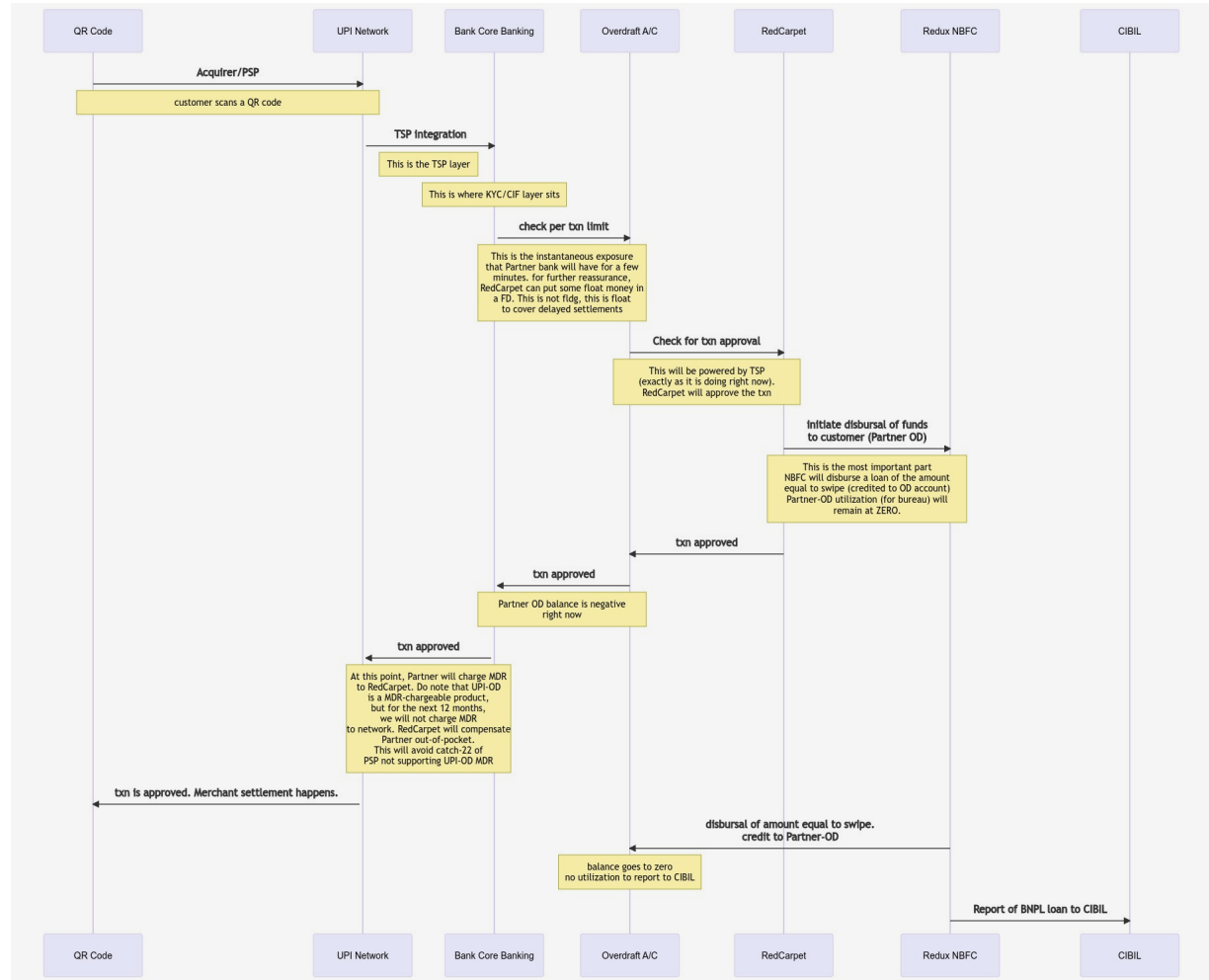
- 3.3.2.3.1. OD accounts can be multi-party. NACH/UPI is only allowed on single party OD accounts
- 3.3.2.3.2. OD accounts can have both credit and debit. Banks must take care to report utilization to credit bureaus only after accounting for credit into the OD account
- 3.3.2.3.3. In accordance with the Master Direction on Debit Cards, highest standards for know your customer and anti-money laundering (AML) checks will be followed for the proposed product to ensure full KYC for every customer at the time of customer onboarding.

## 3.4. Customer Awareness

- 3.4.1. We will stand by the RBI guidelines on customer awareness. This includes (but is not limited to)
  - 3.4.1.1. Format of loan interest calculations as prescribed by the RBI in its digital lending guidelines
  - 3.4.1.2. Awareness that the loan is ultimately disbursed by the NBFC, while the Overdraft account is held by the bank.
  - 3.4.1.3. All communication materials will be approved by both the bank and the NBFC compliance. It will carry the logos of both.
  - 3.4.1.4. Data privacy and collections ethics will be maintained as per the RBI guidelines on outsourcing collections.

# 4. Product Construct

## 4.1. Flowchart



4.1.1. NOTE: this example uses UPI, however the same can be done using credit card

4.1.2. NOTE: RedCarpet & Redux NBFC are used for illustrative purposes. However it can be replaced by any other fintech/NBFC combination.

4.1.3. Summary of flow:

4.1.3.1. Bank issues UPI account backed by an OD account. This is a per-customer account.

4.1.3.2. During onboarding, customer will be given choice of NBFC along with rates prevailing at different NBFC for availing small ticket loans.

4.1.3.3. Customer will do full aadhaar KYC for both OD account (of bank) as well as NBFC credit.

4.1.3.4. Customer will be presented with full loan agreement and rate calculations as prescribed by the RBI.



- 4.1.3.5. OD account and NBFC credit will only be activated after full digital acceptance of agreement. The flow will be very similar the Kisan Credit Card digital flow.
- 4.1.3.6. If a NBFC or a bank choose to utilise a third party fintech for use of IT infrastructure to enable this system, it will be covered under IT Outsourcing Guidelines of the RBI. Full audit requirements will be in place.
  - 4.1.3.6.1. [https://rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=53911](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53911)
- 4.1.3.7. When a swipe/QR code scan happens on the product, bank will debit from OD account and let transaction succeed. OD balance will go negative at this point.
  - 4.1.3.7.1. This approval will be done by the bank in conjunction with the NBFC.
- 4.1.3.8. Immediately after a successful transaction, a NBFC will disburse an equal amount of loan (equal to swipe that just happened). This will take the negative balance of OD down to zero.
- 4.1.3.9. NBFC will record loan in its system and report to CIBIL/bureau
- 4.1.3.10. NBFC will report loan on its books to RBI for reporting.
- 4.1.3.11. Similar to the terms of Kisan Credit Card, no withdrawal will remain outstanding for more than 12 months.
  - 4.1.3.11.1. <https://www.indianbank.in/departments/rupay-kisan-card/#!>
  - 4.1.3.11.2. <https://sbi.co.in/web/agri-rural/agriculture-banking/crop-loan/kisan-credit-card>
- 4.1.3.12. Also similar to Kisan Credit Card, the limit will only be increased or decreased with consent of the customer.
  - 4.1.3.12.1. Since this will be NBFC funded, the credit will be non replenishing and will need to be renewed with full customer consent

## 5. Request for Comment

We are seeking your guidance on the product structure of the Proposed Product - particularly whether the regulatory body sees no objection in the product construct

We would be available for a meeting, if you so wish, to explain the product structure and address any concern you may have regarding the same.

We remain at your disposal if you require any further clarification or information regarding the same.