Submission from FICCI Fintech Committee

Recommendations for Union Budget 2022-23

A. Fast-track the Account-Aggregator framework

The Account Aggregator (AA) framework that provides data aggregation and sharing services based on the explicit consent of data owners, as approved by the RBI in 2016, was recently launched and some of the largest banks in India have announced their participation in the same. However, to make this initiative a complete success, all banks in the country must join the framework in a timely manner. Hence, industry submits that a strong push from the Government and RBI for time bound real world / production launch of all the banks would go a long way in implementing and operationalising a faster and orderly launch of the AA framework, which is the need of the hour.

Why the AA ecosystem is important

AAs provide customers control over their data, allowing them to aggregate and selectively share their data with different service providers for their own benefit. A trusted, secure, and interoperable framework is key to driving broader financial inclusion, especially to those who have never availed formal credit.

Accelerating the AA ecosystem

On Sep 2, 2021, 4 banks (HDFC, ICICI, Axis, IndusInd) went live on the AA ecosystem as Financial Information Providers (FIPs) and Financial Information Users (FIUs). Since then, four more banks and a few NBFCs have joined the ecosystem. Over 20,000 unique accounts were linked, and 40,000 consent requests were raised as of September 30, 2021. All identified post-launch technical and operational issues have ben resolved, and the system is now ready to scale. These early adopters are private sector banks, and collectively represent ~ 35% of the country's CASA accounts.

Driving scale in the ecosystem will need:

1. Support from the RBI to nudge its regulated entities:

a. PSU Banks – who dominate the CASA base in India – to participate as FIPs and FIUs in a time-bound manner.
b. Cooperative and regional banks to participate to allow their customers broader choice.

2. Cross-regulatory cooperation to enable

a. GSTN to become a FIP, enabling cash-flow based lending for SMEs (detailed below).
b. Other FSRs such as SEBI and IRDAI to issue directions to their REs to participate in the AA ecosystem, making AA the single source of truth for a data principal's financial data.

3. The Privacy and Data Protection Bill to be enacted as a law to provide a legal basis to protect a data principal's interests and hold data fiduciaries accountable.

GSTN should be a high priority project, given the urgency to get SMEs back on their feet as the economy recovers from the COVID shocks.

4. GST as FIP

GST as a FIP in AA ecosystem significantly boosts cash flow lending for MSME sector, better underwriting & lending models can be built leveraging on GST data along with CASA data from various banks participating as FIP in AA ecosystem.

What has been done:

- Updated specifications to pull data
- Tech POC implementation using GSP as intermediary & AA specifications is completed.
- Successfully pulled GSTR1, GSTR3, GSTR3B invoices for the period of 12 months.

Challenges

Technical challenges

1. Discovery of GSTN using PAN number is not seamless/via an API. It must be done via screen scraping mechanism with a captcha.
2. API access to pull GSTN invoices is by default disabled, borrowers are expected to enable it and then approve consent. Many borrowers do not know how/where to enable it and what it means.
3. Post disbursal of loan, lenders need to assess the borrowers frequently for credit monitoring. For this purpose, recurring invoice history is needed from the borrower till the end of loan tenure. This means a session must be established with GSTN to pull the data. Current mechanism expires the session in 30 days, making the borrower to enter OTP every 30 days.

Invoice Financing for Cash flow lending:

GSTN invoices can be kept as collateral under invoice financing. GSTN data along with CASA data can be pulled via AA and for both underwriting and credit monitoring looking for EWS.

This is a much-required activity in boosting MSME with timely credit.

Operational challenges

1. The time gap from an invoice being raised to invoice being filed in GSTN can be anywhere between 40 days (monthly filing) to 100 days (quarterly filing). This leads to significant gap for timely credit.
2. When a seller (borrower) raises an invoice, there is no mechanism to validate the authenticity of this invoice by the buyer. Lack of this, lenders must look for other data to approve the invoice as collateral.

Asks

1. A formal notification / other mechanism between relevant ministries / regulators to enable GSTN to be a bona fide FIP
2. A mechanism for the buyer to approve the invoice from the seller as soon as its filed.
3. Reduce friction to the borrower by making API enabled default as true.
4. Keep the validity of session to 365 days instead of current implementation of 30 days.
5. Have an API based discovery of associated GSTN via PAN number

6. Make e-way bill also be a part of AA ecosystem by participating as FIP
7. Currently available public data (via GSTN portal) around GST and their filings is proving to be very useful across multiple use cases. Taxpayers' behaviour (measured via filing patterns) is finding takers across multiple use cases - from Credit decisioning to vendor evaluation to customer risk to general counter party evaluation. Based on this data, many fintech and AI/ML providers are also modelling risk scores. While access to this kind of data is very useful and welcome, there are some additional data points that will significantly help the various use cases. Some of these are

    - Tax-payer size categorisation (buckets). This categorisation can either be on annual revenue basis (or GST tax paid basis). Ex: Classifying each taxpayer as belonging to one of the revenue buckets: 0-50L, 50L-1Cr, 1Cr-5Cr, 5Cr-50Cr, 50Cr-500Cr, >500Cr
    - Information on GST disputes/Credit notes issued by tax-payer per month (aggregate counts/aggregate value, per taxpayer)
    - GST compliance rating, which has been talked about for a while now.

Consent driven GST data – mechanics

Consent driven transactions are certainly unravelling far more use cases today, with the availability of advanced data processing and analytics capabilities - including machine learning and AI techniques. However, there is a need to create appropriate consent patterns - that stay compliant with PDP and Non-personal data framework. Most consent driven transactions that are available in India today can be grouped into

- **Upfront consent** (taken at the time of opting in or signing up for a service. Ex: Banks having access to Cibil/Bureau data)
- **Just in Time consent** (most consent transactions - including the OTP based consent for GST data. Consent is captured at the time when data needs to be accessed)

Both of these, with consent revocation at any point in time being with the data owner. There is however the need to define additional consent categories

- **Time-boxed consent**: Most of the consent requests revolve around specific use cases. Consider business loans as an example. Consent to GST data is today captured to evaluate, among other things, the risk associated with the business. Financial institutions today need to keep a tab on this risk through the tenure of the loan. Having a Just-In-Time consent for such transactions proves to be limiting and an operational overhead. Having a time-boxed consent sets the consent duration through the tenure of the loan, which thereby simplifies life for the taxpayer as well as the financial institution/consumer of such consent data
- **Perpetual consent** (and extension of the timeboxed consent). This is a consent 'on' until the data owner turns off the consent.

In all these approaches, the data owner should have the right at any time to turn off consent (whether it was Upfront, Just-in-time, Time-boxed or Perpetual)

On the subject of consent, it may be noted that the current mechanism provides a way to approve one consent at a time. For a cash flow lending it would need a consent to pull invoice history for loan underwriting and another consent prior to disbursement for credit monitoring. These two consents can be merged to ask a **master consent** for the borrower to approve prior to underwriting. This can be specific to cash flow-based lending with credit monitoring

Advantages of master consent are

1. The same CASA and GSTN data would be shared for both underwriting and credit monitoring.
2. Reduction in touch points of the borrower decreasing drop-offs.

B. Promote use of Central KYC

Explicit mention by the Department of Revenue in the Prevention of Money Laundering Act/Rules thereunder and by RBI in Master KYC Directions is required to the effect that CKYC Registry API level checks should be considered as "full KYC" by Banks and NBFCs in a completely digital and non-face-to-face mode, without having the need to conduct any face-to-face verification, further KYC checks or due diligence. As an additional risk mitigation measure, it is suggested that in addition to or combination with the CKYC Registry API level checks, a verification through a one-time password (OTP) sent to the registered mobile number of the said individual (as available in the CKYC records) is carried out so as to mitigate any residual risks. Since the mobile number would have been captured and already verified by a bank/regulated entity before uploading on the CKYC portal, it may be safe to rely on such information for the further checks as mentioned above.

C. Offer specific tax incentives to start-ups including fintech start-ups

- Due to the pandemic start-ups have not really been able to make use of the benefits of start-up registration under DPIIT. The income tax holiday should be extended by two more years to those whose benefits would expire in this time period.
- Further, all start-ups registered under DPIIT should automatically get tax exemption rather than going through the current process of inter-ministerial board approval.
- Special ESOP tax treatment announced by Government for registered Start-Up to be extended to larger group of companies e.g., MSME
- LTCG treatment of share sale to be equivalent for Public Market equity sales and Private shares (all start-ups and investors benefit).

D. Promote unsecured lending to needy segment through priority sector classification

Update to Master Directions – Priority Sector Lending (PSL) – Targets and Classification (Updated as on April 29, 2021). Industry asks that clause 15.1 is updated <u>as underlined</u> such that the following loans as per the prescribed limits are eligible for priority sector classification which will help restart small ticket unsecured loans to salaried and self-employed consumers amidst second wave of pandemic.

15.1 Loans not exceeding <u>₹3.00</u> lakh per borrower provided directly by banks to individuals and individual members of SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed <u>₹3.00</u> lakh and for non-rural areas it does not exceed ₹<u>4.80</u> lakh and loans not exceeding ₹2.00 lakh provided directly by banks to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by the SHGs.

E. Relook at cap of 18% on priority sector loans to MSMEs and for CGTMSE coverage

The current priority sector loans to MSMEs have a cap of 18% IRR to the end customer. Fintech/ Smaller NBFC's current cost of borrowing is upwards of 14% making it difficult to get the PSL benefits despite serving the same segment. It is therefore proposed to make Cost+10% as a cap that will expand the coverage, make more MSMEs eligible for PSL benefits and overall help in growing the ecosystem.

The CGTMSE scheme from SIDBI has capped the ROI for eligibility coverage at 18% for eligibility since Aug' 21. As mentioned above, Fintech/ Smaller NBFC's current cost of borrowing is upwards of 14% and hence it is requested that for eligibility and coverage under CGTMSE scheme Cost+ 10% may be considered as the cap.

F. Extend trade credit insurance to PSL Loans or Loans sub 10 Lacs

The Insurance Regulatory and Development Authority of India (IRDAI) on 8 September issued revised guidelines for trade credit insurance that will come into effect on 1 November 2021. It would cover a portfolio of buyers and indemnifies an agreed percentage of an invoice or invoices that remain unpaid as a result of protracted default or insolvency. The cover may include commercial risks such as insolvency or protracted default of the buyers of goods and services. The trade credit policy will also cover rejection by the buyer after the delivery, subject to conditions of a policy contract.

Internationally credit default swaps (CDS) are very popular mode of insurance towards such risks. The recommendation is to extend this to PSL Loans or Loans sub 10 Lacs and thus promote micro businesses funding which is today not possible due to high delinquency and high borrowing rate of NBFCs.

G. Provide PSL classification for Commercial Credit Card Program

Inclusion of a commercial credit card program involving B2B payments by a corporate to a MSME supplier of goods and/or services for Priority Sector Lending (PSL) benefits for the banks. By subscribing to a commercial credit card program of a bank the corporate can make an early invoice payment by leveraging the bank credit in lieu of the trade credit from the supplier.

A mid-to-large sized corporate purchases goods and/or services from a MSME supplier. The supplier raises an invoice on the corporate, usually the b2b purchase involves a deferred payment term (i.e. payment post 30-90 days from the date of invoice) negotiated by the buyer with the supplier. In the real world these B2B payments may get further delayed, creating a financial stress in the supply chain for the MSME.

By subscribing to the commercial credit card program, the corporate is able to make timely payments to the MSME supplier, thereby easing the pains of delayed payments. Further, the banks and the payment networks have been continuously working to provide value added services like payment reconciliations, etc. The credit card programs help, both the corporate and the MSME supplier, to enhance cash-flow visibility and also improve process efficiencies related to payment and collection of invoices. The card payment solution also helps to bridge the trust between the corporate and the MSME supplier and vice versa.

The increased penetration of digital payments in the B2B payments provides the banks with a better understanding of the business health of the MSME supplier and thereby facilitate in the banks providing better services to the MSMEs. In the current business and policy environment, where the focus in on helping MSME to set-up business, to run an efficient operation and to grow business, extension of the PSL status to the commercial card programs would help in ensuring a broader participation of banks, networks and technology enablers and a more inclusive growth.

H. Review Payments Infrastructure Development Fund Subsidy Guidelines

The objective of PIDF is to increase the number of acceptance devices multi-fold in the country. The Scheme is expected to benefit the acquiring banks / non-banks and merchants by lowering overall acceptance infrastructure cost. However, there is need to review the criteria for eligibility for subsidy.

Currently in the PIDF scheme, to be eligible for a subsidy, there should be minimum 50 transactions over a period of 90 days and active status shall be minimum usage for 10 days over the 90-day period. However, for tier 3 and below areas, it is very difficult to achieve the criteria. Most of the devices deployed might not be eligible for the subsidy. Also, a parity should be maintained while providing subsidy for deployment of QR infrastructure and equal weightage to be provided to UPI and Bharat QR.

I. Review MDR policy

To promote digital adoption specially from small retailers/ merchants, the government abolished the Merchant Discount Rate (MDR) fee – a fee levied upon merchants by banks for providing Payment Infrastructure – on RuPay Cards and UPI transactions from 1 January 2020. The Rupay Card transactions include the payments made to the merchants against purchase of goods & services and UPI transactions include P2P and P2M transactions performed by the users. This caused NPCI to revise the interchange fee and PSP fee to zero for debit card payments through RuPay and for UPI payments in the country, leaving players with no revenue model around the infrastructure.

MDR is necessary because it funds the acceptance, servicing acquiring user's and payment infrastructure. Although banks may be able to subvent revenue from deposits, MDR is the only source of interchange revenue for the payment system operators like PPIs & PSPs.

Zero MDR regime disincentivises issuers from offering digital payment modes to their customers. A PSP interchange fee of at least Rs. 0.50 on P2M UPI transactions will be a motivating factor to acquire users and provide platform to transact.

J. Reduce GST on PoS devices from 18% to 5%

GoI vision of Digital India in general and promotion of Digital Payments in particular can be realised by promotion of acceptance infrastructure in India. PoS devices are important acceptance infrastructure, and their proliferation will enable digital payments adoption.

K. Issue clarification regarding exemption from applicability of tax deducted at source provisions under section 194N of the Income-tax Act, 1961 on withdrawal of cash by any business correspondent Agent of a banking company / co-operative society

Section 194N of the Income Tax Act, as substituted by the Finance Act, 2020, provided that in the case of a recipient who has not filed the returns of income for all of the three assessment years relevant to the three previous years, for which the time limit to file return of income under section 139(1) of the Act has expired, immediately preceding the previous year in which the payment of the sum is made to him, the TDS shall be deducted –

- at the rate of two percent if the aggregate amount of cash withdrawn exceeds INR twenty lakh rupees during the previous year but does not exceed INR one crore; or
- at the rate of five percent if the aggregate amount of cash withdrawn exceeds INR one crore rupees during the previous year

It may be noted that this section is not applicable to any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking. Accordingly, no TDS shall be deducted on withdrawal of cash by any business correspondent.

In practice, a BC Agent withdrawing cash from his local Bank B (other than the BC Sponsor Bank with which he is associated as BC Agent) is not able to claim exemption from the applicability of provisions of section 194N of the Act as there is no standard procedure or instructions issued by the bank to recognize the BC of another banking institution for the purpose of the exemption. A letter from the BC Sponsor Bank with which a BC is associated is not being recognised by another banking institution. This results in genuine hardship for the BC Agent who have to withdraw cash from banking institutions with whom they are not necessarily associated as BC Agent.

The BC Agent is remunerated by way of a small fee / commission (0.50%) per transaction whereas TDS is deducted at the rate of 2% / 5% on the entire amount of cash withdrawn. This results in a huge blockage of funds for at least 18 months to the extent of 400% to 1000% of earnings for BC Agents, which exceeds the income that they earn from the banking transactions of distributing DBT or microATM services.

In light of the above, Ministry of Finance is requested provide a clarification that the exemption under section 194N of the Act is available to the BC Agents associated with any banking institution and not just to the BCs associated with the sponsor banking institution.

L. 27% GST on BC Agents fee may be made NIL

Business correspondents provide services like receipt and delivery of small-value remittances. These services include collection of small-value deposits, identification of borrowers, processing and submitting applications to banks, disbursal of small-value credit, and recovery of principal and interest. To truly promote financial inclusion, the current fee of 27% GST on BC agent fee should be reduced to NIL.

M. Provide separate deduction for term insurance

Ideally, the life insurance cover of an individual should equal at least 10-15 times of his annual income. The most cost-effective way of buying such large life covers with low premiums is to buy term insurance policies. Hence, the budget should introduce a separate section for term insurance policies (instead of having it in the overcrowded Sec 80C). This will incentivise consumers to buy term insurance policies and thereby, get adequate life cover for their families' future.

N. Introduce a separate deduction for home loan repayments

Currently, the repayment of principal component of home loans is eligible for tax deduction under Section 80C whereas the repayment of interest component of up to Rs 2 lakh qualifies for tax deduction under Section 24B. However, with multiple investment options, small savings instruments, insurance policies, pension plans, etc crowding Section 80C, many home loan borrowers remain bereft of availing tax deduction on their entire home loan principal repayments. Similarly, the upper cap on Section 24B becomes inadequate for a large number of home loan borrowers, especially in their initial years of their home loan tenure. Hence, there should be a separate section for home loans repayment with a combined maximum deduction of up to Rs 5 lakh for both principal and interest components. This would boost home buyers' sentiment and thereby, increase demand in the housing industry.

O. Simplify processing of trade documents in banking system

During this unusual Covid period, banking system has displayed great resiliency in providing continued services. Many services are now being delivered digitally and our MSME sector adapted the same. However, in certain processes – particularly in the area of Trade Finance and issuance of Bank Guarantees, contact less delivery has not been possible. We feel that this is the right time for driving digital processes.

While a couple of initiatives taken by Indian Banks Association (IBA) are praiseworthy, the same have not taken off because corresponding simplification in process has not been initiated by Government Departments. For example, by leveraging **Automated e-Stamping System (AeS)** launched by banks under IBA's Trade Digitization Project, a few forward looking banks are in a position to generate electronic Bank Guarantee (e-BG); but in the absence of the major beneficiaries like Government Departments not being in a position to accept e-BG, there is no choice but to follow the age old manual process of physical bank guarantee.

MSME sector players often mention that Government Departments require submission of paper-based Bank Guarantee and no modification in the Government processes has taken place so far. While we agree that BG is a financial document and only the genuine and authentic document would have to be used, IBA model of e-BG with several checks and balance is worth considering. It is suggested that Dept of Customs- the largest user of BG in the country should be enabled for e-BG on a pilot basis as per the process finalized by IBA. The same applies for institutions like Railways, NHAI and Oil/ Gas Marketing Companies (HPCL, BPCL, IOCL, GAIL) etc. Keeping a long-term view, the e-BG should also be in globally accepted format so that technology integration remains simple. All the banks in the country dealing with import / export financing are familiar with e-BG used in international business. But domestic business is totally manual.

Another example is the process of e-way Bill/ e-invoice verification by banks for invoice financing. In the current process, banks find it difficult to verify the authenticity without explicit consent from the supplier on every occasion. While privacy is well protected, strictness of its implementation goes against the same entity, because the bank financing the same transactions find it a challenge to obtain the consent in the absence of any specific instruction from GST authorities. It is gathered that a solution implemented on a pilot basis by 5-6 six banks with SWIFT India has not taken off for the same reason. Therefore, a review of the consent architecture with some special provisions for transactions under bank financing appears necessary.