



Facilitator Guide

Sector
BFSI

Sub-Sector
Lending

Occupation
Processing

Reference ID: **BSC/Q2303, Version 4.0**
NSQF level 4



Debt Recovery Agent



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BFSI Sector Skill Council of India

1407, Lodha Supremus Powai, Opp Saki Vihar Telephone Exchange, Saki Vihar Road, Powai,
Mumbai, Maharashtra 400072

Phone: +91 9819268124

Email: neha.dave@bfsissc.com

Web: www.bfsissc.com

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Shri Narendra Modi
Prime Minister of India

“ Skilling is building a better India.
If we have to move India towards
development then Skill Development
should be our mission. ”

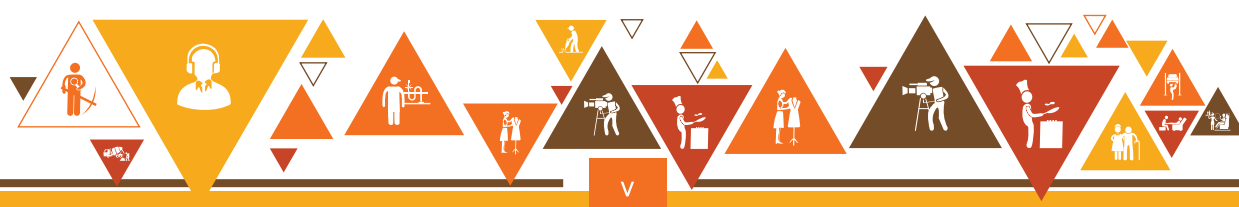


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The preparation of this guide would not have been possible without the BFSI Industry’s support. Industry feedback has been extremely encouraging from inception to conclusion and it is with their input that we have tried to bridge the skill gaps existing today in the industry.

This facilitator guide is dedicated to aspiring youth who desire to achieve special skills that will be a lifelong asset for their endeavors.



About this guide

The Indian banking and financial industry is in a state of major expansion and transformation as 2023 draws to a conclusion. Significant turning points, legislative changes, and technical developments throughout the year helped pave the way for the development of a financial ecosystem that is more robust, inclusive, and efficient. Given its continued ability to innovate, adapt, and prosper in a world growing more digitally connected, the sector's contribution to determining India's economic future appears more potential than ever. The industry continues to grow and the industry is expected to create 5 million jobs by 2025. To meet the industry's demand the BFSI sector trains youth on the various job roles and makes them ready to be deployed.

This Facilitator Guide is based on the Debt Recovery Agent Qualification Pack (BSC/Q2303) and is designed to enable training for the following National Occupational Standards (NOSs):

1. Perform Pre recovery activities - BSC/N2307
2. Collect and follow up for Receivables- BSC/N2403
3. Employability Skills (60 hrs) -NG-Lx-ES-00002-2022-v1-DGT

The Key Learning Outcomes and the skills gained by the participant are defined in their respective units. After completing this training, the participant will be able to interact with the customer whose payment is outstanding, help in making debt management plans, and provide solutions to customer queries & complaints, while adhering to the policies and standards laid by the Debt Recovery Agencies and RBI.

We hope that this Participant Handbook will provide a great deal of learning support to our young friends to build attractive careers in the BFSI industry.

Symbols Used



Ask



Elaborate



Notes



Objectives



Do



Exercise



Say



Activity



Demonstrate



Practical



Learning Outcomes



Summary

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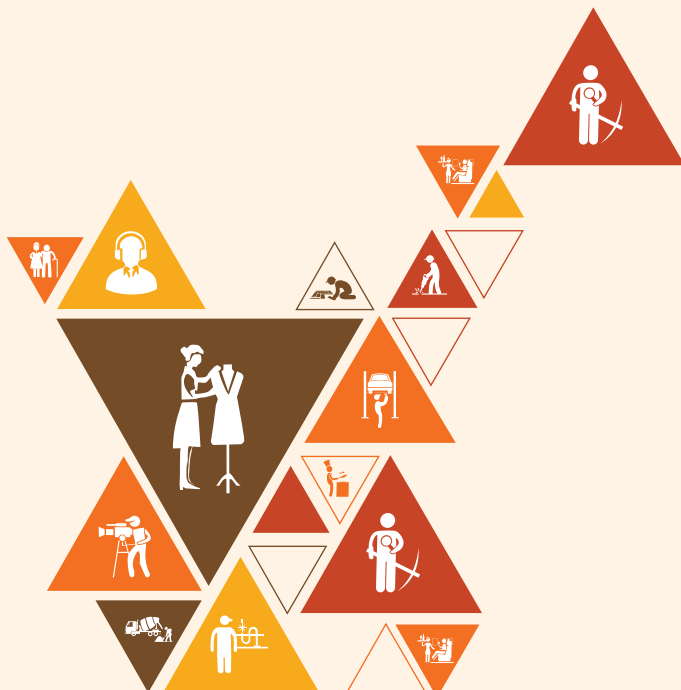






BFSI
BFSI Sector Skill Council of India
*An Initiative of NSDC

Unit 1.3 – Responsibilities of a Debt Recovery Agent



Key Learning Outcomes



At the end of this module, the participants will be able to:

1. Explain the overview of the program
2. Identify the necessary skills which the training will cover
3. List the ground rules to make the program effective
4. Discuss Skill India Mission and its initiatives
5. Explain Overview of Skill India Mission and its schemes
6. Explain the benefits of Skill India Mission Program for students
7. Discuss an overview of the BFSI industry in India
8. Discuss about the Banking, Financial and Insurance sector in detail
9. Explain the Role of a Debt Recovery Agent
10. Discuss about the career growth of the Debt Recovery Agent

Unit 1.1: Introduction to Skill India Mission

Unit Objectives



By the end of this unit, the participants will be able to:

1. Explain the overview of the program
2. Explain Skill India Mission and its schemes
3. Discuss the BFSI sector and its services
4. Explain the Role and Responsibilities of a Debt Recovery agent

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



After the introduction, explain the participants about the program and its purpose in detail. Explain them how the program will help them to get a job. Tell them about the structure and duration of the course and how they can get benefit from this program.

Say



Good morning and welcome to the training program on Debt Recovery Agent. Let us start the unit by discussing about the Skill India Mission and it's Scheme and the BFSI sector in India and their role in economic growth of the country.

Elaborate



- Explain to the participants about the Skill India Mission that was launched in the year 2015
- Helps prepare the workforce with right and appropriate skills.
- The industry aligned curriculum helps to fill the skill gap there by accelerate the economic growth.
- The Skill India Mission initiative aims to provide vocational training and skill development opportunities to a major portion of India's vast population, mainly targeting the large youth demographic.

Elaborate



This initiative from Skill India, focuses on empowering the youth with industry-ready skills, enhancing their chances of employment and thereby impacting the economic growth. The National Skill Development Mission, led by the Prime Minister, supervises this effort.

Under this scheme there are courses from 40 sectors aligned with industry and government standards. These courses focus on hands on experience, in addition to the on-the-job training.

The Ministry for Skill Development & Entrepreneurship (MSDE) was established to monitor this initiative and they mainly focus on skill development initiative to create a skilled workforce. Programs like Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and Pradhan Mantri Yuva Yojana (PM-YUVA) have trained millions of individuals.

MSDE also introduced reforms to the Apprentices Act, encouraging active participation of industries in apprenticeship programs. The National Apprenticeship Promotion Scheme (NAPS) provides financial assistance for apprenticeships.

Key Schemes of Skill India Mission:

Explain in detail the following schemes under Skill India Mission:

1. Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
2. Sector Skill Councils (SSC)
3. Recognition of Prior Learning (RPL)
4. National Skills Qualification Framework (NSQF)
5. Udaan
6. Skills Acquisition and Knowledge Awareness for Livelihood Promotion (Sankalp)

Explain what is there for the students from this program:

1. Skill Development
2. Certification
3. Employment Opportunities
4. Industry relevant training
5. Government recognition
6. Entrepreneurship Development
7. Financial Support
8. Networking Opportunities
9. Continuous learning and growth

The rewards that the student gets will depend on the particular course, how committed they are to learning, what experience they have, and the opportunities in the business or field they have selected. Before enrolling, it is recommended to learn about the content, outcomes, and possible career trajectories of the particular courses offered under the Skill India Mission.

Note: The scheme launches various programs. To get the updated information pls visit www.msde.gov.in, www.nsdindia.org

Exercise



1. What do you understand by Skill India Mission Schemes?

Ans: Refer Participant Handbook Pg No: 2.

2. Name the various skill development programs under Skill India Mission.

Ans: Refer Participant Handbook Pg No: 3.

3. What are the benefits of Skill India Mission Programs to students?

Ans: Refer Participant Handbook Pg No: 4.

Notes



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Unit 1.2: Introduction to Banking Sector and the Job Role of a Debt Recovery Agent

Unit Objectives



By the end of this unit, the participants will be able to:

1. Explain the Banking, Financial Services and Insurance Sector in India
2. Discuss the Indian Financial System
3. Explain Components of Financial System in India
4. Discuss Insurance Sector in India
5. Understand the standard etiquette in the BFSI sector

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain about the Banking, Financial Services and Insurance sector in India, Financial system in India. Also explain about the insurance sector and the standard etiquette observed in the BFSI sector in India.

Say



Good morning and welcome the students to the training session on BFSI sector overview, various components of the financial sector and the standard etiquette observed in the BFSI sector.

Elaborate



Explain to the participants about the BFSI sector. The Banking industry in India has been one of the most stable systems globally, despite global disturbance. The Indian government has consistently been trying to promote financial inclusion through various initiatives targeted to bring the country's those population who have not utilised the banking services to the banking gamut.

1.2.1 Overview of Banking Sector in India

Elaborate



By 2025, Indian Fintech industry is predicted to be at US\$ 150 billion. Indian Fintech Ecosystem has been rated the 3rd largest globally. India is one of the fastest-growing Fintech markets in the world. In India currently there are more than 2,000 Financial Technology businesses which are DPIIT-recognized and the number is steadily growing.

The Indian banking system consists of 12 public sector banks, 21 private sector banks, 46 foreign banks, 43 regional rural banks, 1,534 urban cooperative banks and 96,508 rural cooperative banks in addition to cooperative credit institutions.

Explain the growth in the UPI transactions. How people have started using the UPI mode of payment which is both easy and secure.

1.2.2 Financial System in India

Elaborate



Explain how the financial institutions contribute towards the economy and country's growth.

The Financial institutions also facilitate flow of funds to individuals, enabling them to utilize these resources effectively for their betterment.

Explain the two groups of the financial institutions:

Banks and Non-Banking Financial Institutions (NBFI).

- Banks accept demand deposits, whereas NBFIs do not.
- Banks are authorized to issue checks, whereas NBFIs are not permitted to issue them.

Explain banks are further divided into commercial and non-commercial banks.

Commercial banks operate for profit, while cooperative bank's function based on cooperative principles, emphasizing service to their members and society.

Cooperative banks typically offer a higher rate of interest compared to commercial banks.

Commercial banks are further categorized into:

- a) Scheduled commercial banks
- b) Non-scheduled commercial banks

Explain about the scheduled and non-scheduled banks

A scheduled bank is one included in the 2nd schedule of the RBI Act 1934. Additionally, a scheduled bank needs to be a corporation with a minimum paid-up capital of Rs. 500 crores.

Non-scheduled banks are mandated to maintain reserve requirements such as SLR and CRR according to the Banking Regulation Act of 1949. Similarly, scheduled banks are also required to maintain reserve requirements with the RBI as per the RBI Act of 1934.

Discuss Co-operative Banks, Public Sector Banks, foreign banks, regional rural banks, Local Area Banks, AIFI, NABARD, Small Industries Development Bank of India, Mudra Bank, Non-Banking Financial Companies, Primary Dealers, Credit Information companies, Payment Banks and Small Finance Banks.

1.2.3 of the Indian Financial System

Elaborate



Explain to the class, that financial institutions are defined as organizations that offer a broad range of deposit, lending, and investment facilities to individuals, businesses, or both. While some other financial institutions serve the general public and offer services, others are more likely to target a specific clientele with more specialized offers.

The financial systems include Central Banks, Retail and Commercial Banks, Internet Banks, and its two types Digital Banks and Neo Banks, Credit Unions, and Insurance Companies. Explain in details about each of them.

Financial Markets

Explain to the students that the marketplace is where buyers and sellers participate in the trade of assets such as equities, bonds, currencies, and derivatives.

There are 2 types of Financial Markets:

1. **Money Market** – deals in short-term credit (< 1 yr).
2. **Capital Market** – handles medium-term & long-term credit. (> 1 yr).

Money Market: is characterized by two sectors:

1. **Organized sector** – this sector comes within the direct purview of RBI. It includes banking & sub-markets.

- a. Banking sector – Commercial banks [under Banking Regulation Act 1949 & consist of both private & public], RRBs, Cooperative Banks.
- b. Sub Markets – Meet the need of govt and industries. It includes call money, Bill market [Commercial bill, T-Bill], Certificate of Deposit [CD] & Commercial Paper [CP].

2. **Unorganized sector** – consists of indigenous bankers, money lenders, non-banking financial institutions, etc.

Capital Market

Buyers and sellers exchange debt (loans) and equity (ownership of assets) in this market. It was founded in 1992 and overseen by SEBI.

Capital market institutions are collectively called NBFCs (Non-Banking Financial Companies) However, All NBFCs not necessarily have to be capital market organizations.

According to the RBI's definition of NBFC, "An NBFC is a company registered under the Companies Act, 1956 and engaged in the business of loans and advances and acquisition of government-issued shares". This excludes organizations whose primary business is the purchase and sale of real estate, manufacturing, or agriculture.

Security Market:

This market is known as-

- a) Government Securities [gilt edge] security market and
- b) Industrial Security Market [New Issue Market is the primary market & Old Issue Market is the secondary market].

1.2.4 Insurance Industry in India

India's insurance sector is steadily growing and is currently ranked as fifth in the world's life insurance market. The reason for this is that Indian households' salaries have been rising gradually, and Indians are becoming more conscious of the need to save for potential risks in the future. Speaking of hazards, the rise and expansion of the insurance industry has also caused a significant increase in the nation's risk tolerance. Because they may utilize insurance to invest in a safe future for themselves and their loved ones, people are more at ease with the concept of taking risks.

Overview of the Indian Insurance Sector

The insurance industry in India comprises of a total of 54 companies, out of which 24 companies offer Life Insurance products and services, while the remaining 30 belong to General Insurance. The services of the Indian insurance sector to our country is as old as 200 years approximately.

The industry firms are considered as the backbone of risk management in India. We all understand that risks are both unavoidable and unpredictable. However, India discovered with the introduction of insurance that risks might be covered and handled with assurance in the future. The insurance industry in India began to grow and change gradually as more people began to invest in it. The two main advantages it gave Indians were the instillation of saving and investing habits, which are the cornerstones of any person's financial development.

IRDAI: The Backbone of Indian Insurance

The Insurance Regulatory and Development Authority of India or IRDAI is a statutory organization, established after the Parliament Act was introduced to protect the investments of Indian insurance policyholders. This organization also strives to oversee and control the efficient operation of India's insurance market.

1.2.5 Indian Insurance Family

As stated earlier, the Indian insurance landscape is composed of two sets of companies – one that functions in the Life Insurance business and the other that offers General Insurance products to Indian customers across the globe.

In addition to these two primary segments, the Indian insurance sector also encompasses health insurance and reinsurance companies. The health insurance sector in India revolves around providing products and services to Indians to insure their health risks. Reinsurance companies work on protecting their risks against an insurance policy that they provide to a customer by transferring the whole or part of that risk to another insurance provider.

The insurance companies are ranked based on their claim Settlement Ratio. Some of the renowned players in the insurance sector (in the alphabetical order) are:

S.No.	Health Insurance Companies
1	HDFC Ergo Health Insurance
2	Niva Bupa Health Insurance
3	Care Health Insurance
4	Aditya Birla Health Insurance
5	Star Health Insurance
6	ICICI Lombard Health Insurance
7	Reliance Health Insurance
8	Reliance Health Insurance
9	Royal Sundaram Health Insurance
10	Oriental Health Insurance
11	New India Health Insurance
Life Insurance Companies	
1	Life Insurance Corporation of India
2	ICICI Prudential
3	HDFC Life
4	Max Life Insurance
5	Bajaj Allianz
6	PnB MetLife
7	Canara HSBC Life Insurance
8	Aditya Birla Sun Life Insurance
9	SBI Life
Motor Insurance Companies	
1	Acko Car Insurance Policy
2	Go Digit Car Insurance
3	HDFC ERGO Car Insurance
4	ICICI Lombard Car Insurance
5	IFFCO TOKIO Car Insurance
6	Magma HDI Car Insurance
7	Reliance General Car Insurance
8	Royal Sundaram General Finance Car Insurance
9	SBI General Car Insurance
10	Universal SOMPO Car Insurance

Activity



Divide the students into groups. And assign the names of the insurance companies to each group. One from each category. Ask them to do research about the company and present a consolidated report. Include details like

- When was the company established
- What are the services they are into
- Growth of the company ever since they are operational
- Explain their settlement process

1.2.6 Key Trends in the Growth of the Indian Insurance Sector

Explain



Role of FDI in the insurance sector: India's economic structure underwent a dramatic transformation in 1991 following the passage of the Economic Liberalization Act. The introduction of Foreign Direct Investment, or FDI, into the Indian topography was a significant benefit of the reforms' contribution to the country's economic progress.

This made it possible for foreign reinsurance companies to establish branches throughout India and establish bases here. Furthermore, several key players in the Indian insurance sector, such as Birla, Reliance, Tata, and ICICI, partnered with international insurance companies globally, contributing to the expansion and growth of the Indian insurance industry.

Pay-as-you-drive scheme for car insurance: Thanks to an IRDAI's intervention, drivers in India can now pay insurance premiums based on the actual number of kilometres driven. The in-car telematics device fitted inside the car helps with the accurate physical condition of the car, which enables timely repair of the vehicle if needed. **Insurance companies like HDFC ERGO, ACKO, Digit, Reliance General and ICICI Lombard** provide this feature to the vehicle owners in India.

Online policy renewals: This is yet another innovation for the Indian insurance sector, allowing policyholders to conveniently renew their expired policies at their convenience and save time and effort.

With so much happening in the BFSI sector, it's a great decision to get your career started with this sector. You can see a steady and long-term growth opportunities in the days ahead.

1.2.7 Standard Business etiquette in BFSI Sector

Basic manners in the BFSI (Banking, Financial Services, and Insurance) industry emphasize on professionalism, regulatory compliance, and customer service. The following are some customary manners:

Professionalism: Always operate in a professional manner whether interacting with stakeholders, colleagues, or clients. This entails acting with respect, speaking courteously, and wearing appropriately.

Excellence in Customer Service: Treat customers with courtesy, promptness, and efficiency. Actively listen to their needs, present suitable answers, and then follow up to make sure they're satisfied.

Confidentiality: Maintaining client confidentiality requires protecting private information. Respecting privacy laws and preserving the security of financial information are essential.

Follow Industry regulations: Comply with all applicable laws and industry regulations. Understanding banking regulations, anti-money laundering (AML) guidelines, and client identification processes and all part of this.

Effective Communication: Interact with clients and coworkers in a clear and efficient manner. Always pay attention to the issues of your clients and speak in an understandable manner, refraining from using technical jargon unless absolutely required.

Ethical Behavior: Always act morally and with integrity. Steer clear of conflicts of interest, give honest counsel, and put the needs of the customer first.

Teamwork and Collaboration: Encourage a cooperative atmosphere among coworkers. Collaboration with teams, exchanging experience constructively, impact the objectives of the organization.

Problem Solving: Cultivate strong problem-solving skills to effectively handle customer concerns or issues. Being resourceful and finding appropriate solutions can significantly enhance client satisfaction

Ongoing Education: Remain updated on developments in technology, new laws, and industry trends. Continuous professional development and skill enhancement are very essential In the quickly changing financial sector.

Such conduct helps preserve the trust and relationship with the client and maintain the integrity of the BFSI industry.

Exercise



1. **NABARD stand for** National Bank for Agriculture and Rural Development.
2. **Activities of Non-Banking Financial Companies are,** lending and advances, buying government or local authority-issued shares, bonds, or debenture.
3. **Cooperative banks typically offer a** higher rate of interest **compared to commercial banks.**
4. **In the** Capital Market **buyers and sellers exchange debt (loans) and equity (ownership of assets) in this market.**
5. **Name Five Insurance Companies.** Life Insurance Corporation of India, ICICI Prudential, are Health Insurance, PnB MetLife, SBI Life
6. Insurance Regulatory and Development Authority of India **organization also strives to oversee and control the efficient operation of India's insurance market.**

Notes



A large rectangular area with horizontal lines for taking notes.

Unit 1.3: Responsibilities of a Debt Recovery Agent

Unit Objectives



By the end of this unit, the participants will be able to:

1. Understand the responsibilities of a Debt Recovery Agent
2. Understand the terminologies used in the Banking Sector

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain the responsibilities of a Debt Recovery Agent and also explain the common terminologies used in the Banking Sector.

Say



Good morning and welcome the students to the training session all tell them that today they will learn about the Responsibilities of a Debt Recovery Agent and also a few common terminologies used in the Banking Sector.

Elaborate



Explain to the participants about the Responsibilities of a Debt Recovery Agent. The DRA are the back bone of the banking and financial institutions who contribute to recover the overdue amount from the borrowers.

Debt Recovery Agents play an important role within the Debt collection department of the financial institution. Their dedication and focus on their work help in recovering the outstanding debts borrowed by needy people or organizations, thus reducing the loss of revenue for the organization. By recovering these debts, they prevent the financial loss arising due to the delayed payment or non-payment. While performing their responsibilities, they are required to strictly adhere to ethical and legal guidelines.

The following are some of the responsibilities of the DRA:

1. Contacting Debtors
2. Negotiation and settlement
3. Investigation and documentation
4. Communicate with creditors
5. Compliance and Regulations
6. Information sharing
7. Legal actions
8. Handle disputes
9. Maintain professionalism
10. Regular Tracking

Let's understand each of these in details:

Contacting Debtors: The DRA contacts the debtors via phone, email, or home visits to discuss the overdue payment. They pay attention to understand the reason for the delay and discuss plans and facilitate repayment.

Negotiation and Settlement: DRA need to assess the financial capabilities of the debtor and negotiate settlements or payment arrangements that are suitable for both the debtor and the creditor.

Investigation and Documentation: DRA discuss with the debtors and understand their financial commitments and the reasons for non-payment. As part of their work, they document the records of communication, agreements and payment arrangements.

Communicate with creditors: communicate with the creditors from time to time, and brief the status of recovery .

Compliance with Regulations: DRA at all times have to adhere to Indian laws and regulations pertaining to debt collection, such as the Recovery of Debts due to Banks and Financial Institutions Act (RDDBFI), and steering clear of unjust or harassing tactics when collecting debts.

Information sharing: Inform the debtors about the legal obligations if debts are not paid by the due date. Provide clear information about their outstanding debts, interest rates, and penalties if the payment is unpaid.

Legal Actions: DRA's will coordinate with the legal team to initiate actions against the defaulters following the standard operating procedures for debt recovery.

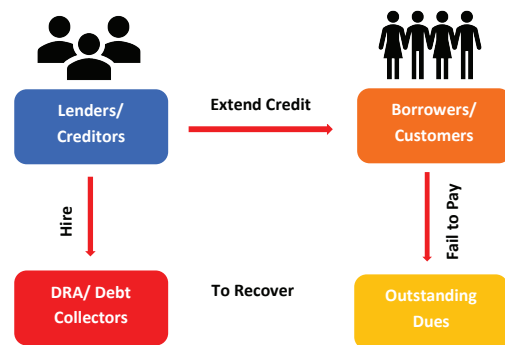
Handle Disputes: They actively involve themselves in resolving conflicts between the debtor and creditor and settle their differences amicably.

Periodic Tracking: The DRA's have to maintain a tracking sheet and update it periodically the status of their interaction with the defaulters/debtors. They have to share the same with the creditors and seek their guidance to recover the loan from regular defaulters and hard to handle borrowers.

Maintain Professionalism: The DRA's are expected to maintain professionalism at all times, and be empathetic with the people whom they are dealing with. They need to be very courteous and polite while dealing with the debtors. They should avoid abusive and aggressive behaviour while at work.

DRA's, when collecting debts must adhere to legal restrictions and act with professionalism and compassion. They have to strictly adhere to the laws and policies regulating debt collection procedures.

Why Debt Recovery Agents/Debt Recovery Collectors?



Responsibilities of Debt Recovery Agent/Debt Collector



Activity



Visit a nearby bank and gather details about the Debt Recovery Agent.

1.3.1 Terminologies used in Banking Sector

Explain



Account Types

Current Accounts

Current accounts form a large portion of demand deposits of a bank. Current accounts can be opened by individuals, business entities, institutions, government bodies, liquidators, trusts, etc.

The main features of current accounts are:

- There are no restrictions on the amount and number of withdrawals/deposits.
- Cheque book facility is provided to each current account.
- All current accounts are non-interest bearing.
- Overdraft facility wherein banks honour checks even with a deficit in the customer's account.

Saving Banks Accounts

Saving bank accounts help individuals and businesses keep some savings apart for future needs. To encourage the habit of saving, an interest is paid on these accounts.

These are of two types:

1. Cheque book facility accounts
2. Non-cheque book facility accounts

Basic Savings Bank Deposit Account

To make the basic banking facilities available in a more uniform manner, banks were advised to replace 'no-frills' account with a 'Basic Savings Bank Deposit Account' which offers following minimum common facilities to all their customers in November 2005.

Its benefits are:

- It was considered a normal banking service available to all
- No minimum balance required
- Services available in the account that include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment or deposit/collection of cheques drawn by Central/State Government agencies and departments
- No limit on the number of deposits that can be made in a month

Joint Account

A joint account is a bank or brokerage account shared by two or more individuals. Joint account holders have equal access to funds but also share equal responsibility for any fees or charges incurred. Transactions conducted through a joint account may require the signature of all parties or just one.

Locker Account

The banks offer safety vaults or lockers to customer on a rental basis for which they pay an annual fee. The customers can store valuable jewellery and important documents inside the locker. And they are expected to operate it periodically. According to the new notification issued by RBI, if it remains unoperated and if the banks find any suspicious activities taking place, the banks have the authority to inspect the contents inside the locker.

Offshore account (or Non-Resident Account)

An offshore, or overseas, bank account is one that you have in a country you don't reside in. They allow you to make and receive payments, hold money and set up savings and investment accounts in multiple currencies. This was not only for the individual to keep their roots but also have more variety of investment plans.

Term Deposits

They are of two types: Fixed Deposits and Recurring Deposits.

Fixed Deposits: These are repaid on the fixed maturity date with the principal and agreed interest rate for the period and no operations are allowed against the deposit. The main features are as follows:

- Fixed deposits are for specified periods at specified interest rates and cannot be changed even when the interest rate changes.
- Banks offer varying interest rates for different maturities as decided by their Boards.
- Term deposits which are held for periods of 6 months and less are called Short-term deposits.
- Maximum and minimum period for a term deposit in India is 10 years and 7 days respectively.
- A deposit receipt is issued by the bank branch accepting the fixed deposit-mentioning the depositor's name, principal amount, maturity period and interest rate, dates of the deposit and its maturity etc. The receipt is not negotiable/transferable.
- The interest payable on the deposits is calculated and credited on a quarterly or longer basis.

Recurring Deposits: The main features are -

- The customer deposits into the account a fixed sum at pre-fixed frequency
- The interest rate payable on recurring deposits is pre-fixed and it is generally a little lower than the fixed deposit rate for the same period.
- The total amount deposited along with the interest is repaid on the maturity date. The depositor may be allowed to take advance against the deposits or to have the deposit pre-paid before the maturity.

Hybrid Deposits or Flexi Deposits

Flexi Fixed Deposit is a combination of Demand deposit and Fixed Deposits. The depositor is able to enjoy both the liquidity of Savings/Current accounts as well as the high returns of Fixed Deposits. The scheme has 2 features which effectively combine the benefits of Savings/Current Accounts and Fixed Deposits:

Auto Sweep Facility (Sweep-In): Balance in excess of a stipulated amount is automatically transferred to a Fixed Deposit for a default term of one year. Hence, amount in excess of a fixed limit can now earn a substantially higher rate of return.

Reverse Sweep (Sweep-Out): In case of shortfalls in the Savings account to honour any debit instruction (e.g. when the customer wants to withdraw money through cheque or through ATM), balance in the FD to the extent needed for meeting the shortfall is automatically withdrawn in multiples of Rs. 1000 (or any other amount set by the bank) The remaining balance in the FD continues to earn higher interest at the original rate applicable to FDs.

Banking Products

Loans: The loan is a sum of money that an individual or a company may borrow from banks so as to fulfil their needs. It may be planned or unplanned event. By taking a loan from the bank, the borrower incurs a debt, which they have to pay back with interest and within a time period. The Banks offer loan for personal use, or buying home or vehicle.

Mortgage: This is a type of loan mainly used to purchase home, land or plot, or renovate home. The borrower accept the terms and conditions of payment and agree to pay the Bank the borrowed money with interest over a period of time. The total payment is divided into Payment and interest. The property then serves as a collateral to secure the loan .

Credit Cards: is an electronic payment card that the bank offers to the individuals who are interested in accessing funds on a “buy now and pay later” basis. The user can purchase at various merchants and can avail a grace period of 45-50 days for payment. If the cardholder pays the full amount spent within this period, no interest is charged; if not they accrue an interest until the outstanding amount is settled.

Overdraft: it's a feature offered by banks to some customers. The bank provide extended credit facility, which will come into effect once the customer's main/primary account balance reaches zero.

Lines of Credit: This is also called evergreen loan. A line of credit (LOC) or LOC is a form of unsecured personal loan that allow the individuals/organisations to borrow money when they need it, pay it back, and borrow more without having to qualify for another loan.



Click/Scan the QR code to watch the video on Retail Banking

Services offered by Banks

Online Banking: The account holder may prefer to operate their account using internet. They visit the bank's website, and with the help of a username and password they can log in to the portal and perform all that operation that they can do in person in the bank's branch.

Mobile Banking: With the advancement in technology, the banks give the flexibility to its customer to access their account with the help of their smart phones. Each bank has a mobile app which the users download. With the help of a username and password, they can access their account and carry out the transactions.

ATM: (Automated Teller Machine): Customers can withdraw cash from this machine using their debit cards. They insert the card and provide the PIN (Personal Identification Number) and mention the amount of cash they require. If the ATM has cash, then it will dispense the amount and print a receipt. This is so easy and secure, and it reduces the need for the customer from visiting the bank for cash withdrawals, thereby reducing the use of paper.

NEFT: National Electronic Funds Transfer is a method of transferring money from one account to another account. NEFT can be done through online or mobile banking and requires the details like the payee's name, account type (savings or Current) account number, bank name, branch address. This is seamless and less time consuming. This can be done at any time of the day and an individual can transfer up to a maximum of Rs.10 lac to the other account.

RTGS: Real Time Gross System is similar to NEFT, but the difference here is that the RTGS is usually used for a high value transfer and instant remittance. And the beneficiary gets the payment almost immediately without a long wait time.

IMPS: Immediate Payment Service is a real time fund transfer service. Similar to NEFT but the transfer is secure and instant.

Account Operations

Withdrawal: act of taking money from the bank by the account holder. It can either be through ATM or through presenting a cheque at the bank.

Deposit: action of adding money to the account is called a deposit. Deposits can be made through the ATM or by filling the pay-in slip at the bank.

Transfer: transfer is a process of moving funds from one account into another account. This can be initiated through ATM, NEFT, IMPS or using a cheque.

Balance inquiry: checking the balance amount in the account is called balance inquiry. This can be done through ATM, Mobile app or by physically checking from the bank by providing the account number.

Interest Rate: It is the amount the lender or the creditor charge the borrower. It is typically a percentage of the principal amount. While repaying the borrower pays the principal amount with the interest rate.

Penalty Fees: Penalty fees are imposed by creditors/lenders from borrowers, if they fail to pay their dues on the given date. This is also referred to late fees. The borrower is expected settle the due amount along with the penalty or late fees.

Service Charge: Banks levy charges for the services they provide to their customers. For services like account maintenance, minimum balance, credit cards, loan processing, transactions, Loan Processing, Foreign exchange services, overdraft services etc.

Credit Terms

Credit score refers to the score an individual earns by paying the dues to the bank on time and maintain their creditworthiness. The healthy credit score of 720 and above (for 1000) determines their eligibility for borrowing loans from the banks and other financial institutions. CIBIL or Credit Information Bureau of India Limited keeps track of the score of the individuals and its accessible to all the financial institutions whenever required.

Credit Limit: refers to the maximum amount of credit an individual can avail from Bank or other financial institutions. The limit is determined by various factors like their fixed income, expenditure, credit history and the paying capacity of the borrower.

Bankruptcy: is a condition where an individual or an organisation declares that they do not have adequate income/funds to repay their debts to their creditors. The court declares them as Bankrupt and work out a plan to repay or waive of the debts as the case may be.

Collateral: is an asset or property which the debtor pledges against the loan they availed, as a security. The pledged item will remain in the custody of the creditor. Once the debtor clears the payment, its returned back to them. It's a form of protection for the lender in case the debtor fail to clear the loan.

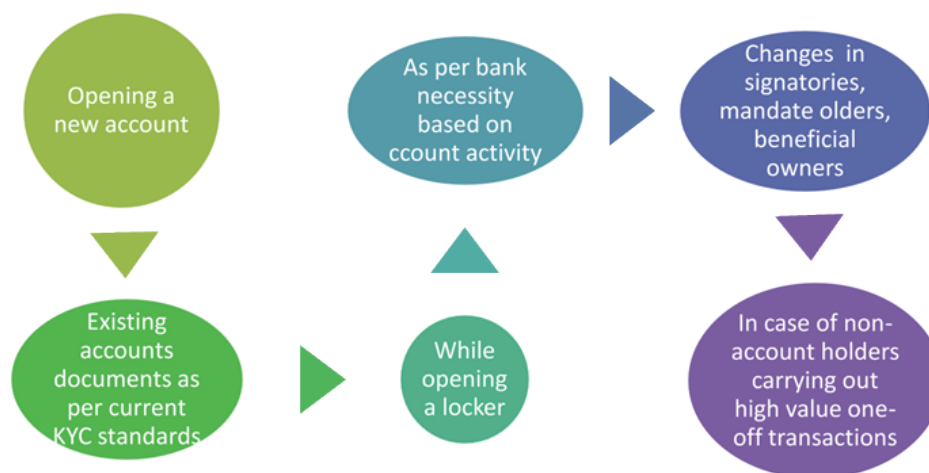
Regulatory Item

KYC: Every financial institution captures the personal details of the customer who wishes to avail any of the banking products in a form called Know Your Customer. It's a mandatory form that is supposed to be filled by every customer. And along with this form, they are also required to provide Identity proof and address proof. RBI requires Banks to know the customer

- Before opening a new account
- While handling operations in a new account
- Making changes to address or other important details in the account
- Handling large-value transactions



When does a KYC apply



Why KYC (Know your customer)?

Banks Need KYC documents to

- Verify customer details in the account opening form
- Confirm the identity and address of the applicant
- The Objective of KYC as stated in RBI guidelines:
 - To be aware of the identity of the customer
 - To be aware of the location of the customer
- Manage risks associated with customers
- Prevent the banking system from being used by anti-social /criminal/terrorist elements.

KYC is an important element of Anti Money Laundering.

AML - Anti Money Laundering usually refers to the policies, procedures, and regulations to prevent the individual or organisation declaring their illegal money as legal/legitimate.

What is money laundering?

Converting Black money into white money

What is anti-money laundering?

Prevention of Money Laundering

Money laundering is conducted in three phases:

- **Placement:** This is the point of entry for funds from criminal acts.
- **Layering:** Generating a complex web of transactions from the placement to the end to end of the transaction cycle of the illicit funds.
- **Integration:** This refers to sending those funds back into the economy for later withdrawal.

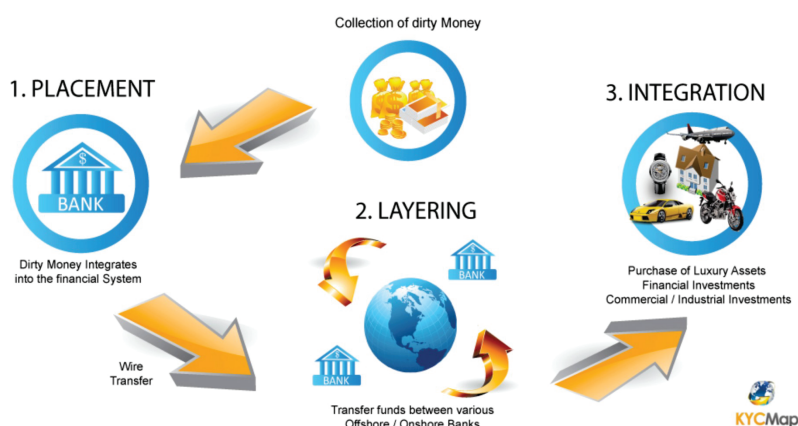


Banks and Money Laundering

Banks need to ensure that they do not accept funds from persons or entities where the source of earnings is not satisfactorily explained. For that, customers need to know the financial details of the customer.

Following thorough Know Your Customer (KYC) guidelines helps banks to know the real identity and the financial background of the depositor.

A TYPICAL MONEY LAUNDERING SCHEME



Understanding and getting familiarised with these terminologies is essential for the DRA(Debt Recovery Agent) as it equips them with the necessary knowledge to perform their duties effectively and efficiently in the area of debt recovery and financial services.

Exercise

1. Activity:

Sheila borrowed 5 lacs from ABC bank for her personal use and promised to repay in three years. The bank told Sheila that they will charge an interest rate of 10% per annum. What is the principal and interest amount that Sheila would pay?

$$\text{Simple Interest} = \frac{\text{Principal} * \text{Interest} * \text{Time}}{100}$$

Principal = 5,00,000

Interest=10%

Time =36 months

$$\text{Simple Interest} = \frac{5,00,000 * 0.10 * 3}{100} = \frac{150000}{100} = 15000$$

Sheila would pay the principal amount of 500000 and interest amount of 15000 for three years. And she would pay a total of 5,15,000.

Based on this amount, calculate the monthly interest.

2. Activity:

Anu works in a BPO and earns a monthly salary of Rs.60,000. She lives in a rented accommodation and pays a rent of Rs.10000, and spend about Rs.8000 on household items. She also has availed a car loan and pay an EMI of Rs.12000 every month. She maintains a credit score of 800. She wanted to avail a personal loan of Rs.4 lacs for her son's college admission for a tenure of 4 years. Will the banks or other financial institutions consider her application.

Justify your answer by giving reasons.

Ans: Yes, because she maintains a credit score of 800. That is a healthy score and the banks will consider Anu's request for personal loan.

3. Write the difference between IMPS, NEFT and RTGS.

Ans: NEFT: National Electronic Fund Transfer is a mode of money transfer in a bank between two accounts and RTGS is Real time Gross Settlement

Details	NEFT	RTGS
Minimum amount	Rs.1	Rs. 2 Lacs
Maximum Amount	No Limit	No Limit
Transfer time	30 minutes	immediate

Benefits of Using NEFT:

Let us know about the advantages offered by NEFT:

- NEFT is available round the clock i.e., 24x7 and 365 days
- Safe and secure fund transfer
- There are no charges levied by RBI from banks
- NEFT service can be used for a variety of transactions such as payment of credit card bills, payment of loan EMI, etc.
- The service is available Pan-India

- No charges levied on savings bank account customers for online NEFT transactions
- The process of NEFT can be initiated from your phone or the comfort of your home via net banking or mobile banking
- When the beneficiary receives money then the remitter receives credit confirmation via SMS or email
- It is a cost-effective mode of fund transfer

4. What do you understand by joint account?

Ans: A joint account is a bank or brokerage account shared by two or more individuals. Joint account holders have equal access to funds but also share equal responsibility for any fees or charges incurred. Transactions conducted through a joint account may require the signature of all parties or just one.

5. What is an offshore account?

Ans: An offshore, or overseas, bank account is one that you have in a country you don't reside in. They allow you to make and receive payments, hold money and set up savings and investment accounts in multiple currencies. This was not only the individual keep their roots but also have more variety of investment plans.

6. What are the basic documents needed for filling the KYC form?

Ans: Credentials of customers like Name, Address and date of birth and the registered mobile number.

Notes

[illegible]

[illegible]

Unit 2: Perform Pre Recovery Activities

Unit Objectives



By the end of this unit, the participants will be able to:

1. Debt Recovery Policy and Procedures
2. Credit Products
3. Debt Recovery System
4. Debt Management Plan

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Say



Good morning and welcome to the training program on Debt Recovery Agent. Let us start the unit by discussing about the Debt Recovery Policies and Procedures. Draw the participation of the class by asking questions about whether they have heard about the term Debt Recovery Agent.

Elaborate



- Explain to the participants about the Debt Recovery Policies and Procedures, Credit Products, Debt Recovery System, and Debt Management Plan
- Why is it important to adhere to the policies and procedures to be followed by the DRA?
- The credit products offered by the banks and how it is beneficial to the customers.
- Debt Recovery System adopted by the Financial and Non-Banking Financial Companies.
- The responsibility of the DRA to create a Debt Management Plan to help the debtors clear the over-due amount considering their financial liabilities and their income.

Unit 2.1: Debt Recovery - Policy and Procedures

Unit Objectives



By the end of this unit, the participants will be able to:

- Debt recovery policy
- RBI guidelines on Debt recovery, asset reconstruction
- SARFAESI Act
- Banking regulations relevant to consumer protection
- Role of a Debt Recovery Agent as per Contract law

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Say



Good morning and welcome to the training program on Debt Recovery Agent. Let us start the unit by discussing about the Debt recovery policies and procedures. Draw the participation of the class by asking questions about whether they have heard about the policies and procedures with respect to Debt Recovery.

Elaborate



- Explain to the participants about the Debt Recovery Policy
- What are the RBI guidelines with respect to Debt Recovery and the responsibilities of a DRA
- Explain Asset Reconstruction and the details of the SARFAESI Act
- Elaborate the Banking regulations relevant to consumer protection
- Role of a Debt Recovery Agent as per Contract law

2.1.1 Introduction

Every bank appoints the Debt Recovery Agencies to collect/recover overdue debts or receivables. While engaged in the recovery process, they have to adhere to the policy, process, and procedure defined by the Banks and governing bodies. These agencies will have Debt Recovery Agents/Executives who are given orientation on their role and given training on how to conduct themselves while they talk to customers or visit the customer for debt recovery. Their role orientation and training will help them to interact with the customers effectively and sensitively maintaining professionalism. We will discuss in detail the policy, process, and procedure for the debt recovery function in this unit.

Banks lay down their policy and procedures for the collection of past-due debts in conformity with the legal and regulatory framework. The banks will, in particular, abide by:

- The RBI directive on recovery debt, including recovery agents engaged by the bank
- The Model Policy on Collection of Dues and Repossession of Security framed by the Indian Banks' Association (IBA).

A bank will normally incorporate its policy and procedure for debt recovery in the arrangement entered into by its recovery agents. In terms of the recovery, arrangement agreed upon with the bank, the recovery agents should adhere to the policy, procedure, etc. prescribed by the bank (principal). If however, a bank has not advised its recovery policy and procedure to the recovery agents then it's the responsibility of the DRA to ask the banks to provide these, as they must follow the bank's specific policy and regulation that govern debt recovery. The Debt Recovery Agencies should follow the same guidelines followed by the banks about debt recovery from the defaulters.

In the paragraphs below, we describe the important features of the Debt Recovery Policy, Processes, and Procedures, based on the current RBI and IBA guidelines for banks available on their websites. These guidelines would apply to debt recovery by the bank's staff and also by outsourced debt recovery agents.

2.1.2 Debt Recovery Policy

Elaborate



A bank's debt collection policy offers guidelines for bank workers or authorized agents to follow when attempting to collect debts and interact with debtors. In the event of uncertainty, the recovery processes should be construed by these principles. Banks will often base their debt collection policies on the following guidelines:

- Dignity and respect to customers:** A consumer should be given fair treatment and respect. This is the fundamental principle of the Bank's collection policy, based on the Bank's Commitment to Customers (BCC), which the majority of banks may have given under the Banking Codes and Standards Board of India (BCSBI).
- Courtesy and persuasion in interaction with customers:** By being courteous and persuasive the DRA can effectively collect the dues from the debtors. These principles are also followed by staff of the most banks. All the banks and its collection agencies will refrain from using forceful tactics while recovering the debts.
- Appropriate authorization:** After appointing the collection agencies and entering into an agreement, the banks will issue authorization letters to these agencies to collect the dues from the debtors. The DRA's must carry this authorization letter along with them while visiting customers for recovery and show them on to customers on demand.
- Due notice to the customers:** This is necessary under the general law. The bank should inform the debtors of the details of recovery agents engaged for the purpose of forwarding default cases to the recovery agents. The detail should include their names and telephone numbers etc. The recovery agents should call the borrowers only from telephone numbers notified to the borrower.
- Use simple business language in all verbal/ written communication with customers**
- Keep privacy and confidentiality of customer's dues and other records:** This is required under the law of the land and also forms a Bank's Commitment to Customers (BCC), which most of the banks may have given under the Banking Codes and Standards Board of India (BCSBI). However, there are exceptional situations, when customers' accounts may be discussed with third parties, with the customer's written permission, or to the tax authorities and law courts on their specific direction. In case of doubt, refer the matter to the bank (principal).
- No misleading statement or misrepresentation is made to customers:** DRA cannot make any misleading or misrepresenting statements to the customers and it's not permitted under the law. The customer may file a lawsuit against the agent if they believe that the agent misrepresented anything and caused them to suffer losses or damage.

viii. Read, understand, and abide by the policy guidelines: Before beginning collections on debts owed by the customers the DRAs must go through the guidelines thoroughly. Failure to comply with the guidelines may result in termination of employment/ business.

RBI Guidelines on Debt Recovery and Asset Reconstruction

All agreements between banks and their Agencies are based on two documents

- The RBI Guidelines
- Code of Bank's Commitment to Customers (CBCC) published by Banking Codes and Standards Board of India (July 2006)

The RBI issued draft guidelines that recovery agents and banks have to abide by when collecting debts from their customers. The idea is to streamline the practices used by recovery agents and keep a tab on them.

Explain



RBI's Guidelines

- Banks are responsible for the actions of the recovery agents. Hence banks have to ensure that the recovery agents they hire follow RBI guidelines and the rules of the Banking Codes and Standards Board of India throughout the recovery process.
- Training of 100 hours training to be undertaken by recovery agents as well as the employees engaged by service providers.
- Recovery methods practiced by recovery agents should conform with the code of collection of the Banking Codes and Standards Board of India.
- In case of loans amounting to less than Rs.20, 00,000/-, the Lok Adalats can refer to.
- Legal and proper procedure to be followed while re-possessing the property hypothecated or mortgaged to the bank.
- In cases of serious violations of its directives RBI may impose a ban on the bank in recruiting recovery agents partially or fully.
- In cases where customers default on payments, banks are obligated to inform them about the details of recovery agents hired by the bank. A repossession clause should be included in the contract. Also, customers should be given prior notice of the repossession in case of non-payment.
- The Indian Banks' Association (IBA) and the Indian Institute of Banking & Finance (IIBF) should conduct training courses for recovery agents to educate them about the preferred recovery practices. A minimum of 100 hours of training is desirable.
- Customers should not be harassed or abused during the recovery process. For example, customers may be contacted only on telephone numbers provided by them and not on any other number. Calls or personal visits may be made during decent hours only. No abusive language may be used with the non-paying customer.

SARFAESI Act

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI*) Act enacted by the Government of India in the year 2002 allows banks to take possession of assets of defaulting borrowers charged to the banks, without intervention of the court.

The Act was recently amended in January 2013 by The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2011.

The following changes were made in the SARFAESI Act:

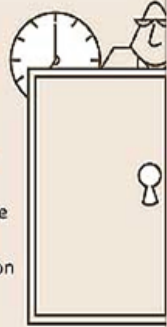
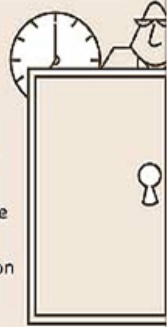
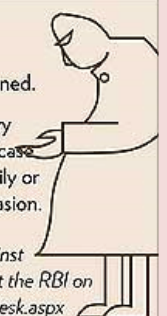
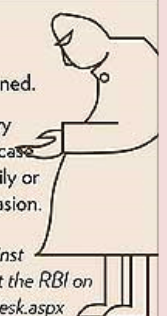
- It allows banks to bid for any immovable property (of the defaulting borrower) they have put out for auction themselves if they do not receive any bids during the main auction. In such a scenario, banks will be able to adjust the debt with the amount paid for this property.
- In the case of an unsuccessful auction of a non-performing asset, banks are allowed to buy the said asset at the reserve price set by them, which is beneficial for them as they can satisfy that debt with their own money. This enables the bank to secure the asset in part or complete fulfillment of the defaulted loan. Banks can then sell off this property to a new bidder at a later date to clear off the remaining portion of the debt, if any.
- Multistate Co-Operative Banks are now included within the meaning of "a bank" under this Act.
- The Act provides that the secured creditor can seek the assistance of the District Magistrate to take possession of a secured asset.

Recovery of Debts due to Banks and Financial Institutions Act (RDBFI), 1993

This law provides a mechanism for banks and financial institutions to recover unpaid loans and debts. The creditor can file an application with the Debt Recovery Tribunal (DRT) under this act. The DRT can issue a recovery certificate to recover the debt from the debtor's property. The creditor may file a lawsuit to confiscate the debtor's assets if they are not paid by the due date.

RBI Recovery Rules (For borrowers)

The RBI's Recovery Rules

-  You can choose the place of contact. In the absence of any specified place, the recovery agent can contact you at home or at work.
-  You can ask to see the agent's ID card and letter of authorization from the bank.
-  You have a right to privacy: Recovery agents cannot discuss your debt with any other person.
-  You can specify the hours between 7am and 7pm for contact, unless the special circumstances of your business or occupation require otherwise.
-  You can choose a time and place to receive calls.
-  You can have access to time and number of calls and contents of conversation documentation.
-  You can seek assistance to resolve disputes or differences regarding dues.
-  You have to be treated with decency and decorum has to be maintained.
-  You can tell a recovery agent not to call or visit in case of bereavement in the family or during any calamitous occasion.

If you want to complain against harassment, you can contact the RBI on www.rbi.org.in/scripts/helpdesk.aspx

Insolvency and Bankruptcy Code, 2016 (IBC)

This law was passed in an attempt to consolidate the numerous laws relating to the recovery of debts as well as the legally defined path for the declaration of insolvency by a debtor in the instance of the debtor being unable to pay the sums owed. The IBC also bifurcated creditors into two main categories namely financial creditors whose relationship with the debtor is based purely on a financial contract and operational creditors whose relationship with the debtor arises out of a transactional agreement based on the conduct of an operation. Financial creditors additionally have membership and voting rights in the committee of creditors which are formed to deal with the debt arising out of the declaration of insolvency or bankruptcy by the debtor. The IBC also poses increased obligations on the financial creditor with regards to the appointment of a resolution professional to oversee the insolvency resolution process upon furnishing financial information as a measure of proof of debt. The IBC also brought about the “waterfall mechanism” as a method of determining the division of payments to each of the creditors based on the ratio and quantum of debt they are owed. Cases arising under the IBC are heard by the National Company Law Tribunal (NCLT) with a chance of appeal to the National Company Law Appellate Tribunal (NCLAT).

Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016 (ESIRDA Act)

The passage of this law amends multiple provisions of the SARFAESI Act, the RDBFI Act, the Stamp Act, and the Depositories Act. The law expanded the jurisdictions of the DRTs apart from rearranging the hierarchy of the tribunals. The law also put a restriction on defendants upon receiving a notice from transferring related assets. The scope of applicability of SARFAESI was widened as was the definition of a “secured creditor” to include a debenture trustee. Additionally, the ESIRDA Act also exempted instruments for asset reconstruction from the payment of stamp duty apart from provisioning for electronic filing of documents.

Limitation Act, 1963

The Indian statute known as the Limitation Act, 1963 establishes the deadlines for initiating judicial procedures. It specifies the maximum time duration within which legal action can be taken to seek remedies for a variety of civil issues, including debts, contracts, property disputes, and other civil wrongs.

Banking Regulations

Explain



Measuring the quality of banking services is difficult because the services are intangible and there is no tangible product that the customer takes home. Even within banking, there are a variety of dissimilar services like retail banking, commercial banking, investment banking, etc. making standardized quality measurement difficult. The outcome of customer experience is the only measurable entity.

The TCF ('treating customers fairly') principles define standards that the institutions must aspire to meet so the consumers benefit and have increased confidence in the financial services industry.

TCF aims to:

- Help customers fully understand the features, benefits, risks, and costs of the financial products they buy
- minimize the sale of unsuitable products by encouraging best practices before, during, and after a sale
- facilitate transparent and non-discriminatory pricing

A Sample Bank Policy

Policy on Collection of Dues and Repossession of Security

1. Introduction:

The debt collection policy of the bank is built around dignity and respect for customers. The bank will not follow policies that are unduly coercive in the collection of dues. The policy is built on courtesy, fair treatment, and persuasion. The bank believes in following fair practices regarding the collection of dues and repossession of security thereby fostering customer confidence and long-term relationships.

The bank's Security Repossession Policy aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the immovable or movable asset. The policy recognizes fairness and transparency in repossession, valuation, and realization of security. All the practices adopted by the bank for follow-up and recovery of dues and repossession of security will align with the law. Security repossession procedure would be set in motion only after all attempts by the bank to discuss with the borrower the ways and means to overcome the financial hurdles have failed or if the customer is not contactable/avoiding contact for a reasonable period. As an exception, it is to be noted that the Bank has the right to possess the financed asset, as a preventive measure, even in instances where there has been no default but on account of violations of the terms and conditions of the Loan Agreement.

2. General Guidelines:

All the members of the staff or any person authorized to represent our bank in collection or/and security repossession would follow the guidelines set out below:

1) The customer would be contacted ordinarily at the place of his/her choice and in the absence of any specified place, at the place of his/her residence and if unavailable at his/her residence, at the place of business/occupation.

2) The identity and authority of persons authorized to represent the bank for follow-up and recovery of dues would be made known to the borrowers at the first instance. The bank staff or any person authorized to represent the bank in the collection of dues and/or security repossession will identify himself/herself and display the ID card (which includes due authorization of the Bank) issued by the bank upon request.

3) The bank would respect the privacy of its borrowers.

4) The bank is committed to ensuring that all written and verbal communication with its borrowers will be in simple business language and the bank will adopt civil manners for interaction with borrowers.

5) Normally the bank's representatives will contact the borrower between 0700 hrs and 1900 hrs unless the special circumstance of his/her business or occupation requires the bank to contact at a different time.

6) Borrower's requests to avoid calls at a particular time or a particular place would be honored as far as possible.

7) The bank will document the efforts made for the recovery of dues and the copies of communication sent to customers, if any, will be kept on record.

8) All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and orderly manner.

9) Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls/visits to collect dues.

10) The Bank will also adhere to the extant regulatory guidelines on the Fair Practices Code for Lenders, Outsourcing of Financial Services, Code of Bank's Commitment to Customers, and Recovery Agents engaged by Banks.

3. Engagement of recovery agency:

The Bank may utilize the services of recovery agencies for the collection of dues and repossession of securities. Recovery agencies will be appointed as per regulatory guidelines issued in this regard. In this respect:

1) The name and address of all Recovery Agencies on the Bank's approved panel will be placed on the Bank's website for information.

2) Only recovery agencies from the approved panels will be engaged by the Bank.

3) Employees of the recovery agencies, after completing the mandatory Debt Recovery Agent (DRA) training, will be issued valid ID cards authorizing them to collect dues from the Bank's customers.

4) In case the Bank engages service of such recovery/enforcement/ seizure agencies for any recovery case, the identity of the agency will be disclosed to the borrower.

5) The recovery agents engaged by the Bank will be required to follow a code of conduct governing their dealings with customers.

4. Giving notice to borrowers

While written communications, telephonic reminders, or visits by the bank's representatives to the borrowers' place or residence will be used as loan follow-up measures, the bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing with a provision for acknowledgment. The bank will follow all such procedures as required under law for recovery/repossession of security. The number of days to be given as notice needs to be mentioned and it should stipulate the minimum time that will be given to the borrower to pay the debt failing which the bank will proceed to take possession of the asset. However, if the customer deliberately avoids acknowledging or establishing contact with the bank then the bank will be free to proceed with the repossession of the security.

5. Repossession of Security

Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security, and realization of security through appropriate means. All these would be carried out fairly and transparently. Repossession will be done only after issuing the notice as detailed above. Due process of law will be followed while taking repossession of the property. The bank will take all reasonable care to ensure the safety and security of the property after taking custody, in the ordinary course of the business and necessary costs will be charged to the borrower.

6. Valuations and Sale of Property

Valuation and sale of property repossessed by the bank will be carried out as per law and fairly and transparently. The bank will have the right to recover from the borrower the balance due if any, after the sale of the property. Excess amounts if any, obtained on the sale of the property will be returned to the borrower after meeting all the related expenses provided the bank does not have any other claims against the customer. The Bank will give a notice before proceeding with the sale. Giving notice before taking possession of the property should not be construed as notice for sale.

In the case of hypothecated assets, after taking possession, a pre-sale notice is sent to the customer giving 7 days for payment. If no payment is forthcoming within 7 days of pre sale notice, the Bank will arrange for the sale of the hypothecated assets in such manner as deemed fit by the Bank. In respect of cases under the SARFAESI Act, as per the provisions of the Act, a notice will be issued to the customer giving 30 days for payment. When sale by public auction or by tender is envisaged, a notice will be published in two leading newspapers out of which one would be a local vernacular newspaper.

7. Opportunity for the borrower to take back the security

As indicated earlier in the policy document, the bank will resort to repossession of security only for the realization of its dues as the last resort and not to deprive the borrower of the property.

Accordingly, the bank will be willing to consider handing over possession of the property to the borrower any time after repossession and before concluding the sale transaction of the property, provided the bank dues are cleared in full. If satisfied with the genuineness of the borrower's inability to pay the loan installments as per the schedule, which resulted in the repossession of security, the bank may consider handing over the property after receiving the installments in arrears. However, this would be subject to the bank being convinced of the arrangements made by the borrower to ensure timely repayment of remaining installments in the future.

In the case of hypothecated assets, after taking possession, a pre-sale notice is sent to the customer giving 7 days for payment. If no payment is forthcoming within 7 days of pre sale notice, the Bank will arrange for the sale of the hypothecated assets in such manner as deemed fit by the Bank. In respect of cases under the SARFAESI Act, as per the provisions of the Act, a notice will be issued to the customer giving 30 days for payment. When sale by public auction or by tender is envisaged, a notice will be published in two leading newspapers out of which one would be a local vernacular newspaper.

If the amounts are repaid, either as stipulated by the Bank or dues settled as agreed to by the Bank, possession of seized assets will be handed back to the borrower within seven days after the date of permission from the competent authority of the Bank or court/ORT concerned if recovery proceedings are filed and pending before such forums.

Explain



Read the extract of the RBI guidelines between bank and Recovery agents from the Participant Hand book page number: 35.
Ask the students to discuss each guideline one after the other.

Role of Debt Recovery Agent as per Contract Law

The Indian Contract Act of 1872, Sec.183 and 184 deals with the appointment of an agent and who may be called an agent.

Section 182 of the Contract Act of 1872 defines *"An agent is a person employed to do any act for another in dealing with third parties"*.

The salient features of this law are:

- An agent in commercial law (also referred to as a manager) is a person who is authorized to act on behalf of another (called the principal or client) to create a legal relationship with a third party.
- The principal has to perform his/her part of the agency in primarily two ways. The principal has to pay or where necessary indemnify the agent for the services rendered or expenses incurred respectively.
- There may be different kinds of agents such as bankers, factor, advocates, etc. According to the extent of authority, there may be general, special, or universal agents.
- Various rights are given to agents and they can also be sued on certain grounds.
- There are certain duties of agents such as execution of instructions, exercise of skill and care, acting in good faith, etc.
- Likewise principal also has certain duties such as payment of the agent, and indemnification of the agent.
- Agents owe fiduciary duties to the principal such as loyalty, and confidentiality.
- Agent is authorized to create a contract between his principal and third party.
- An agent can be sued on his liabilities and the authority of an agent can be revoked.

Exercise



1. **SARFAESI stands for Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI*) sets the maximum time duration within which legal action can be taken to seek remedies for a variety of civil issues, including debts, contracts, property disputes, and other civil wrongs.**
2. **Before beginning the collection process, the DRA has to Read, guidelines thoroughly.**
3. **Agent is authorized to create a contract between his principal and third party.**
4. **Various rights are given to agents and they can also be sued on certain grounds.**
5. **When was the Indian Contract Act established? And which section of it deals with appointment of an agent?**

Case Study

Case Study:

XYZ Bank(imaginary name), a leading financial institution in India, emphasizes ethical debt recovery practices and customer-centric approaches among its debt recovery agents.

Preeti (imaginary name) is a Debt Recovery agent working with XYZ Bank and was assigned a case involving a borrower, Mr. Suman, who had fallen behind on his loan payments due to unforeseen medical expenses. Preeti contacted Mr. Suman and understood his challenges and the reason behind his non-payment of dues. She listened to his situation patiently and demonstrated empathy and professionalism. She actively listened to his situation, acknowledging the challenges he faced.

In this scenario, imagine yourself as Preeti and write down all those points you will recommend to Mr.Suman to ease his situation and ensure he pays the dues on time.

1. Understand his income and expenses
2. Make a debt management plan

Notes



This image shows a full page of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. At the top left corner, there is a small orange tab or header area containing the word "Notes" in a bold, sans-serif font. To the right of the word "Notes" is a small icon consisting of three stacked rectangles, representing a document or folder. The rest of the page is filled with the continuous pattern of horizontal lines.

Unit 2.2: Credit Products

Unit Objectives



By the end of this unit, the participants will be able to:

1. Understand credit products
2. Understand different types of loans

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain about the credit products and understand different types of loans.

Say



Good morning and welcome the students to the training session on BFSI sector overview, various components of the financial sector and the standard etiquette observed in the BFSI sector.

Elaborate



Tell the participants about the credit products. There are different credit products that are available to suit the different needs of the individuals. The credit products would include Loans, and credit cards. The loans are also of different types. Depending on the need the individuals can apply for loans. The interest rates are different for different loan products and its also based on the tenure of the loan taken.

2.2.1 Introduction to Credit Products

In India, the credit products offered by the banks and financial institutions fulfil the financial needs of the people. These entities offer various types of products based on the different needs of the people. These arrays of products cater to various requirements like Housing need, education, purchase of new vehicle, marriage expenses, other personal expenses business needs and many more.

The Indian credit product market is dynamic and the banks, financial institutions and non-banking financial companies offer a variety of products with various options to suit the need of the consumers and businesses. The system works like this:

1. Credit Products: They offer various credit products to meet the various needs of the consumers.

a. Advances in credit products represent the creditors' extended credit service to borrowers. This facility allows them to access funds that they can repay over a period of time with interest. Each type of advances comes with different terms and conditions, purpose and addressing the varied financial needs of the individuals and businesses. This includes:

- i. Loans:** upon fulfilling certain criteria and eligibility the customers get upfront amount to be paid later with an interest rate.
- ii. Overdraft:** It's a facility given to certain customers who can withdraw more than what is available in their account with a pre-approved limit. This is used for short-term borrowing and interest is charged for the amount that has been used.
- iii. Letter of Credit:** Letter of Credit is also known as 'Documentary Credits' is the most commonly accepted instrument of settling international trade payments. It is an arrangement whereby Bank acting at the request of a customer (Importer / Buyer), undertakes to pay for the goods / services, to a third party (Exporter / Beneficiary) by a given date, on documents being presented in compliance with the conditions laid down.
- iv. Personal Lines of Credit:** Lenders/creditors usually reserve the lines of credit facility for credit-worthy borrowers. This is similar to credit cards; these allow borrowers to access pre-approved amounts of fund as needed paying interest for the amount borrowed.
- v. Affordable Housing Schemes:** Several affordable housing schemes in India have been introduced in the past few years with combined efforts of the Central Government and the State Governments. These initiatives aim to achieve the mission, "Housing for All by 2022". These schemes are specifically designed to make the process of buying a house simpler and affordable for lower and middle-income groups of people. These policies provide subsidies on home loan interests to eligible citizens for buying or constructing a house with basic facilities like water, electricity, etc

2. Acquire Customers: these institutions target the potential consumers by way of advertising, marketing campaign, tie-ups, promotions and direct sales

3. Application process: Interested and needy people submit the application form along with the mandatory documents like ID proof, address proof and income proof

4. Check eligibility: Applications are assessed by financial institutions according to a number of criteria, including creditworthiness, income stability, and outstanding debts. If the applicant satisfies the requirements, the institution approves the credit product and prepare a document with details such as interest rates, tenure, and repayment schedule, and the terms related to the borrowing.

5. Disbursement: After the application is approved and the terms are discussed, the financial institutions disburse the sanctioned credit amount to the borrower, in case of credit card the card is issued with a pre-approved credit limit.

6. Repayment: Customers are required to repay the borrowed amount as per the terms in the form of monthly instalments, interest payments and in case of credit card it's the minimum due amount

7. Fees and Interest: These Financial Institutions earn revenue as interest from loans, and processing fees, annual fees and penalties for late payment in the case of credit cards.

8. Regulations: The credit market in India is been governed by the regulatory framework and guidelines from Reserve Bank of India (RBI) and other regulatory bodies. These regulations help to follow fair practices, protect consumers' rights, and maintain stability in the financial sector

The market continually evolves with changing customer needs, economic conditions, and technological advancements, influencing product innovation, interest rates, and terms of credit offerings.

2.2.2 Loans

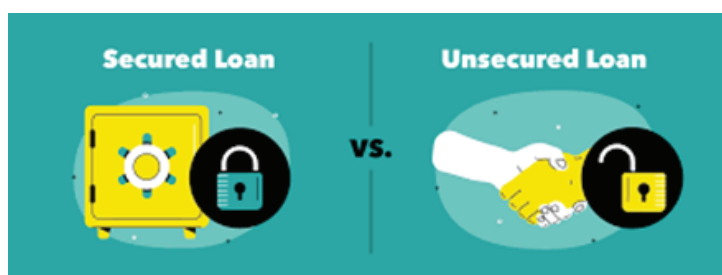
Let's discuss one of the popular credit product "**Loans**".

The act of giving money, property, or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges is known as a loan.

Features of a loan:

- A loan may be for a specific, one-time amount or can be available as an open-ended line of credit up to a specified limit.
- The terms of a loan are agreed to by each party in the transaction before any money or property changes hands. If the lender requires collateral, that is outlined in the loan documents.
- Most loans also have provisions regarding the maximum amount of interest, as well as other covenants such as the length of time before repayment is required.
- Loans can come from individuals, corporations, financial institutions, and governments.
- They offer a way to grow the overall money supply in an economy as well as open up competition and expansion of business operations.
- The interest and fees from loans are a primary source of revenue for many financial institutions such as banks, as well as some retailers through the use of credit facilities.

Loans can be of two types, Secured and Unsecured.



Secured loan: In a secured loan, the borrower promises some asset (e.g. a car or property) as collateral for the loan. This then becomes a secured debt to the creditor who gives the loan. Mortgages and car loans are secured loans, as they are both backed or secured by collateral. With a secured loan, the lender can repossess the collateral in the case of default.

Unsecured loan: Unsecured loans such as credit cards and signature loans are unsecured and not backed by collateral. Unsecured loans typically have higher interest rates than secured loans, as they are riskier for the lender.

Terms associated with loans

The Indian statute known as the Limitation Act, 1963 establishes the deadlines for initiating judicial procedures. It specifies the maximum time duration within which legal action can be taken to seek remedies for a variety of civil issues, including debts, contracts, property disputes, and other civil wrongs.

Mortgage

Pledging of the documents of an immovable property to a lender as a security for a loan is Mortgage.

- It is a transfer of charge, from the owner to the mortgage lender. The condition stands
- that it will be returned to the owner of the real estate when the loan is repaid.
- The Debtor owns and uses the property.

Lien

Section 171 of the Indian Contracts Act confers the right of general lien to banks. The banker is empowered to retain all forms of securities of the customer, given in the ordinary course of business.

Hypothecation

Hypothecation is the right of ownership of assets as a guarantee to secure a loan without the transfer of possession to the Bank.

- The borrower retains legal ownership of the asset and can use it but provides the lender
- with a security interest over the property until the debt is paid off.
- The registration of the property is in the name of the Bank.

Pledge

A pledge is something delivered as security for the payment of a debt or fulfillment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.

Example: Loan availed by pledging gold.

Assignment

The assignment is the charge created on the book of debts, life insurance policies, receivables, etc.

Collateral

In lending agreements collateral is a borrower's pledge of specific property to a lender in addition to the security, to secure repayment of a loan.

Examples: Bonds, shares, and Insurance certificates.

Law of Limitation

Law of Limitation defines the period within which a bank must initiate action in a court of law against a borrower for recovery of its dues.

When the period of limitation as applicable in a particular case expires, the advance becomes time-barred.

Acknowledgement of debt by the borrower and guarantor results fresh limitation period from the date of acknowledgment.

Limitation period:

Loan	Time
Bills of exchange	3 years from the date of presentation
Loan payable in instalments	3 years from the date on which the relative instalment falls due
Money repayable by the mortgagor in case of mortgage loans	12 years from the date of mortgage deed
Personal liability of the borrower	3 years from the date of acknowledgment of debt/demand promissory note
Others	3 years from the time the cheque is paid

Under the Bullet Payment System, the borrower will not be required to pay back the loan and interest payments periodically. At the time of maturity, the full loan amount together with interest payments is made at once.

Balloon Payment System

A balloon payment is the final instalment payment for what is commonly known as a balloon or bullet loan.

A balloon loan is not fully serviced by monthly loan payments and so has a large final payment - the balloon payment that is due at maturity.

The borrower's repayments are higher at the end and smaller in the beginning.

Types of Loans

Loans are of various types, and depending on the requirement the customer can avail any of them. Loan types vary because each loan has a specific intended use. They can vary according to:

- length of time
- rate of interest
- Payment due date
- other variables

Student Loans

Student loans are offered to graduate and undergraduate students or their families to help cover the cost of higher education. The student loan is very flexible and unique, because it allows the student to find a job and stabilize financially before the repayment begins and often has a low interest rate compared to many other types of loans.

**Mortgages**

Mortgages are loans distributed by banks to allow consumers to buy homes they can't pay for upfront. A mortgage is tied to the home, meaning there is a risk of foreclosure in case the debtor falls behind on payments. Mortgages have among the lowest interest rates of all loans.



Auto Loans

Similar to mortgages, auto loans are tied to property. They can help a person afford a vehicle, but there is a risk of losing the vehicle in case of missed payments. This type of loan may be distributed by a bank or by the car dealership directly, although the loans from the dealership often carry higher interest rates even if they are more convenient.



Personal Loans

Personal loans do not have a designated purpose, making them an attractive option for dealing with outstanding debts, such as credit card debt, where interest rates can be reduced by transferring balances. These loans depend on the credit history.



Home Loans

Buying a house is one of the biggest dreams of everybody. But not everybody who Wish to buy a house can pay the full amount and buy a house. It's beyond the affordability of many people. The customers can avail of a home loan from banks. To fulfill the dream of many people, banks and financial institutions offer loans.

The prevailing interest rate for home loans ranges between 7.10% – 12.00%.



The loans can be availed for the following reasons:

- to purchase a new house
- construct a new house in the plot owned by you
- extend the existing house (e.g build additional floors or rooms)
- Loan for making improvements in the existing house
- Home Loan Balance Transfer – if the existing lender's interest is high or not happy with their services, the loan of one lender can be transferred to other.
- Composite Home Loan- which allows you to buy a plot and construct a house on that.



Jewel Loan

A loan against jewelry is a Jewel loan and it's a form of secured loan, where Individuals can pledge their jewelry made of 18-22 carat gold as collateral to obtain a loan from banks and other financial institutions.



Borrowing from Retirement Funds and Life Insurance Policies

People holding retirement funds or life insurance plans may be eligible to borrow money from their accounts.

Consolidated Loans

A consolidated loan is meant to simplify finances. It pays off all or several outstanding debts, particularly credit card debt. It means fewer monthly payments and lower interest rates. Consolidated loans are typically in the form of second mortgages or personal loans.

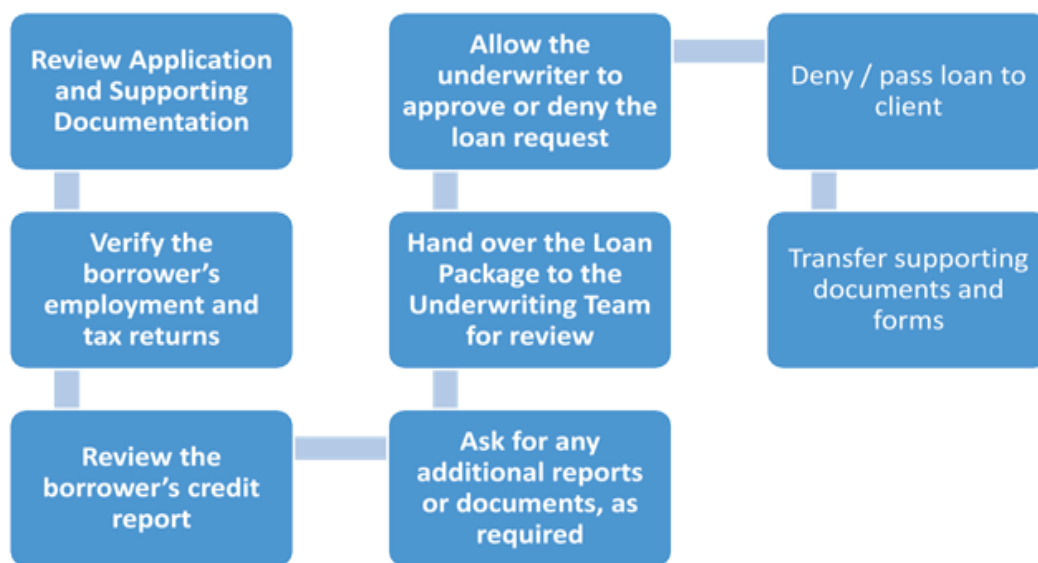
Home Equity Loans

Home Equity Loan sometimes called a HEL offers a loan using the equity of your home as collateral. Equity represents the property's current value minus the existing mortgage amount.

A home equity loan has a fixed interest rate and expected regular monthly payments, while a HELOC (Home Equity Line of Credit) offers variable rates and a more flexible payment schedule. These loans are used for various purposes like credit card debt, renovations, medical bills, supplementing retirement income, and education expenses. It is very important to note that the loan needs to be paid in full if the house is sold.



Loan Application Procedure



Credit Card

A credit card is issued by a financial company giving the holder an option to borrow funds, usually at the point of sale. This is also a type of loan.

When the user makes a purchase using a credit card, they are essentially borrowing money from the banks or financial institutions who issued the card. Credit cards charge interest and are primarily used for short-term financing usually 45-50 days. If the borrowed amount is not paid within the grace period, interest is incurred for the outstanding balance. Interest usually begins one month after a purchase is made, and borrowing limits are pre-set according to the individual's credit rating. Because of their widespread acceptance, credit cards are one of the most popular forms of payment for consumer goods and services.

The issuing Bank grants a facility of credit to the customer by whom he can borrow money or buy products and services on credit. The statement date is fixed every month. It shows particulars of all purchases made via the credit card during the previous month including the payments made and the payable balance.

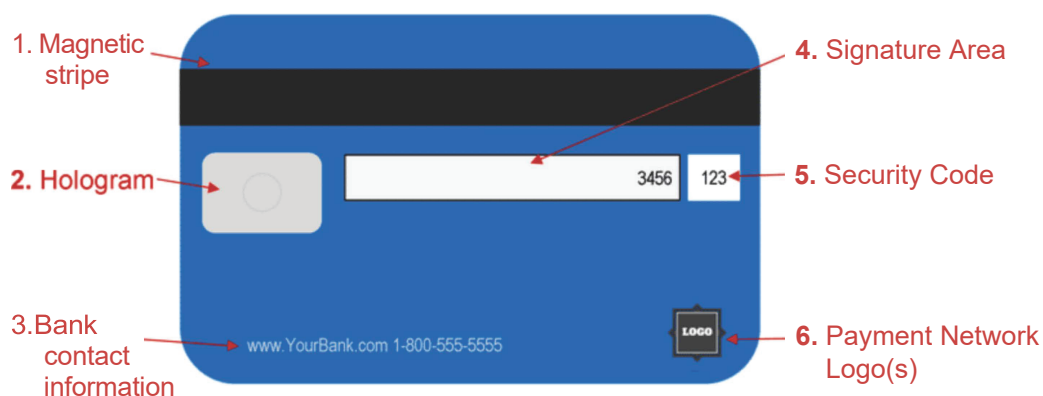
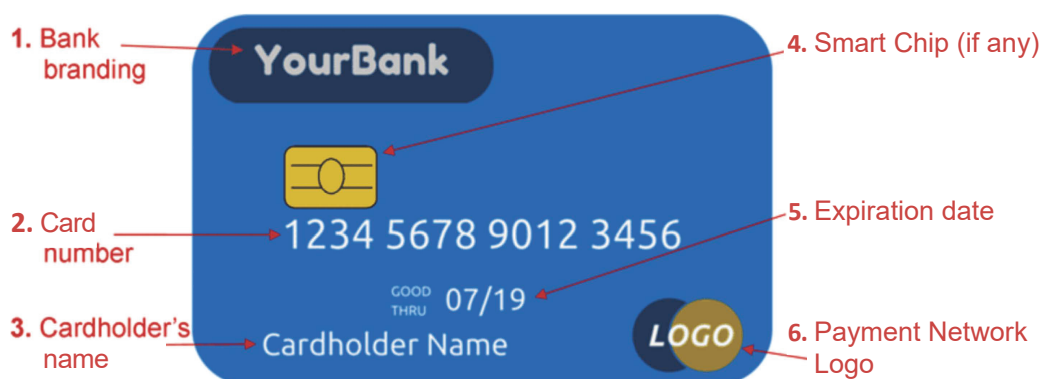
Description of a Credit Card

- made of plastic
- Dimension: 8.5 cm by 5.5 cm
- name and the account number of the holder embossed
- last date of card validity embossed
- specimen signature panel on the reverse
- three-digit CVV number (CVV stands for Card Verification Value)
- name of the company that runs credit card operations
- sign on the specimen signature panel

Card Limit

The limit up to which the cardholder can make purchases in a month is also informed to the cardholder is called the card limit.

A part of this limit can be used for withdrawing cash for emergency purposes. A service fee for such withdrawals is levied.



People involved with a Credit Card business

- Card Holder: The person in whose name the card has been issued
- Card Issuing Bank: This is the Bank that identifies the customer and issues the card. It raises a bill for the customer according to the billing schedule. The customer need not have a savings account with the Bank
- Merchant: the person or concern who/which has accepted payment through a credit card
- Merchant Bank and Acquiring Bank: Once the card is swiped in the shop, the merchant will seek credit from his/her Bank. The Bank which reimburses the merchant is known as the merchant Bank
- Collecting Bank: The Merchant Bank will claim the payment from the bank that issued the card called the collecting bank
- Companies like VISA and Master Card run credit card operations

Types of Cards

Charge Card

In charge cards, transactions are added over a period of time and the total amount is charged or debited to the account.

Debit Card

Debit cards are same as the credit cards. The only difference in this card is that the account of the cardholder is debited as soon as each transaction is made. The cardholder has an existing account with the issuing Bank.

Smart Card or Chip Card

The Smart Card looks exactly like any other plastic or ATM card with an integrated circuit (IC Chip) installed.

KISAN CREDIT CARD (KCC)

A Kisan Credit Card is a credit card to provide affordable credit for farmers in India.

- It was started together by the Government of India, Reserve Bank of India (RBI), and National Bank for Agriculture and Rural Development (NABARD) in 1998-99 to help farmers access timely and adequate credit.
- It allows farmers to have cash credit facilities without repeatedly going through time-consuming bank credit screening processes
- Repayment can be rescheduled if there is a bad crop season
- Extensions are offered for up to four years
- The card is valid for three years and subject to annual renewals
- Withdrawals are made using slips, cards, and a passbook

RuPay Card

RuPay is a combination of two words and Payment. RuPay Card is an Indian version of a credit/debit card.

Exercise



1. Define the following:

i. Loan

Ans: upon fulfilling certain criteria and eligibility the customers get upfront amount to be paid later with an interest rate.

ii. Collateral

Ans: In lending agreements collateral is a borrower's pledge of specific property to a lender in addition to the security, to secure repayment of a loan.

Examples: Bonds, shares, and Insurance certificates.

iii. Pledge

Ans: A pledge is something delivered as security for the payment of a debt or fulfillment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.

Example: Loan availed by pledging gold.

iv. Lien

Ans: Section 171 of the Indian Contracts Act confers the right of general lien to banks. The banker is empowered to retain all forms of securities of the customer, given in the ordinary course of business.

v. Mortgage

Ans: Pledging of the documents of an immovable property to a lender as a security for a loan is Mortgage.

- It is a transfer of charge, from the owner to the mortgage lender. The condition stands
- that it will be returned to the owner of the real estate when the loan is repaid.
- The Debtor owns and uses the property.

2. What is limitation period?

Ans: Law of Limitation defines the period within which a bank must initiate action in a court of law against a borrower for recovery of its dues.

When the period of limitation as applicable in a particular case expires, the advance becomes time-barred.

Acknowledgement of debt by the borrower and guarantor results fresh limitation period from the date of acknowledgment.

3. What are the features of a close-ended loan?

A closed-ended loan is a type of financing where the lender provides a fixed amount of money to the borrower, which must be paid back in equal installments over a specific period of time, typically with interest. This type of loan is also known as a fixed-rate loan, because the interest rate remains the same for the entire loan term. Closed-ended loans are often used for large purchases, such as a home or a car, and have a lower interest rate than open-ended loans, which allow the borrower to borrow and repay funds as needed.

4. Find out the interest rates of the following Bank's credit cards?

a. SBI card b. ICICI Bank c. HDFC Bank d. Axis Bank e. American Express

Card Name	Interest Rate (Per month)
SBI Card	3.5%
ICICI Bank Card	3.4%
HDFC Bank	3.4%
Axis Bank	3.6%
American Express	3.5%

5. Ruby is a resident of Chennai and is planning to purchase a plot and want to construct a house on it. She wants to apply for loan for buying the plot and begin construction. What type of loan she can avail?

Ans: Ruby can avail Composite Home Loan to buys a plot and construct a house on it.

Notes



Lined area for taking notes, consisting of 30 horizontal lines.

Unit 2.3: Debt Recovery System

Unit Objectives



By the end of this unit, the participants will be able to:

1. The term Debt Recovery
2. Debt Recovery Agencies
3. The steps involved in Debt Recovery
4. Legal obligations involved in the Debt Recovery System

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain about the credit products and understand different types of loans.

Say



Good morning and welcome the students to the training session on Debt Recovery System. Tell them that in this unit they will learn about Debt Recovery Agencies, steps involved in Debt Recovery Legal obligations involved in the Debt Recovery System

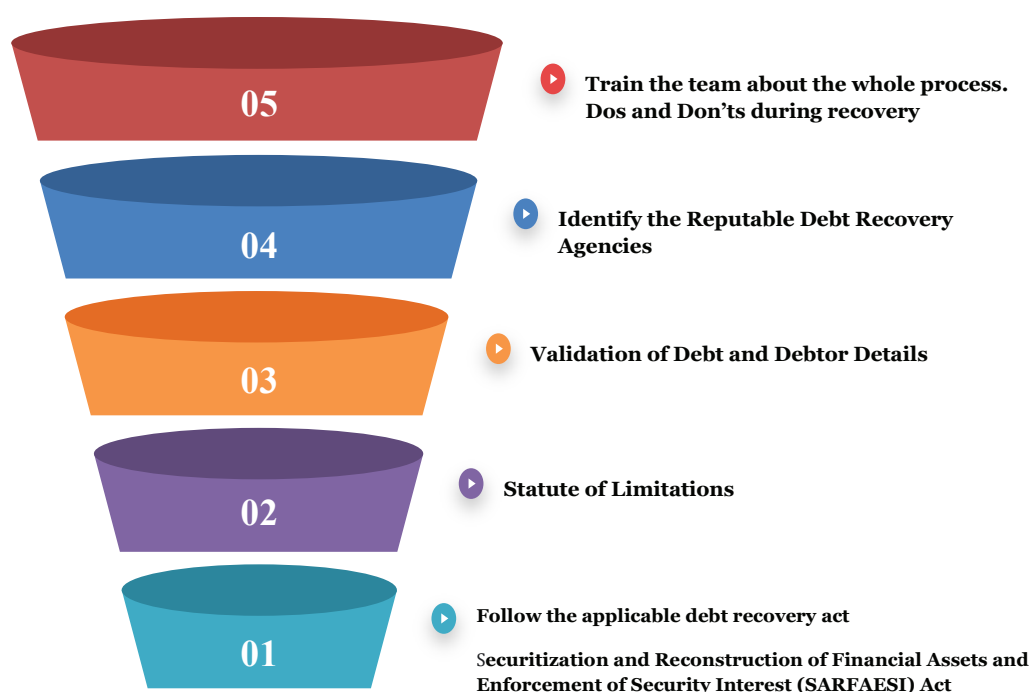
Elaborate



This unit aims to inform participants about the Debt Recovery System in India and highlights the pivotal role of debt recovery agencies as the backbone of financial institutions in recovering dues, reducing collectibles, and increasing revenue. Additionally, it elaborates on the main responsibilities of debt recovery agencies and emphasizes the importance of training Debt Recovery Agents (DRAs) to effectively fulfill their roles within the organization's rules and regulations, ensuring fair treatment of debtors without overstepping boundaries

Debt Recovery

Debt Recovery in India refers to the process adopted by the lender or the creditor to recover the outstanding amounts from the debtors of borrowers. It is a stepwise process. The first step of approach would be the verbal and email communication with the debtors, then legal notices, tribunal or court proceedings, seizure of assets. The Debt Recovery Agents are appointed by the Creditor directly or through Debt Recovery Agencies. The goal is to recover the outstanding amount from the borrower as per the agreed terms and conditions. The recovery process is initiated by the lender or creditor when the debtor fails to repay the borrowed amount.



Lending institutions have a well-defined process and after reviewing the identity and eligibility and other relevant document the loan is disbursed. In other word it's a fairly straight forward process. However, recovering the outstanding amount from wilful defaulters can sometimes be difficult and challenging. This really pose a great challenge for the lenders and often require a more stringent procedures for recovery. Banks appoint agencies to help them in recovering the outstanding dues from the debtors.

2.3.1 Sourcing Debtor Details

Elaborate



The Debt Recovery process require the details of the debtors. The details would include the name of the debtor, the contact number, email id, correct address and the outstanding amount and any other pertinent information about the debtor that could help in the debt recovery process. These details are vital for effective communication and engagement with the debtor throughout the recovery procedure. The debtor details can be sourced from:

1. Creditors: The debtor information is provided by the lender which could be a bank or other financial institutions with all the relevant details required for effective communication.

2. CIBIL Reports: They may also obtain the details from the CIBIL reports of the individuals. This is a comprehensive report which contains the personal details, credit history, financial status with respect to borrowing and repaying. The CIBIL score which is a critical factor in this report and it plays a key role in approving or rejecting the request for loan.

How to Compare Different CIBIL Score Ranges?



2.3.2 Debt Recovery Agencies

The Debt Recovery Agencies are appointed by the banks to assist them in the Debt Collection/Recovery process. The banks will perform a due diligent check of the Agencies before appointing them for this work. The Debt Recovery Team comprises of Tele callers, Field Executive (also known as Field Officer or Field Agent) and Supervisors. The Supervisors oversee the performance of the Tele Callers and Field Executives and help them wherever their intervention is needed.

Every person appointed by the agencies for the specific role has to provide their ID proof, address proof and CIBIL rating. And there is a Police Verification which happens and after the clearance they are offered appointment letters. These measures help to safeguard the agency, creditors sensitive and confidential data. This will also bring a level of trust and reliability in the entire debt recover process.

The supervisors work on the source data provided by the creditor or lender and distribute the list among the tele callers. From there the tele callers' responsibility begins.

Debt Recovery Agencies get paid on the basis of the percentage of the total debt that they collect. Higher the percentage of collection, higher is their commission. Hence in order to remain profitable, the agency has to be very efficient in collecting the debts.

The commission for Agencies is very small and at the same time, the time available for collection is also limited. If they don't collect money (or EMI) when it is due, they will not earn money. Operational efficiency is the key element, which is not possible without proper techniques and processes.

Tele Callers: Tele callers are the first point of contact with the defaulters. With the help of the defaulters list provided by their supervisor, they access the online portal with the help of their log in credentials and begin calling the debtors. While talking to the customer they have to adhere to the etiquette all the time. They maintain a format where in they enter the result of the call.

Field Executive: The next point of contact with the debtors are the Field Agents. They visit the home, or office or the permanent address of the debtor during the approved hours, and inform about their overdue amount and negotiate the dates for payment. They also have an access to online portal and they can record the status of their visit there. Some of the common remarks could be, not contactable, Address Not Found, Refuses to Pay, Call back later, Paid etc.

Supervisor: are responsible for the smooth working of the entire process and have a target to achieve every month. They motivate and encourage team to work efficiently. They support, guide and give training to their team members on the whole process before putting them at desk. The Debt Recovery process is a team work and each member in the team is focused towards one single goal of recovering the debt due for the creditor there by reducing their revenue loss.



Click/Scan the QR code to watch the video on
How to make a collection call



Click/Scan the QR code to watch the video on
How to make a collection call with a solution

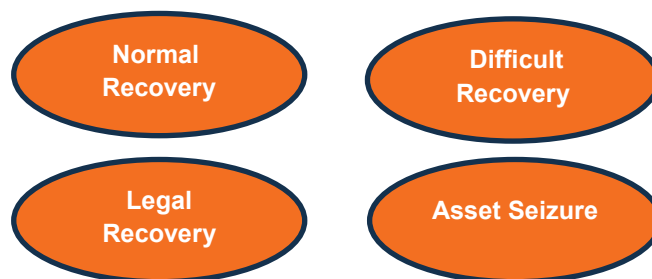
How it works?

The actual creditor/lender start the follow up from their side with the defaulters, and after two to three weeks of follow up the defaulters list is shared with the Debt Recovery Agencies. All these activities happen in the online portal of the creditor. They provide login credentials to authorized people of the agency to access the data and work on it.

The Debt Recovery Agency categorize them as 1 month defaulter (bucket 1), 2 months defaulter (bucket 2) and so on. They keep calling the debtors for about 3-4 months for recovery. If they continue to be defaulters then the list goes to the RBI as Non-Performing Asset. NPA's greatly impact the profitability and stability of the financial institutions as they affect the Lenders ability to lend further and thereby affecting their balance sheet.

2.3.2 Debt Recovery Agencies

Debt Recovery can be classified as Normal Recovery, Difficult Recovery, Legal Recovery and Asset Seizure and each one involves a unique procedure:



Normal recovery process: In this process, the debtors are willing to pay the dues without any resistance. The recovery agent is authorized by the bank to collect the due debt from the debtor, who has been notified by the bank of the details (name, telephone number etc.) of the recovery agent.

Difficult recovery process: In this process, the debtors are not willing to pay and intentionally resist the bank's recovery efforts. The recovery agent in this case needs to apply a special process of recovery against the defaulters, in consultation with the bank

Legal recovery process: In this process, the intervention of the court is required in order to possess the mortgaged immovable property by the bank or recovery agent. Additionally, if the charged assets do not exist or if the debt is unsecured, the debtor can be sued for recovery of the dues.

Assets Seizure process: If the defaulting debtors do not eventually pay the dues, the movable assets that were initially charged to the bank by way of hypothecation or pledge may be possessed by the bank or the recovery agent. These then become property of the bank and can thereafter be auctioned off or sold to compensate for the dues.

2.3.4 Procedure for Normal Recovery

As mentioned above, this procedure will generally apply to the debtors who are willing to pay the dues with a normal recovery process. The following procedure may be followed for such recovery based on the regulatory guidelines. However, the recovery agents should follow the bank-specific debt recovery procedure as advised by their principal. Below are the main rules for making telephone calls and visits to the debtor for recovery of dues:

- a. The recovery agent is the authorized representative to collect the past due debt from the particular customer.
- b. The customer has been informed by the bank about the details of the representative who will be visiting them for the collection of the past-due debt.
- c. Calling the customers: Calling the customer is the first step in the recovery procedure and following rules should be followed generally:
 - i. The recovery agent should call from the same number as it was informed by the bank.
 - ii. The agent identifies himself with his ID proof and authorization letter if needed.
 - iii. The agents have to contact the debtor between 0800 hours and 1900 hours unless the special circumstance of his/her business or occupation requires the bank to contact at a different time. Under no circumstances, the customer can call the customer beyond 2100 hours.
 - iv. The agent should, as far as possible, honour the customer's requests to avoid calling them at a particular time or a particular place. Inappropriate occasions such as bereavement in the family or illness, will be avoided for making calls/visits to collect dues.
- v. In case the customers are abusive or threatening. Such calls should be appropriately documented.

vi. DRA should handle all the queries of the customers. They should be given the requested information and assistance in the recovery process. Any minor issues should be resolved amicably.

vii. How often to call customers? The purpose of a collection call is to bring to the customer's knowledge the obligation and to get a commitment to pay on a specific date. Once a promise is elicited, a reminder call may be made to get a confirmation for payment.

viii. In the event of the commitment not being fulfilled by the customer or it has been broken, the recovery team can make calls at a reasonable frequency, based on the amount owed, product, aging of debt, and past history. Too many calls on the same day should be avoided as it is construed as harassment.

ix. If the customer is not available during a few calls made by the agent, a message may be left to the adult members of the family as follows " Please leave a message that ABC (name of agent) had called and request the customer (name) to call back ABC at the given phone number ". The message should not reveal that the customer ABC has an overdue amount, or the call is from a Recovery agency.



<https://studycare.in/wp-content/uploads/2023/01/RBI-issued-New-Guidelines-regarding-Loan-Recovery.jpg>

d. Visit to customer (debtor): This would be the second step in the collection process. The following procedure should be strictly followed during this step.

i. A DRA should visit the customer at his house for debt collection only after the following conditions are satisfied.

- The debtor has not paid the amount within the grace days and there is still an outstanding against him/her.
- The debtor should be notified of the due amount and also of the name of the Recovery Agent.
- Prior appointment with the debtor should be taken for the visit (at a particular place and at a particular date/time).

(ii) The Recovery Agent should be professionally dressed or wear the dress prescribed by the principal and follow the timing and place of the visit as per the principal's or RBI/IBA code unless otherwise agreed by the debtor explicitly.

(iii) As soon the recovery agent meets the customer, they should greet them with an appropriate salutation like good morning/evening...sir/madam, as the case may be, as per the custom of the bank. The agent should thereafter show his ID card and authorization letter given by the principal for debt recovery from the debtor.

(iv) The agent must visit the customer within the time prescribed by the bank. Generally, it will be between 0800 hours to 2100 hours. Visits earlier or later than the prescribed time may be made only under the following conditions:

- when the customer has requested for a different timing.
- When several attempts made to contact the customer have been futile, and learn that the customer is typically available only outside these hours without an alternate telephone number to contact.
- If the customer works in a shift job (like a call centre, hotel) and may not be available during the regular hours.

(v) DRA during the visit, should show respect and courtesy to the customer, and the interactions should be civil and polite as per the principal's policy.

(vi) During interactions with the debtor, the agent must use appropriate language and not be intimidating. Under no circumstances, should any physical violence be used in the debt recovery process.

(vii) Every conversation with the debtor should be recorded as per the principal's policy. This is part of the documentation process, especially when the debtor disputes the dues or conducts themselves improperly. This practice would safeguard the agent against false accusations by mischievous/recalcitrant debtors.



Image source:

[https://www.investopedia.com/thmb/SyJtyenFOvaZ7tZd6HFrrf4DbQo=/750x0/filters:no_upscale\(\):max_bytes\(150000\):strip_icc\(\):format\(webp\)/how-debt-collection-agency-business-works.asp_Final-d52ff61e187e4113879e73bb782bbc5e.jpg](https://www.investopedia.com/thmb/SyJtyenFOvaZ7tZd6HFrrf4DbQo=/750x0/filters:no_upscale():max_bytes(150000):strip_icc():format(webp)/how-debt-collection-agency-business-works.asp_Final-d52ff61e187e4113879e73bb782bbc5e.jpg)

2.3.5 Dealing with difficult Debtors

There are some debtors who may be termed as difficult debtors' i.e. such debtors who 'can pay' but 'do not want to pay' such debtors may also be termed as wilful defaulters' they have means and assets to pay up the dues, but are not willing to pay up.

Typically, the above category of debtors shows these features:

They would avoid responding to the calls of the recovery agents on one pretext or another.

They would avoid meeting the recovery agent, by cancelling the appointment at the last hour and repeatedly do this.

A pattern of avoidance is discernible from the responses of difficult debtors who do not want to pay. The agent should therefore collect and preserve the documentary evidence to prove the debtor's negative responses to his collection efforts by

- documenting every effort made to contact
- Audio-recording all the responses of the debtor during calls and personal visits this should be done in full knowledge of the debtor.
- Sending letters by email/registered post, containing full details of the dues and also of the efforts made by the recovery agent for contacting the debtor by phone calls and visits, which were of no avail.

If the above efforts do not elicit any positive response from the debtor, the agent should arrange for serving a lawyer's notice on the debtor to repay the dues within a reasonable time frame, failing which a suit would be filed for recovery of the dues along with higher interest at specified rate and also all the legal costs.

The debtor would now face a pressure to pay up the dues and may actually do so. But if the debtor still does not pay the dues, steps should be taken to re-possess the charged assets, if any, or to file a suit for recovery of the dues.

Case Study

Ram receives a phone call at 8:00p.m. from a person who greets him politely and identifies himself as a recovery agent from ABC bank and I've had a difficult time locating you, Mr. Ram he says. I am calling you about the money you owe to ABC bank you must pay or we will be forced to take strong action against you.

Ram objects stating he has never purchased anything through the credit card.

Question:

Analyse the situation and suggest what the debt recovery agent is required to do at this point.

In this situation, the debt recovery agent is required to handle the interaction professionally and in accordance with the rules and regulations governing debt collection practices. Here's an analysis of the situation and suggestions for the debt recovery agent:

Verify identity: The debt recovery agent should verify Ram's identity to ensure they are speaking to the correct person. They can ask Ram to confirm personal information such as his full name, address, or any account numbers associated with the alleged debt.

Listen to Ram's Concern: The agent should listen attentively to Ram's objections and concerns about the alleged debt. Ram claims he has never purchased anything through a credit card, which suggests there may be a mistake or misunderstanding.

Provide Validation of Debt: If Ram requests validation of the debt, the agent should provide documentation supporting the validity of the debt. This could include statements, invoices, or other records indicating the origin and amount of the debt.

Cease Contact if requested: If Ram requests that the debt recovery agent cease further communication, the agent must comply with this request. Debtors have the right to request that debt collectors stop contacting them under the Fair Debt Collection Practices Act (FDCPA) in the United States.

Explain options for Resolution: The agent should explain to Ram the options for resolving the situation, which may include disputing the debt, negotiating a payment plan, or seeking legal advice.

Avoid Threatening language: The debt recovery agent should refrain from using threatening language or making false statements about legal action. Such practices are prohibited under debt collection regulations.

Document the interaction: It's important for the debt recovery agent to maintain accurate records of the interaction with Ram, including any objections raised and steps taken to address them.

Overall, the debt recovery agent is required to handle the situation with professionalism, respect, and adherence to the applicable laws and regulations governing debt collection practices. This includes verifying the debtor's identity, providing validation of the debt upon request, and avoiding any deceptive or abusive practices.

2.3.6 Important points for Debt recovery

Explain



During the normal recovery process, there are certain Don'ts that the DRA's must follow.

- Always adhere to these recovery policies and procedures prescribed by the principal
- Don't go beyond the authority specified in the recovery arrangement.
- Call only from the same number which the customer has been informed by the bank. Don't make anonymous or frequent calls to the debtor, which may be seen as harassment.
- Don't misrepresent or hide your identity during calls, visits, or other interactions with the debtor.
- Don't behave indecently with the debtor during visits or calls
- Don't harass/humiliate/intimidate/threaten the debtor verbally or physically.
- Don't intrude into the privacy of the debtor's family members, friends/colleagues.
- Don't disclose the customer's debts/dues/account information to unauthorized persons.
- Don't forget that the debtor is a human being and deserves to be treated with fairness and courtesy, although he/she is a debtor for the time being.

Responsibilities of Debt Recovery Agent/Debt Collector



Activity



Engage two volunteers: Select two volunteers to role-play the debt recovery process - one as the debtor and the other as the DRA.

Observation by other students: Encourage the remaining students to observe the conversation between the debtor and the DRA closely.

Share Positive Feedback: After the role-play, begin by providing positive feedback on aspects of the interaction that were well-executed. This could include effective communication, active listening, or appropriate tone and demeanor.

Point out Areas of Improvement: Following the positive feedback, identify and discuss areas where the volunteers may have missed the mark or could improve. This could involve aspects such as failure to verify identity, using threatening language, or not providing validation of the debt upon request.

Encourage reflections and Discussion: Encourage the volunteers and other students to reflect on the role-play experience and discuss strategies for improving their performance in future interactions.

Case Study

Based on press reports we narrate a case study (names of the bank, debtor, and recovery agent changed) to illustrate the extent of damage eventually caused to the debtor, recovery agent, and bank by the undesirable conduct of the recovery agent.

Narrative

XYZ Bank had granted a personal loan of Rs. 1,00,000 to Suman, an average-earning professional, for consumption needs. The loan was to be repaid in installments by Suman. The loan was without any tangible security and also without any third-party guarantee. The borrower Suman could not repay some instalments on the due date and therefore the loan became overdue.

The ABC bank gave Suman's case to recovery agent "Z", along with other overdue loans for recovery. The Recovery Agent called Suman a couple of times and also used abusive and harsh language in the presence of his wife and daughter to make the recovery. During one of the visits to Suman's house, Z and his colleagues forcibly entered their house and took away expensive things that were available in his house. They also hurled abusive and threatening language at Suman for non-payment of the dues. Suman felt very much humiliated and went into depression. Being unable to repay the dues, one day Suman ended his life. He left a suicide note, blaming Z for harassing him endlessly. He mentioned the abuses he had suffered at the hands of Z in front of his wife and daughters. He also had mentioned about the threat "Z" gave, about the dire consequences Suman would face if he failed to repay the overdue amount.

Following the sudden death of Suman (due to suicide), the local police arrested Z and his colleagues (who used to accompany Z to Suman's house) on charges of abetment to suicide. A case was also filed against the ABC Bank, which had to pay an ex-gratia payment of Rs. 20 lakhs to the deceased's family. The incident was also published in the press and damaged the Bank's reputation in the public eye.

Questions:

After going through the case study, please answer the following points:

i. Identify the major deviations committed by the Recovery Agent "Z", in the recovery process.

- Use of abusive and harsh language towards the borrower, Suman.
- Forcibly entering Suman's house and confiscating expensive belongings without legal authorization.
- Threatening language and intimidation tactics used against Suman and his family.
- Causing emotional distress and humiliation to Suman and his family.
- Failure to adhere to ethical and legal standards in debt collection practices.

ii. If you are a Debt Recovery Agent, how would you handle this situation?

If I were a Debt Recovery Agent, I would handle this situation with professionalism, empathy, and adherence to ethical standards. I would:

- Communicate with the borrower, Suman, in a respectful and non-threatening manner.
- Provide support and guidance to help Suman explore options for repayment or negotiation of the overdue amount.
- Avoid using abusive language or intimidation tactics during interactions with Suman or his family members.
- Respect the privacy and dignity of Suman and his family, refraining from discussing the debt in front of others without their consent.
- Follow legal procedures and obtain appropriate authorization before taking any actions such as repossession of assets.

iii. Is it appropriate for a Recovery Agent to talk about the dues in front of others in the family?

No, it is not appropriate for a Recovery Agent to discuss the dues in front of others in the family without the borrower's consent. Debt collection practices should respect the privacy and dignity of the borrower and their family members.

iv. Is it appropriate for a Recovery Agent to involve his friends in the recovery process?

No, it is not appropriate for a Recovery Agent to involve friends or unauthorized individuals in the recovery process. Debt collection should be conducted professionally and within the bounds of the law, without resorting to coercion or intimidation tactics.

v. Is it appropriate to take over the things which are not funded by the debt?

No, it is not appropriate to take over items that are not funded by the debt without legal authorization. Recovery Agents should only take action against assets that are legally pledged as collateral for the debt or through proper legal procedures.

vi. What measures, if any, ABC Bank (lender) should take to avoid these kinds of damages that were eventually caused to all the three parties concerned in the recovery process as mentioned in the case study?

- a. Implementing strict guidelines and training programs for Recovery Agents to ensure compliance with ethical and legal standards.
- b. Conducting regular monitoring and supervision of Recovery Agents' activities to prevent misconduct.
- c. Providing support and resources for borrowers facing financial difficulties, such as debt counseling and repayment assistance programs.
- d. Establishing clear protocols for debt collection practices, including obtaining legal authorization before taking any enforcement actions.
- e. Responding promptly and effectively to any complaints or allegations of misconduct by Recovery Agents, and taking appropriate disciplinary action as necessary.

Exercise**i. Making a telephone call to the debtor by the recovery agent is:**

- A) The first step in the recovery process
- B) The last step in the recovery process
- C) Optional in the recovery process
- D) Not at all necessary in the recovery process

Ans: A

ii. Before making a telephone call to a customer, a recovery agent should ensure that:

- A) He/she has been authorized by the bank to collect the due debt from the customer
- B) The customer has been notified by the bank of the details (name, telephone number, etc.) of the recovery agent for collection of the due debt.
- C) Both the above requirements are followed.
- D) Any one is sufficient.

Ans: C

iii. While making a first telephone call to a customer for recovery of dues, a recovery agent should:

- A) Only disclose his/her identity
- B) Disclose his/her identity and also authority to collect the dues
- C) Discuss with the customer about payment of the dues
- D) Do both b) and c) above

Ans : D

iv. As per IBA's model policy on collection of dues, customer calls should be made for recovery between

- A) 0700 and 1800 hours
- B) 0800 and 1700 hours
- C) 0800 and 1900 hours
- D) 0700 and 1800 hours

Ans: C

v. As per the policy on collection of dues, the borrower's requests to avoid calls at a particular time or place would be:

- A) Rejected outright
- B) Reject politely
- C) Ignored as far as possible
- D) Honored as far as possible

Ans: D

2. Case Study:

Vicky applied for a loan of 5 lacs from a well-known bank for a period of 5 years. The bank reviewed his documents and found him eligible for availing the loan for the said period. Upon approval of loan and disbursement bank gave them the repayment schedule. He used the money for the intended purpose and was paying regularly on the due amount date. He enabled the Electronic Clearing System (ECS) mode of payment for the same. But after a year, his company downsized and he lost his job. He applied for various jobs, but nothing could materialize. Without a regular monthly income, he was unable to repay and the payment was not through, and it got bounced due to insufficient funds. As part of the recover process, the Debt Recovery Agents started calling him for the overdue amount. One day there was a call at 8.00P.M and his wife happened to pick the call. The agent started explaining the reason for the call, telling her to inform her husband. While closing the call, the agent also threatened of the dire consequences if the dues are not paid.

Is there any process violation in this case? If yes, please write them.

Ans: Yes, the following are the process violations in this case:

Threatening Language: The Debt Recovery Agent used threatening language by implying dire consequences if the dues are not paid. This violates regulations governing debt collection practices, which prohibit the use of intimidation or coercion tactics.

Contact Timing: The call was made at 8:00 PM, which may violate regulations regarding the timing of debt collection calls. Many jurisdictions have restrictions on contacting debtors outside of certain hours, typically during evenings and weekends.

Communication with third parties: The Debt Recovery Agent communicated with Vicky's wife and instructed her to inform her husband about the call. This may violate regulations regarding communication with third parties, as debt collectors are typically prohibited from discussing the debt with anyone other than the debtor without explicit consent.

Lack of Empathy and understanding: The Debt Recovery Agent did not take into account Vicky's circumstances, such as losing his job and facing financial difficulties. Debt collection regulations often require collectors to show empathy and understanding towards debtors in such situations.

These process violations demonstrate a lack of adherence to ethical and legal standards in debt collection practices.

Notes

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Unit 2.4: Debt Recovery Plan

Unit Objectives



By the end of this unit, the participants will be able to:

1. Debt Management Plan
2. Credit Counselling

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain about the credit products and understand different types of loans.

Say



Good morning and welcome the students to the training session on Debt Management Plan. Tell them that in this unit they will learn about Debt Management plan, and also credit counselling. The DRA becomes empathetic and work with the debtor and make a plan to help him pay the dues.

Elaborate



This unit aims to educate participants about the Debt Management Plan (DMP). In the DMP, the Debt Recovery Agent (DRA) plays a crucial role in assisting the debtor with a structured repayment plan, thereby alleviating their financial burden. By facilitating the debtor's ability to make timely payments, the DRA contributes to the financial institution's efforts in recovering outstanding dues, ultimately reducing collectibles and increasing revenue.

The DRA's approach should prioritize empathy and understanding towards the debtor's financial situation. By collaborating with the debtor to develop a feasible payment schedule, the DRA creates a mutually beneficial arrangement. This win-win situation allows the debtor to manage their debt effectively while enabling the DRA to meet recovery targets.

Overall, the DMP serves as a valuable tool for both debtors and financial institutions, fostering cooperation and financial stability.

Introduction

Explain



A Debt Management Plan, also known as a DMP, is a debt relief option where a counselling agency works with the creditors involved with the client to come up with a more suitable monthly payment. It is a formal agreement between a debtor and a creditor that addresses the terms of an outstanding debt. These plans help the debtor reduce outstanding, unsecured debts over time to help the debtor regain control of finances. The process can have any of the following outcomes:

- Help the debtor secure a lower overall interest rate
- Create longer repayment terms
- An overall reduction in the debt itself

DMPs for consumer is often negotiated by a Credit counselling agency on behalf of the debtor.

Credit counseling agencies often address the debt by working with the debtor to set a budget based on their regular income and expenditures that include one regular, consolidated bill payment that is passed on to the creditor(s). Agencies negotiate on behalf of the debtor to lower payments and interest rates with creditors.

Before signing up for a Debt Management Plan, a counsellor will spend 45-90 minutes reviewing your personal finances and budget. The counselor will offer expert advice on reducing debt and controlling spending, and the client will be given a new budget that is customized to his/he unique situation.

Most clients benefit from this counselling and education alone, but some clients need the additional help of a Debt Management Plan.

Client Counselling:

Credit counselling is the process of educating the borrowers about how to avoid incurring debts that cannot be repaid as also how to manage the debt burden and repayment commitments in respect of a number of debts. This process is actually more debt counselling than a function of credit education. Credit counselling often involves negotiating with banks to establish a debt management plan (DMP) FOR A customer. A DMP may help the debtor repay his/ her debt by working out a repayment plan with the bank. DMPS, usually offer reduced payments, fee and interest rates to the borrower. Recovery agents refer to the terms dictated by the bank to determine payments or interest reductions offered to customers in a debt management plan.

Roles involved in the Debt Management Plan:

Counselors

The counsellors handle the following aspects of a DMP:

- Budgeting
- Liaison between parties
- Payment processing
- Progress report
- Education
- Ongoing support in case of other issues

Creditors

A Debt Management Plan serves the dual role of helping clients repay their debts while seeing creditors receive the money they are owed. The creditors, in turn, must -

- Accept payments
- Update credit report
- Offer Concessions like waiver interest rates, give lower monthly payments, re-age accounts to stop late fees, or offer other concessions to help clients successfully complete a DMP.

Client

The final partner in the Debt Management Plan is the client. The client's obligations to the Debt Management Plan involve:

- Learning and being aware of the situation
- Making payments
- Prevent new credit
- Read all statements and the progress report
- Call for help

Potential Problems in a DMP

- **Due Dates**

Debtors may need to shift payment due dates to be able to make all debt payments on time.

- **Late Payments**

Late payments by the debtor negatively affect their credit report.

- **Missed payments**

- **Clerical errors**

Improperly credited amounts or inconsistencies in the payments can be a source of problems.

The Debt Management Plan

A step-by-step DMP:

1. Client receives a credit counselling session, which includes a budget and debt repayment plan.
2. Client is offered free educational materials and personalized money management advice.
3. The client's debt and financial information is gathered and a DMP is proposed.
4. Proposals are sent to creditors based on the DMP created from the client's information.
5. Clients sign up for automated payments.
6. The client's monthly payment is transferred automatically every month from the client's bank account.
7. Funds are distributed to creditors.
8. Progress reports sent to the client.



Benefits of Debt Management Plan

A debt management plan can be a useful tool for individuals struggling with debt. It provides a structured way to pay off debt and can help individuals regain control over their financial obligations. There are several benefits to using a debt management plan, from lower interest rates to flexible repayment terms. In this section, we will explore some of the key benefits of using a debt management plan.

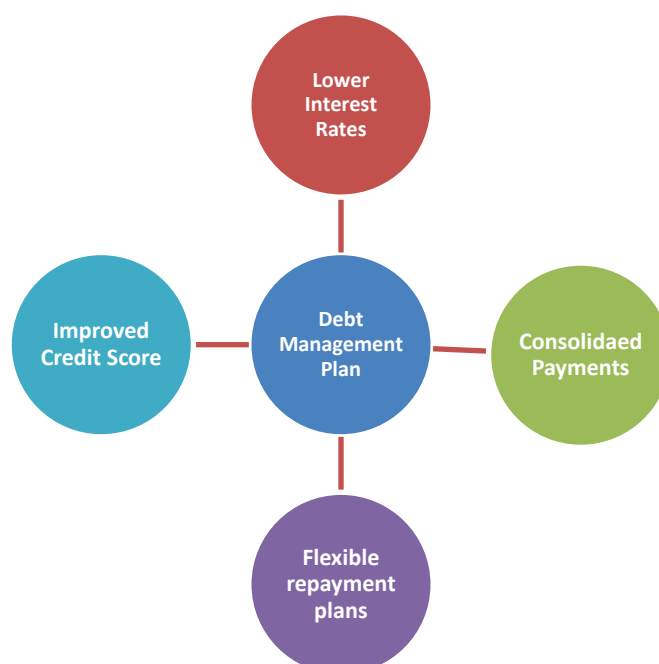
1. Lower interest rates: One of the most significant benefits of a debt management plan is that it can help lower interest rates on outstanding debts. Many debt management plans negotiate with creditors to reduce interest rates, which can help individuals pay off their debts faster and more affordably. For example, if you have a credit card with a high-interest rate of 20%, a debt management plan may be able to negotiate a lower interest rate of 10%, saving you money over the long term.

2. Consolidated payments: A debt management plan can also help simplify debt repayment by consolidating multiple payments into a single monthly payment. This can make it easier to keep track of payments and ensure that all debts are being paid on time. For example, if you have multiple credit cards, loans, and other debts, a debt management plan can consolidate these payments into a single monthly payment, making it easier to manage your finances.

3. Flexible repayment terms: Debt management plans can also offer flexible repayment terms that can be tailored to an individual's financial situation. For example, if you are struggling to make payments, a debt management plan may be able to negotiate lower payments or longer repayment terms. This can help make payments more affordable and manageable, allowing you to stay on track with your debt repayment plan.

4. Improved credit score: Finally, using a debt management plan can also help improve your credit score over time. By making regular payments and paying off debts, you can demonstrate to creditors that you are responsible and trustworthy. This can help improve your credit score and make it easier to qualify for loans and other financial products in the future.

Overall, a debt management plan can be an effective way to regain control over your financial obligations and work towards a debt-free future. By taking advantage of the benefits of a debt management plan, you can lower interest rates, consolidate payments, enjoy flexible repayment terms, and improve your credit score.



Exercise



1. What is DMP?

Ans: Debt Management Plan is a debt relief option where a counselling agency works with the creditors involved with the client to come up with a more suitable monthly payment.

It is a formal agreement between a debtor and a creditor that addresses the terms of an outstanding debt. These plans help the debtor reduce outstanding, unsecured debts over time to help the debtor regain control of finances. The process can have any of the following outcomes:

- Help the debtor secure a lower overall interest rate
- Create longer repayment terms
- An overall reduction in the debt itself

2. Who are the people involved in DMP?

Ans: Counselors

The counsellors handle the following aspects of a DMP:

- Budgeting
- Liaison between parties
- Payment processing
- Progress report
- Education
- Ongoing support in case of other issues

Creditors

A Debt Management Plan serves the dual role of helping clients repay their debts while seeing creditors receive the money they are owed. The creditors, in turn, must -

- Accept payments
- Update credit report
- Offer Concessions like waiver interest rates, give lower monthly payments, re-age accounts to stop late fees, or offer other concessions to help clients successfully complete a DMP.

Client

The final partner in the Debt Management Plan is the client. The client's obligations to the Debt Management Plan involve:

- Learning and being aware of the situation
- Making payments
- Prevent new credit
- Read all statements and the progress report
- Call for help

3. Explain Credit Counselling.

Ans: Credit counselling is the process of educating the borrowers about how to avoid incurring debts that cannot be repaid as also how to manage the debt burden and repayment commitments in respect of a number of debts. This process is actually more debt counselling than a function of credit education. Credit counselling often involves negotiating with banks to establish a debt management plan (DMP) for a customer. A DMP may help the debtor repay his/ her debt by working out a repayment plan with the bank. DMPS, usually offer reduced payments, fee and interest rates to the borrower. Recovery agents refer to the terms dictated by the bank to determine payments or interest reductions offered to customers in a debt management plan.

Notes

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Unit 2.5: Customer Queries/Complaints related to debt

Unit Objectives



By the end of this unit, the participants will be able to:

1. Understand the common queries by clients regarding debt
2. Understand the complaints by the customers regarding debts

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides

Notes



Introduce the topic to the students. Explain the importance of understanding the queries and complaints by customers and provide effective solution and answer. This is the main responsibility of the Debt Recovery Agent.

Say



Good morning and welcome the students to the training session on Customer Queries/Complaints related to debt. The customer queries and complaints need to be handled effectively and efficiently by the DRA's.

Elaborate



This unit aims to educate participants about the various queries and complaints by the customers with respect to their association with the banks and financial institutions.. And the DRA's responsibility is to understand their queries/complaints and try to provide them a solution.

Banking system is very crucial for the growth of the economy of a country. And this system revolves around the creditors/debtors. At some point, everyone needs to engage themselves with banks. The Banks offer several services to the needy people and it's not feasible to have a thorough understanding of the same. Frequently, customers seek clarity on many banking terms which that require clarification.

Introduction

Explain



Banking system is very crucial for the growth of the economy of a country. And this system revolves around the creditors/debtors. At some point, everyone needs to engage themselves with banks. The Banks offer several services to the needy people and it's not feasible to have a thorough understanding of the same. Frequently, customers seek clarity on many banking terms which that require clarification.

2.5.1 Customer Queries

These are some of the common queries which the customers ask to seek clarification?

1. What is the no due certificate?

A no due certificate is a formal letter issued by the bank stating that the person has cleared all their dues and has done the full settlement of the money borrowed. It is a legal document by the bank declaring that he/she has no outstanding dues towards the lender.

2. What is interest certificate?

Interest certificate is issued to the borrower by the lender mentioning the interest paid for the financial year against the loan borrowed by that individual. It's crucial for tax purposes as the interest paid can often be claimed as a deduction while filing taxes, thus potentially reducing the taxable income for that individual.

3. What is minimum due amount?

Minimum due amount: is referred in context to credit cards. The monthly statement generated for the individual mention about the purchases a person has made on the credit card and the due amount for that month. Along with that they also mention the minimum due amount to be paid for that month. If the borrower cannot settle the amount in full, they are expected to remit at least.

the minimum due amount in order to be a valid user of card and maintain the healthy credit score. The minimum amount varies from bank to bank and is usually 5%-10% of the total due amount. It's advisable to pay more than the minimum, if possible, to avoid high-interest charges and manage the outstanding balance effectively.

4. What is late fee?

If the credit card holder does not settle the due amount for the month, and settle is after the due date, the bank charges the late fine for the number of delayed days. It is added in their next month bill and recovered. Banks often have the discretion to waive the late fee upon customer request, depending on the circumstances and the individual's relationship with the bank.

5. Can I pay more than one instalment while repaying my house loan?

Many times, the house loan borrowers prefer to pay more than their instalment amount in order to reduce the due amount or tenure and there by close the loan earlier than the stipulated time. Whenever they have some surplus amount with them, they may pay more money in order to reduce the interest paid over the life of the loan.

6. If I opt for settlement, will it affect my CIBIL score?

Yes. In due settlement banks have the discretionary powers to waive off some percentage of the outstanding dues and recover whatever is possible from the debtor. This has an everlasting impact on the CIBIL score, as it implies his repayment capabilities and creditworthiness. The long time impact may be, the Banks will thoroughly scrutinize his request for availing loan and check his current capabilities of repayment.

7. What is settlement?

If the customer is unable to pay the huge outstanding amount in the credit card, they can opt for settlement with the bank. The lender may waive of some percentage of the total due and recover the balance amount. The lender issues the settlement letter and the customer pay the dues as per the settlement letter and after paying the amount gets a no due certificate from the bank. This settlement process greatly impacts the CIBIL score of the individual. But as per the latest notification, if the customer wishes to settle that amount in order to improve his CIBIL rating he can do so.



Image source: <https://www.investopedia.com/articles/pf/09/debt-settlement.asp>

2.5.2 Customer Complaints

The banks and the other financial institutions maintain a strict system for debt recovery from defaulters. They educate their own staff as well as the staff's of the Debt recovery agencies about the procedure and guidelines to be adhered to when they approach the defaulters for recovery. Despite having a system in place, there are many instances of complaints from the customers.

Here we discuss a few common complaints related to debt collection and how collectors can address them to optimise their collections.

2.5.3 Debt Collection Complaint

1. Calls After Getting 'Stop Calling' Notice: This constitutes the violation of the policy and procedure. The Debt recovery Agents should not continue calling the customers upon receiving a "stop calling" request from the customers. Continuing with calls can be considered as harassment and may result in legal action against the agency or bank by the customer.

2. Calls Repeatedly: This is the most common and frustrating complaint where the debtors are bombarded with frequent calls. These repeated calls can cause the debtor with extreme stress and create un-enjoyable experience. It is essential for DRAs to strictly follow the calling protocol and minimize the frequency of calls made to the debtors.

3. Makes False Representation about Debt: This is completely illegal and unethical. The DRA falsely claim the owed amount from the debtor misrepresenting the consequences of non payment, or providing with inaccurate information about the debt's status or other legal implications.

4. Fails to Identify as Debt Collector: Debt Recovery Agents unable to prove their identity is a gross violation of the Debt Recovery guidelines. When they visit the debtor for recovery, they have to carry their ID proof and authorization letter issued by the creditor along with them. This need to be produced upon demand by the debtor to establish that they authorized to collect the debt.

5. Tells Someone Else About Consumer's Debt: This violation greatly annoys the debtor the most and is perceived as humiliating. The DRAs should refrain from discussing the debt details to anyone else other than the debtor themselves. They have to protect the privacy and dignity of the debtor.

6. Continue to pursue debt already paid: This is the second most common complaint and this happens due to the delay in updating the debt status in the system. The DRA continue making calls and visits even though the debts have been cleared by the debtor. Such actions can frighten the debtor and cause mental stress.

7. Falsely Threatens Illegal or Unintended Act: DRAs sometimes threaten the Debtor with dire consequences if the debt is not cleared and cause panic in their mind. This unintended act is a form of harassment can invite legal action from the debtor against the Debt Recovering Agency and the creditor

The complaints of this type from the customers can be avoided or prevented with proper training to the DRAs and sensitizing them to the consequences of not adhering to the guidelines.

Exercise



1. Explain at least 3 common customer queries.

Ans: Pick any three from the sub topics 2.5.1.

2. Name three customer complaints with regard to Debt Recovery.

Ans: Pick any three from sub topic 2.5.3.

Case Study

Mahima took a loan of about Rs.2 lacs and completed the repayment as per the schedule. But she continues to get calls from the Debt Recovery Agents. What document she should have to produce to them to prove her point.

Ans: No Due Certificate

Notes



This image shows a full page of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. In the top left corner, there is a small orange icon consisting of three stacked rectangles. To its right, the word "Notes" is written in an orange, sans-serif font. The rest of the page is blank.



Skill India
कौशल भारत - कुशल भारत



सत्यमेव जयते
GOVERNMENT OF INDIA
MINISTRY OF SKILL DEVELOPMENT
& ENTREPRENEURSHIP



N.S.D.C.
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Transforming the skill landscape



3. Perform Receivables Collection Activities

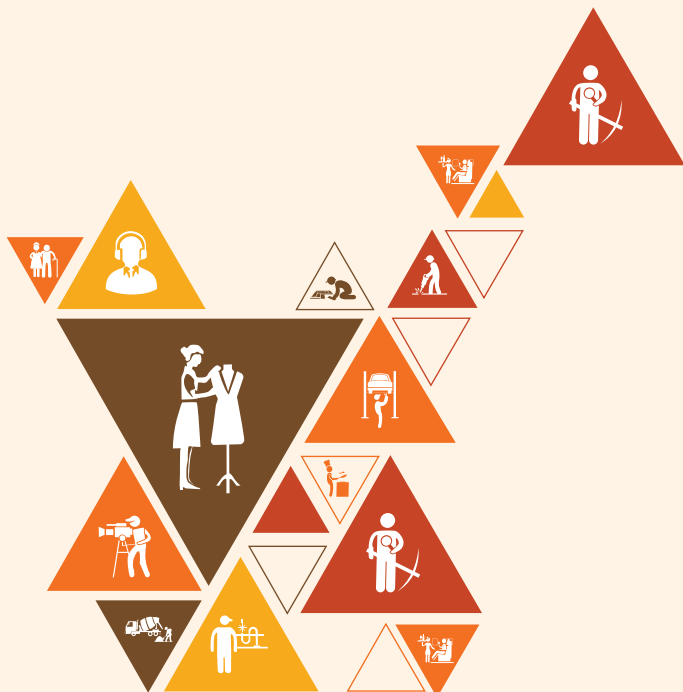
Unit 3.1: Collection Policy-Sample Standard Operating Procedure

Unit 3.2: Basics of Accounting

Unit 3.3: Account Receivable Collection Activities

Unit 3.4: Reporting Frauds

Unit 3.5: Collaboration with legal team



Unit 3: Perform Receivables Collection Activities

Key Learning Objectives



By the end of this unit, the participants will be able to understand:

1. SOP - Collection
2. Basics of Accounting
3. Account receivable Collection activities
4. Reporting Fraud

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain the SOP for collection, Accounting Basics, Accounts Receivable collection activities, and fraud reporting mechanisms.

Say



Good morning and welcome the students to the training session on Perform receivables collection activities.

Unit 3.1: Collection Policy-Sample Standard Operating Procedure

Unit Objectives



By the end of this unit, the participants will be able to:

1. Features of the Collection Policy Standard Operating Procedure

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain the Standard operating procedure followed by the collection agencies while at work, while interacting with the debtors and visiting the debtor at their house.

Say



Good morning and welcome the students to the training session all tell them that today they will learn about the Standard Operating Procedure followed by the collection Agencies while dealing with the default debtors.

Elaborate



Explain to the participants that the Standard Operating Procedure

The use of Standard Operating Procedures (SOPs) in debt recovery agencies is multi-faceted and serves several important purposes:

Consistency: SOPs ensure that debt recovery processes are carried out consistently and uniformly across the agency. This consistency helps in maintaining professionalism and fairness in dealing with debtors, regardless of which agent is handling the case.

Compliance: Debt recovery agencies operate within a regulatory framework that governs their activities. SOPs help ensure compliance with legal requirements, industry standards, and ethical guidelines. They outline the proper procedures and protocols that agents must follow to avoid legal issues or violations.

Efficiency: SOPs streamline debt recovery processes by providing step-by-step guidelines for agents to follow. This helps in minimizing errors, reducing delays, and maximizing efficiency in recovering debts. By following established procedures, agents can avoid unnecessary steps and focus on actions that are most likely to lead to successful debt recovery.

Risk Management: SOPs include risk management protocols to mitigate potential risks associated with debt recovery, such as identity theft, privacy breaches, or litigation. By following established procedures, agencies can minimize risks and protect both their reputation and the interests of debtors.

Training and Development: SOPs serve as valuable training tools for new agents and ongoing professional development for existing staff. They provide a structured framework for training programs, ensuring that agents are equipped with the necessary knowledge and skills to perform their roles effectively. SOPs help agents understand the agency's expectations and best practices, leading to higher performance and job satisfaction.

Customer Relations: SOPs outline best practices for communicating with debtors, maintaining professionalism, and handling disputes or complaints. By adhering to these procedures, agencies can foster positive relationships with debtors and enhance their reputation in the industry. Effective communication and respectful treatment of debtors are essential for maintaining trust and cooperation throughout the debt recovery process.

Overall, SOPs are essential tools for debt recovery agencies to ensure consistency, compliance, efficiency, risk management, training, and customer relations in their operations. They provide a structured framework for conducting business and contribute to the overall success and reputation of the agency.

Explain



The key objectives of this Standard Operating Procedure (SoP) is as follows:

- Minimize delayed payment post due date.
- Ensure that the customer is educated about the product features and continued availability of the product to the customer which is linked to his/her loan performance.
- Liaise with the lending partners and ensure steps taken with the delinquent customers are in sync with the Company's agreed policy on support from partners.
- Reduce the impact of provision and losses on different products.
- Control cost of collection by ensuring lower forward flow from initial buckets.
- Ensure compliance with the applicable regulations and Code of conduct.

Foreword:

The Collections Code encapsulates minimum requirements that need to be adhered by collection agents and all other employees while contacting a customer for overdue payments. The requirements are aligned to minimum standards set forth by regulatory authorities.

Scope:

This code is applicable to all the Employees/agents/subcontractors a) who are hired or retained to collect dues and over dues from the customer b) who are authorized by the company for contacting Customers c) applicable for all soft collections. The code details the mandatory standards that all employees, individuals /persons are required to adhere as a qualification before engaging a Customer

Summary:

All Customers (including those Customers who are late in making their payments or have defaulted in their payment schedule) must be treated with respect, dignity, courtesy and fairness in debt collection efforts. The company believes that this is not only the right thing to do, but also the most effective thing to pursue as well.

It is imperative that the persons involved in collection related activities should adhere this code, abide by standards mentioned below before the commencement of collection activities.

3.1.1 Following are the core bedrock of the collection process

- a. **Customers to be treated with dignity:** Employees/agents should always have a professional approach while addressing the Customer over the telephone or during visits. No verbal or written threats, mishandling or boorishness is permitted. Employees/agency or its employees use only acceptable business language even if the other party does not.
- b. **Employee or the Agent to be treated with dignity:** In case of an abusive Customer, every employee or of an agent has to bring it to the notice of his line manager or team leader. If the Customer becomes abusive or threatening over a call, the same should be documented appropriately.
- c. **Call Recordings:** All calls being made to the Customer(s) must be recorded as per the requirement of the code of conduct stipulated by Reserve bank of India. Employee or the agency employee should first identify herself/himself and the company/entity that they represent at the very beginning of every interaction with Customers.
- d. **Privacy:** Customer are entitled to privacy, privacy policy to be applied to all conversation with agents of the company.
- e. **Code:** All collection activities should be unswerving with the guidelines provided in the document and in compliance with code for collections of dues stipulated (from time to time) by Reserve Bank of India. All emails, letters, and other communications must be in the format approved by collections and legal department.
- f. **Timings:** Customers should be called only between **0700 Hrs and 1900 Hrs** unless exceptional circumstances as described in this Code warrant deviation from this timeframe. Under no circumstances, Customer can be called beyond **2100 Hrs**.
- g. **Convenience:** Customers should be called only to the extent reasonable in the context of the debt and the convenience of the Customer(s) to talk, should be enquired at the beginning of each call. Such conversations should be logged on the system for record purposes.
- h. **Alternative:** Customer requests that calls/visits to place of work be stopped are to be honored, if he/she provides a suitable alternate where he/she may be reached during collection working hours. Such Customers should be asked to provide an alternate address/phone number where they may be reached.
- i. **Information:** Customer's questions should be answered in full. They should be provided with information requested, given assistance and attempt to resolve the issues within the permitted parameters if any. Accounts with unresolved issues are to be escalated to line managers or team leaders.
- j. In case the Customer or related party requests to speak to supervisor the same should be honored.
- k. **Updates:** Update by the employee on the collection system should be clear, concise and accurate. All attempts, contacts, conversation and actions for a particular case are to be recorded on the collection system.

The need for contacting a Customer

A Customer is to be contacted for debt collection only under the following circumstances:

- When not contacting the Customer it may lead to the imposition of an additional cost on Customer or may impact Customers credit history/rating; and/or
- When the Customer has not paid on payment date (including grace days) and this is likely to impact the Customer's credit history and/or is likely to cause a financial loss to company.

When to get in touch with a Customer.

Calls must normally be limited from **0700 Hrs to 1900 Hrs.**

A Customer may be contacted at a time when the call is not expected to cause inconvenience to him/her. In addition, if a mobile number is called and the Customer is driving, then the call may be discontinued, in the interest of safety.

Calls either earlier or later than normal hours, while effective in contacting the Customer, are also likely to be inconvenient to the Customer and could be viewed as harassment. Hence such calls may be placed only under the following conditions:

- At the behest of the Customer to call at an agreed time.
- To visit at his place of business or residence at a given point of time as agreed upon.
- Agent should individually visit the Customer by himself/herself only and not in a group, however, the agent can be accompanied by the agent's supervisor/ manager for any assistance in handling the Customer account; and/or

Language or mode of communication and how to address a Customer

The agents need to try and use the language with which the Customer is comfortable. In case of a language barrier, the employee or the agent may take the assistance of an intermediary (i.e. immediate supervisor) to explain in detail. To have a professional approach while addressing the Customer, to be treated with respect and dignity and not use impolite/harsh/threatening words during a collection call or discussions or deliberations.

Frequency of calls

The purpose of a collection call is to bring to the Customer's notice the obligation to pay and to seek a commitment to pay on a specified date. Once a promise is elicited, a call/visit may be made to serve as a reminder and for confirmation of payment.

In the event a commitment is not forthcoming or has been broken, calls/visits may be made at a reasonable frequency, based on the amount owed, product, aging of debt, and account history, so is the case with field visits. The excessive number of calls or visits closely bunched together in the same day may be construed as harassment.

Borrowers/Customer's Privacy

The borrower/Customer's debt/obligation may normally be discussed only with the borrower and co-borrower or the guarantor/surety to the loan agreement, and the employer in cases of corporate facilitated loans. Not to be discussed with the third party unless and until explicitly authorized by the Customers.

As informed to borrowers/Customers in the terms and conditions of the credit facility, Customer debt details can be discussed with Regulatory/Law enforcement agencies, as well as third party service providers who are contracted with, to provide debt collection and support services.

Employee of the company, may communicate with a third party about the Customer's debt to the extent doing so is necessary to enforce a decree.

Leaving messages and contacting persons other than the borrower at the telephone numbers/addresses provided by the Customer or made available to company, during the time when attempts are being made to contact the Customer.

Calls must first be placed to the Customer and in the event the borrower is not available, a message may be left for the Customer to an adult family member. The aim of the message should be to elicit a return call from the Customer only and not to divulge the details of the credit facility availed by the Customer.

Post leaving a message and when there is no reciprocity from the borrower, then it is permissible in follow-up calls to include:

- In generic terms to state that the call is pertaining to the NBFC's related loan.
- In generic terms to state that his/her/company's account has become overdue.
- To mention about the overdue amount that needs to be paid immediately to regularize the account.
- Under any circumstances no third party can be asked to make payment on behalf of the Customer and Collections can disclose the loan obligations to co-borrower or the co-guarantor.

Leaving messages and contacting the third party

When the Customer cannot be contacted at the assigned numbers/ address message with a call back request may be left with the third party.

There could be a situation, wherein the Customer has alienated the [vehicle/asset] or pledged to a third party and not making repayments in spite of loan being recalled, collection team can disclose to such third party about the overdue obligations on the part of borrower to resolve the impending issue.

If third party who is in the custody of the [vehicle/asset] wishes to resolve the issue by closing the loan, then the payments can be received from the third party with prior consent being obtained from the borrower.

Employee/agents can always seek the help of the third party in case the borrower cannot be contacted on the given phone numbers and addresses. While seeking such help, the employee or the agent need to identify himself or may not identify depending on the situation. In case of any financial guarantee by the third party, in such cases the third party may be summed to discuss the obligation.

No misleading of statements or Misrepresentation facts

- No misleading of statements or misrepresentation of facts are permitted on the part of the employee or the agent.
- Not to use legal jargon or threatening the borrower with legal consequences.

Gifts or Bribes

Employee or the agents shall not accept any form of inducements/gifts of any kind from the Customer, in case of any, the employee or the agent should bring it his/her immediate supervisor.

If the Customer declines to pay

If the Customer declines to pay, consequences of such decision may be explained to him/her,

- Impact on Credit History.
- Possible inclusion in repository of negative data base.
- Possible Legal actions and its ramifications.
- Costs and consequences there off in case of a legal action and/or
- Further denial to pay in such cases the case may referred to line managers.

In case of a dispute with respect to borrower's account

For dispute resolution the case may be referred to line manager in case of an employee and in case of agent it shall be referred to agency supervisor.

Appearances and Dress Code

Well-groomed appearance by employee or the agent is desired.

Letter and other communications

Communications to the Customer either through letters or mails to be handled by the employee of the company. Mail dunning/telegrams/Phonograms/ shall be in a format approved by collections, compliance and the legal unit of the company.

All such mails shall be in envelopes that do not bear any marking on the outside to indicate their content. Post cards/other open media is strictly out of bounds.

Recruitment, Training and Supervision

- To ensure quality of employees and agents, the required due diligence is excised while recruiting the employee, preferably minimum 12th Standard pass.
- Company's employees/collection managers to impart training to the new employees/agents along with handouts with respect to do's and don'ts while carrying out collection activity and the same to be documented from an audit perspective.
- Collection managers to review/supervise the collection agency at regular intervals with respect to process and policies adherence, compliance issues, from audit perspective and the same to be adequately documented.

Compensation/Remuneration: The company ensures that its employees are adequately compensated for the services rendered and the same needs to be documented and to be open for inspections.

Penalties: Any act of misconduct, misrepresentation of facts, misappropriation of company funds or assets, any malafide act on the part of any employee which would result in monetary loss, collateral damage or reputational risk, service level agreement (SLA) or such similar agreement to be invoked for levying penalties or strict disciplinary action on the concerned employees including termination of services.

Important points:

Key Factors	Do's	Don'ts
Appearance and Dress Code	• Well Groomed • Clean & Tidy • Formals	• No Chappals or Sandals
Verbal Communication Skills	• Show your Identity card and introduce yourself • To address formally • Tone has to be polite • Maintain decency and behave well	• Do not get aggressive or abusive • Do not be loud • Not to get too personal with the debtor
What to carry with you	• Identity Card • Authorization Letter	
Ethics	• Being fair and ethical while dealing with customers • Collections interaction should be based on courtesy, fair treatment and persuasion	• No false promises verbally or in writing • No personal dealing with the borrower/Customer
Information and Confidentiality	1. Present only the Customer information required in an orderly fashion. 2. Company to maintain the records of the interaction	3. Unauthorized info written/verbal cannot be revealed to any Customer/competitor/or any other person 4. No info one Customer to be shared with other Customers.
Process Product Discipline	• Collectors to perform within the prescribed frame work, to work in accordance with laid down policy and procedures and manuals.	

Privacy Promise	• Soft copy files and hard copy Customer confidential info to be maintained without any compromise on privacy promise.	
Timing	• Earliest -0700hrs & Latest 1900hrs	
Repossession	• To be carried out strictly as per the company's norms	No repossession beyond 1900hrs

Regulatory Compliance:

The collection SoP of the company shall strictly adhere to and comply with the regulatory guidelines issued by Reserve Bank of India from time to time. The policy shall be updated as and when any new instructions or guidelines is issued by Reserve Bank of India.

*source: www.vaibhav.vyapaar.com/loan-agreement.html

Do's and Don'ts for Borrowers while dealing with Debt Recovery Agents

USEFUL TIPS: THE 'DO'S AND DON'T'S'

ALWAYS



IDENTITY: Ask the recovery agent to show his identity card and note down the name. In case of a phone call also, do note down the agent's name.



DETAILS: Note the time and place of the agent's visit. Do the same for a recovery phone call. Also, if possible record the conversation.



COOPERATE: Let the recovery agent know that you are willing to work towards a solution.



GOOD BEHAVIOUR: Be courteous to the agent and don't lose temper



INFORM: If you do not want to deal with a particular agent, inform the bank about the same. Also cite reasons for doing the same.

NEVER



AVOID: Never dodge a recovery agent. Not dealing with him will only invite undue aggressive collection methods.



STALL: Don't stall. If you need more time, let the agent know. Recovery agents can easily identify stalling tactics.



FALSE PROMISE: Don't make false promises. It not only affects you but also the agent's record, which may lead him to use aggressive methods.



TOLERATE: Do not tolerate abuse from an agent. Contact the authorities and approach a credit counselling agency. Also, report the same to the bank or the RBI.



LIE: Never lie about your whereabouts or give excuses. Agents may use social networking sites or other means to verify the same.

Exercise



1. What are the consequences if the customer declines to pay?

Ans: If the Customer declines to pay, consequences of such decision may be explained to him/her,

- Impact on Credit History
- Possible inclusion in repository of negative data base
- Possible Legal actions and its ramifications
- Costs and consequences there off in case of a legal action and/or
- Further denial to pay in such cases the case may referred to line managers

2. **Customer Calls** to be carried out strictly as per the company's norm and not beyond 1900hrs

3. DRA has to carry with them **Identity Card** and **Authorization Letter**.

4. Employee or the agents shall not accept any form of **inducements/gifts**.

5. DRA must be **fair and ethical** while dealing with customers.

Activity: Based on the understanding of the Role of a Debt Recovery Agent, invite two students to volunteer - one to act as a debt recovering agent and the other as a customer. Instruct them to follow all the guidelines while portraying their roles.

Notes



Lined area for taking notes, consisting of 30 horizontal lines.

Unit 3.2 Basics of Accounting

Unit Objectives



By the end of this unit, the participants will be able to:

1. Basic Accounting Terminologies
2. Debit and Credit in accounting

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain the students that they are going to learn the basics of accounting in this chapter.

Say



Good morning and welcome the students to the training session. Tell them today they will do basics of accounting, debit and credit in accounting.

Elaborate



Introduce the basics of accounting to students in an engaging and informative manner. Here's a step-by-step guide on how to introduce the course:

Set the Context: Begin by explaining the importance of accounting in business and finance. Emphasize that accounting is the language of business and essential for making informed decisions, managing finances, and evaluating performance.

Define Accounting: Provide a simple definition of accounting, such as "the process of recording, summarizing, and analyzing financial transactions of a business." Explain that accounting helps businesses track their income, expenses, assets, and liabilities.

Discuss the Scope of Accounting: Explain the different branches of accounting, such as financial accounting, managerial accounting, and tax accounting. Briefly describe the role of each branch and how they contribute to overall business operations.

Introduce basic concepts: Cover fundamental accounting concepts such as:
 Assets, Liabilities, and Equity
 Revenue and Expenses
 Income Statement, Balance Sheet, and Cash Flow Statement
 Double-Entry Accounting
 Accrual Basis vs. Cash Basis Accounting

Provide Real World examples: Use real-world examples and scenarios to illustrate key accounting concepts. This could include analyzing financial statements of well-known companies, discussing business transactions, or calculating financial ratios.

Engage students with activities: Incorporate interactive activities and exercises to engage students and reinforce learning. This could include case studies, group discussions, or hands-on practice with accounting software or spreadsheet

By following these steps, you can effectively introduce the basics of accounting to students in an engaging and informative way, setting a solid foundation for further learning and exploration in the field of accounting.

3.2.1 Introduction

The Debt Recovery Agents should possess basic knowledge of accounting to perform their daily responsibilities with ease and more effectively.

Please refer to page #77 of the footer section of the Student Participant Handbook.

3.2.2 Debit and Credit in Accounting

It's essential to start with clear explanations and practical examples. Here's a step-by-step guide on how to introduce debit and credit effectively:

Define Debit and Credit: Start by explaining the basic definitions of debit and credit. Emphasize that they are not positive or negative values but represent different types of transactions.

Discuss the Accounting Equation: Introduce the fundamental accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$. Explain that debits and credits are used to record changes to this equation.

Explain Debits and Credits in T-Accounts:

Use T-accounts to visually represent debits and credits. Explain that debits are recorded on the left side of the T-account, while credits are recorded on the right side.

Discuss the Normal Balance: Explain that each account has a normal balance, which determines whether debits or credits increase the account's balance. For example, assets and expenses have a normal debit balance, while liabilities, equity, and revenues have a normal credit balance.

Provide Examples: Offer simple examples to illustrate how debits and credits work in different types of transactions. For instance:

When cash is received, it's recorded as a debit to Cash and a credit to another account (e.g., Revenue or Accounts Receivable).

When inventory is purchased on credit, it's recorded as a debit to Inventory and a credit to Accounts Payable.

Use Mnemonics: Mnemonics can help students remember which accounts are debited or credited in various transactions. For example, "DEAD CLiP" stands for Debit Expenses, Assets, and Dividends, while Credit Liabilities, Income, and Owner's Equity.

Practice with Examples: Provide practice exercises and problems for students to apply their understanding of debits and credits. Start with simple transactions and gradually increase complexity as students become more comfortable.

By following these steps, you can introduce debits and credits to students in a clear, structured, and engaging manner, laying a solid foundation for their understanding of accounting principles.

Cash Withdrawal from Bank Account:

Suppose a business owner withdraws ₹10,000 in cash from their bank account.

Debit: Cash ₹10,000 (increase in cash asset)

Credit: Bank Account ₹10,000 (decrease in bank account balance)

Purchase of Goods on Credit:

A retailer purchases goods worth ₹20,000 on credit from a supplier.

Debit: Inventory ₹20,000 (increase in inventory asset)

Credit: Accounts Payable ₹20,000 (increase in liabilities)

Payment of Salary to Employees:

A company pays salaries of ₹50,000 to its employees.

Debit: Salary Expense ₹50,000 (increase in expense)

Credit: Cash/Bank Account ₹50,000 (decrease in cash or bank balance)

Sale of Goods for Cash:

A retailer sells goods for ₹30,000 in cash to a customer.

Debit: Cash ₹30,000 (increase in cash asset)

Credit: Sales Revenue ₹30,000 (increase in revenue)

Loan Taken from Bank:

A business takes a loan of ₹1,00,000 from a bank.

Debit: Cash ₹1,00,000 (increase in cash asset)

Credit: Loan Payable ₹1,00,000 (increase in liabilities)

Payment of Utility Bills:

A company pays electricity bills of ₹5,000.

Debit: Utility Expense ₹5,000 (increase in expense)

Credit: Cash/Bank Account ₹5,000 (decrease in cash or bank balance)

These examples illustrate how debits and credits are used to record transactions in Indian accounting, following the principles of double-entry bookkeeping. Debits represent increases in assets and expenses or decreases in liabilities and equity, while credits represent decreases in assets and expenses or increases in liabilities and equity.

Debit and Credit are basic concepts in accounting and are the foundation of double-entry accounting. They are used to record transactions in the financial books according to the double-entry accounting system. They represent the amount of value that is moving into or out of a business's general ledger accounts. For every transaction, there must be at least one debit and credit amount that match each other. When that happens, the business' books are said to be in balance. Only then they can create their accurate income statement, balance sheet and other financial documents.

Debit and credit in accounting are different from everyday usage. One needs to understand the differences before proceeding with the understanding of the concepts. In an account a Debit (DR) records the amount of value flowing into an asset or bank account, unlike the debit card which is used to take out money from an account.

And Credit(CR) generally records the money flowing out of an asset account, (as opposed to credit which is receiving funds). Debit and Credits are recorded as amount of money, but they are at times, may include gain, loss or depreciation. For this reason, they are referred to as **'value'**

Debits and credits are the core for a bookkeeping system called double-entry accounting, in which every transaction equally affects two or more separate general-ledger accounts, such as assets and liabilities.

Debits vs. credits: Debits and credits in accounting are interconnected and are responsible for maintaining a balance in a business's book-keeping entries. There can be no debit without a corresponding credit and vice versa.

- A debit is responsible for increasing the balance of an asset, expense or loss account and decrease the balance of liability, equity, revenue or gain account.
- Debits are always entered on the left side of the journal entry.
- In contrast, the credit increases the balance of a liability, equity, gain or revenue account and decreases the balance of an asset, loss or expense account.
- Credits are entered on the right side of a journal entry.

Debit	Credit
1. Increase asset, expense and loss accounts.	Increase liability, equity, revenue and gain accounts.
2. Recorded on the left side of an accounting journal entry.	Recorded on the right side of an accounting journal entry.

Every transaction In double-entry accounting is recorded with debit and credit in two or more accounts, which categorize different types of financial activities in a company's general ledger. Debits and credits are both opposite and equal (though each line debit/credit doesn't necessarily have an equal counterpart), occur together, and represent a transfer of value.

For example, if a business purchases a new LED TV for Rs 30000 on credit, it would record Rs.30000 as a debit in its account for equipment (an asset) and Rs.30000 as a credit in its accounts payable account (a liability). If, instead, it pays for the LED TV with cash at the time of purchase, it would debit and credit two types of asset accounts: debit for equipment and credit for cash.

3.2.3 Credit and debit accounts

Debits and Credits are entered in the books for each business transaction. When you record debits and credits, make two or more entries for every transaction. This is considered double-entry book-keeping.

When recording transactions in the books, different accounts are used depending on the type of transaction. The main accounts in accounting include:

- **Assets:** Physical or non-physical types of property that add value to your business (e.g., land, equipment, and cash).
- **Expenses:** Costs that occur during business operations (e.g., wages and supplies).
- **Liabilities:** Amounts your business owes (e.g., accounts payable).
- **Equity:** Your assets minus your liabilities.
- **Revenue/Income:** Money your business earns.

Accounting credits and debits affect each account differently. Check out our chart below to see how each account is affected:

Account	Increased By	Decreased By
Assets	Debit	Credit
Expenses	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue/Income	Credit	Debit

Discuss the debit and credit entries with the help of examples from the participant handbook. Please refer to the number given at the bottom of the page #81.

3.2.4 Importance of Debits and Credits

Debits and credits keep the Business' accounts book in balance. They always appear in pairs for every transaction. So, a debit requires a credit or sum of credit of equal value and this is the core of the double-entry accounting. With this balance in the financial statement, one can understand the company's financial health, value, and profitability. They also help companies make decisions for internal and external stakeholders, which include the management, lenders, investors, and tax agencies.

Account entries can be made seamlessly with accounting software. This reduces the entry time and provides accuracy in reports.

There are several accounting software options available for double-entry bookkeeping. Some popular ones include **Quick Books, Zoho Books and Xero etc.**

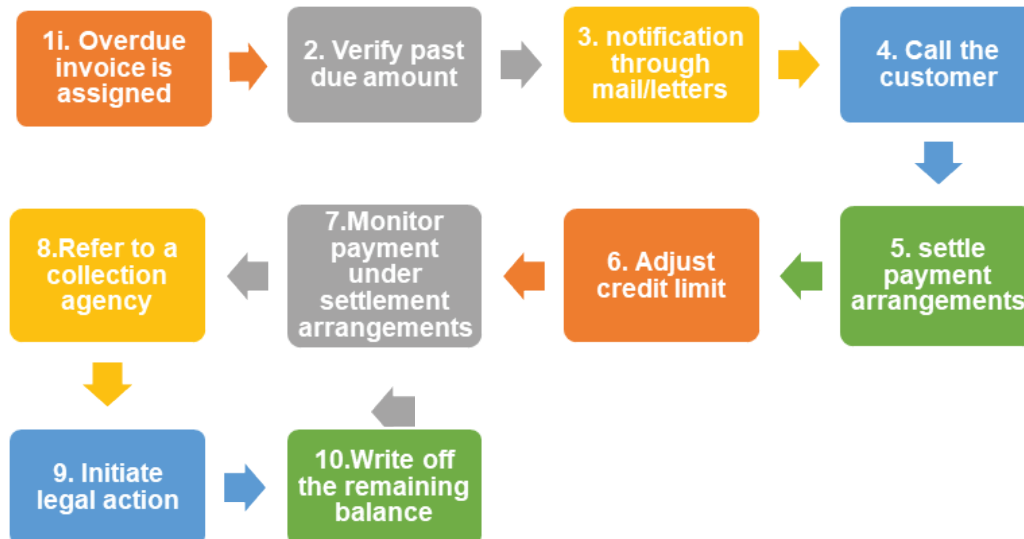
Every business uses one of these software for its journal entry.

3.2.5 Accounts Receivable Collections

The process of collecting outstanding payments from customers or clients who owe money to a business for goods or services rendered is often referred to as Account Receivable Collections.

Whenever a company sells a product or service to a client on credit, it generates accounts receivable, representing the money owed by customers. The collection or recovery process includes following up with these customers, sending reminders or statements, and taking necessary actions to ensure timely payment, such as contacting customers, negotiating payment plans, or even involving debt collection agencies if necessary. The goal is to convert outstanding invoices into cash to maintain healthy cash flow for the business. They are critical to credit to cash process.

The typical collection process consists of the following steps:



Click/Scan the QR code to watch the video Accounts Receivable vs Accounts Payable

Before assigning the task of recovery/collection to the agencies, the creditor/Lender does the following activities for collection.

- 1. Overdue invoice is assigned to AR:** when the amount is due for payment, it is typically given to the AR staff for collection activities.
- 2. Verify the due amount:** The account may be checked for any waiver, or adjustments before finalizing the due amount.
- 3. E-Mail notification:** Notifications are sent to customers informing them about the due amount either through mail or a letter through the postal service
- 4. Call the customers:** The AR staff calls the customer and finds out about the reason for the delay and take a verbal commitment for payment.
- 5. Settle payment arrangements:** The arrangement could be instant payment, or extension of the payment date, or revised terms for payment.
- 6. Adjust credit limit:** Review the customer's current situation and past records, the credit limit may be revised.
- 7. Monitor payment under settlement arrangements:** in case the creditor has devised a recovery plan with the customer, it's vital to be in touch with the customer and remind them of the payment dues to avoid delay in payments.
- 8. Refer to collection agency:** once all the in-house collection techniques have been attempted, the creditors/lenders seek the service of the collection agencies.
- 9. Initiate legal action:** If all the alternatives have failed, the lender may take legal action against the customer to recover the debt.
- 10. Write off the remaining balance:** If all collection efforts have failed, the lender may write off the amount as bad debt.

Collections are a crucial part of a business's credit-to-cash process that involves collecting payments from customers who have obtained loans or purchased goods on credit. Failure to collect AR in a timely manner can result in severe financial instability for businesses Accounts receivable and cash flow are tied to every business' bottom line, hence maximum recovery and less write-off will keep a balance of the cash flow.

Exercise

1. What are the main heads of accounting?

- Ans:** i. Assets: Physical or non-physical types of property that add value to your business (e.g., land, equipment, and cash)
 ii. Expenses: Costs that occur during business operations (e.g., wages and supplies).
 iii. Liabilities: Amounts your business owes (e.g., accounts payable).
 iv. Equity: Your assets minus your liabilities.
 v. Revenue/Income: Money your business earns.

2. Explain Debit and Credit in the books of account.

Ans: Debits (Dr.)

- Debits represent entries made on the left side of an account in the accounting ledger.
- Debits are used to record increases in assets, expenses, and losses.
- In a double-entry system, a debit entry is accompanied by a corresponding credit entry to ensure that the accounting equation remains balanced.

Examples of debit entries include:

- Increases in asset accounts (e.g., cash, accounts receivable)
- Recording expenses (e.g., rent expense, salaries expense)
- Recognizing losses (e.g., loss on sale of assets)

Credits (Cr.)

Credits represent entries made on the right side of an account in the accounting ledger.

- Credits are used to record increases in liabilities, equity, and revenue.
- In a double-entry system, a credit entry is accompanied by a corresponding debit entry to maintain the balance of the accounting equation.

Examples of credit entries include:

- Increases in liability accounts (e.g., accounts payable, loans payable)
- Recording revenue (e.g., sales revenue, service revenue)
- Contributions to equity (e.g., owner's equity, capital contributions)

3. Name two accounting software.

Ans: Quick Books, Zoho Books and Xero

4. Explain the following terms:

a. Cash Flow statement

Ans: Cash Flow Statement: Cash flow statement is a financial statement which shows the aggregate cash inflows, cash outflows & changes in cash & cash equivalents. It is divided into three sections, namely a) cash flow from operating activities, b) cash flow from investing activities & c) cash flow from financing activities. The format of the cash flow statement is defined as per Accounting Standard 3.

b. Equated Monthly Instalments

Ans: Equated monthly instalment (EMI): EMI indicates the monthly (or periodical) instalment that is paid as part of repayment of a loan. An EMI will consist of two components; Principal and Interest.

c. Mutual Fund

Ans: A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like shares, bonds and other assets. Mutual funds are operated by professional fund managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

d. Profit and Loss Statement

Ans: A profit and loss statement, also known as an income statement, is a financial statement that summarizes the revenues, expenses, and resulting net income or loss of a business over a specific period of time, typically a month, quarter, or year.

e. Overdraft

Ans: an overdraft refers to a financial arrangement between a bank and an account holder that allows the account holder to withdraw or spend more money than is available in their account. Essentially, an overdraft provides temporary access to additional funds, allowing account holders to cover short-term cash flow shortages or unexpected expenses.

5. What is Account Receivable collections?

Ans: The process of collecting outstanding payments from customers or clients who owe money to a business for goods or services rendered is often referred to as Account Receivable Collections.

6. As an accounts executive for the company XYZ record the purchases of a LED TV for Rs.56000, a Printer for Rs. 26000, and a photocopier machine for Rs.1,00,000 in the books of accounts.

Ans: To record the purchases of a LED TV, Printer, and Photocopier machine in the books of accounts, you would follow the double-entry accounting system by making entries in the appropriate accounts. Here's how you can record these transactions:

LED TV Purchase

Debit: LED TV Inventory Account - Rs. 56,000 (Increase in asset)

Credit: Accounts Payable or Cash/Bank Account - Rs. 56,000 (Decrease in liability or cash/bank)

Printer Purchase

Debit: Printer Inventory Account - Rs. 26,000 (Increase in asset)

Credit: Accounts Payable or Cash/Bank Account - Rs. 26,000 (Decrease in liability or cash/bank)

Photocopier Machine Purchase

Debit: Photocopier Machine Inventory Account - Rs. 1,00,000 (Increase in asset)

Credit: Accounts Payable or Cash/Bank Account - Rs. 1,00,000 (Decrease in liability or cash/bank)

These entries record the increase in assets (LED TV, Printer, and Photocopier Machine) on the debit side of their respective inventory accounts, while the credit side reflects the decrease in either accounts payable (if purchased on credit) or cash/bank (if purchased using cash or bank funds). The total value of assets on the debit side should equal the total value of liabilities and equity on the credit side to maintain the accounting equation ($\text{Assets} = \text{Liabilities} + \text{Equity}$). Additionally, ensure that the appropriate accounts are credited based on the method of payment used for the purchases (e.g., accounts payable for credit purchases, cash/bank account for cash purchases).

Click on the QR code to view the video on Accounts Receivable vs Account Payable:

https://www.youtube.com/watch?v=x_aUWbQa878

Notes

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Unit 3.3 Account Receivable Collection Activities

Unit Objectives



By the end of this unit, the participants will be able to:

1. The Recovery Process
2. Reconciliation Process
3. Reports and Documentation

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students. Explain the students the recovery process, reconciliation process, reports and documentation.

Say



Good morning and welcome the students to the training session. Tell them today they will learn about the Recovery process, reconciliation process, reporting and documentation as part of Accounts Receivable activity.

Elaborate



Make the students understand what is reconciliation process some additional reconciliation topics are added here.

Reconciliation is the process of comparing two sets of records or accounts to ensure that they are accurate, complete, and consistent. It involves identifying and resolving any discrepancies or differences between the two sets of records. Reconciliation is commonly performed in various financial and accounting contexts, including bank reconciliation, account reconciliation, and inventory reconciliation. Here are a few key types of reconciliation:

Bank Reconciliation: Bank reconciliation is the process of comparing the balance in a company's bank account with the balance shown in the company's accounting records (such as the general ledger). It involves identifying and reconciling differences between the two balances, which may arise due to outstanding checks, deposits in transit, bank fees, interest, or errors in recording transactions.

Account Reconciliation: Account reconciliation involves comparing the balances or transactions recorded in an individual account (such as accounts receivable, accounts payable, or inventory) with the corresponding balances or transactions in another set of records, such as a subsidiary ledger or supplier/customer statements. Account reconciliation ensures that the information in the account is accurate and complete.

Inventory Reconciliation: Inventory reconciliation is the process of comparing the physical inventory on hand with the inventory recorded in the company's accounting records. It involves verifying the quantity and value of inventory items, identifying any discrepancies (such as shrinkage or stockouts), and adjusting the inventory records accordingly.

Intercompany Reconciliation: Intercompany reconciliation is performed when a company has multiple subsidiaries or divisions that engage in transactions with each other. It involves reconciling the intercompany accounts to ensure that transactions between related entities are properly recorded and eliminate any intercompany mismatches or discrepancies.

Credit card Reconciliation: Credit card reconciliation involves comparing the transactions recorded in a company's accounting records with the transactions shown on the credit card statements. It ensures that all credit card transactions are properly recorded, including purchases, refunds, and fees, and that the credit card balance matches the company's records.

Overall, reconciliation plays a critical role in ensuring the accuracy, integrity, and reliability of financial information. By identifying and resolving discrepancies between different sets of records, reconciliation helps companies maintain financial control, comply with accounting standards and regulations, and make informed business decisions.

3.3.1 Introduction

The main responsibility of a debt recovery agent is to collect receivables from bank debtors or other financial companies (the principal) in accordance with the terms of the agency agreement that was entered into with the principal. Other essential duties include reporting the principal's position and developments, keeping track of the receivables that have been collected, and remitting the funds that have been collected to the principal. These duties are usually outlined in agency agreements and must be fulfilled by the debt recovery agent.

Apart from the easily collectible receivables, most banks have on their books overdue receivables from debtors who are not traceable or who show unwillingness to pay or who resist surrendering the security charged in such cases, the recovery process is difficult and requires handling by specialized collection agencies that possess the required expertise the functions of re-possessing the security initiating legal action and tracing the vanished debtors may be called as specialized functions of debt collecting agencies.

Both the normal and specialized collection functions will need to be performed in accordance with the recovery policy and procedure prescribed by the bank (principal) and also the regulatory and legal requirements. The functions of agents will correspond to their duties prescribed by the principal and the law.

3.3.2 Collecting Dues/Receivables

As mentioned above collecting dues/receivables is the core function of a debt recovery agent. Receivables refer to the sums of money that have become due in the loan /advances accounts and are payable on due dates by the debtors to the creditors as per the loan/advances agreements entered between the lenders and creditors. The recovery agent is assigned the task of recovering/ collecting receivables from the debtor and helping the lender to prevent loss. Therefore, the receivables in a loan/advance account have the following essential features.

- Existence of loan or advance agreement between the creditor (bank) and debtor.
- Repayment obligation of the debtor to repay the loan /advance in part or whole to the creditor, as per the loan /advance agreement.
- Due date on or after which the obligation is required to be discharged by the debtor in favor of the creditor.

in terms of the arrangement between the creditor bank (principal) and the debt recovery agency (agent), the former authorizes the agent to collect specified receivables from the named debtors on or after the specified due dates. The required particulars of the debtors and receivables to be collected from them are furnished by the bank to the agent, along with copies of the relative loan agreements.

The debt recovery agent, therefore, is legally authorized to collect the specified receivables from the debtors on behalf of the principal (creditor bank), in terms of:

- the loan agreement, and
- The debt collection agency agreement.

The procedure and processes of debt collection, code of conduct in the collection process and other regulatory requirements that need to be complied with by the recovery agents at all times.

The Debt Recovery Agent from the Debt Recovery Agencies usually call the customers and remind them to make the payments. They do not collect cash on behalf of the creditor. It is against the policy.

The Debt Recover Agency typically don't mention the mode of payment like cash or cheque from debtors. Their primary responsibility is to recover the due amounts. The mode of payment is often left to the discretion or convenience of the debtor, although they might suggest or offer various payment options.

Debtors may choose to clear their dues using one of the below-mentioned methods:

Cash: If the debtor prefers to settle the dues in cash, they might be directed to the company's office or a designated payment center to make the payment.

Cheque: Some debtors might prefer to pay by cheque. In this case, the DRA may request the cheque to be given in the company's name and specify the process for submitting the cheque.

Electronic Transfer: Debtors might also be offered the option of making payments through electronic transfer, such as bank transfers or online payments. The DRA usually facilitates the payment process by providing necessary information, guidance on where to remit payments, and ensuring that the payment is correctly allocated against the outstanding debt.

3.3.3 Remitting the collected Funds

The funds (cheques) collected from the debtors should be sent/remitted/deposited by the agent to the creditor (bank) periodically as per the agency arrangement. A statement of collections remitted should also be sent along with the remittance preferably in duplicate and the copy acknowledged by the bank (creditor) be kept on record by the agent. This should be arranged in chronological order for future reference. This statement of remittances will form the basis of claiming the agreed fee or commission by the agent from the principal (bank) in due course.

3.3.4 Book Keeping

While each debt recovery agent may devise his/her own accounting and book-keeping methods he/she has to take care of the reporting requirements of the principal. Further, if the agency is working for many Principal, then the book-keeping has to be separate for each principal (bank), the following would constitute the minimum requirement of book-keeping for a recovery agent.

- **Lists of debtors received from the principal:** collection of receivables is an ongoing activity of a recovery agent who may receive the debtor's lists from the principal (bank) from time to time.

The debtors' lists from the basis of the agent's activities and also the book-keeping required. These should therefore be carefully kept on record in chronological order.

- **Lists of remittances to the principal:** A list of collections made by the agent from the debtors and the proceeds remitted to the principal (bank) be prepared in chronological order and sent to the principal daily or as per the prescribed periodicity".

- **Ledger account of each debtor-** Showing the amounts of receivable due, and collected should be kept in chronological order. This can be maintained in the computer also. Amounts remitted to the principal out of the collections should also be kept debtor-wise showing reference to the remittance date and list number. It may be noted that all the collections/recoveries should be remitted to the bank. Normally an agent cannot adjust its dues on accounts of fees against the recoveries made on behalf of the bank

- **Copies of loan/advances agreements between the debtors and the bank-** A bank is obliged to keep confidentiality of its customer's accounts and records and these should not be divulged to third parties without the customer's consent This is the requirement as per the law and also in terms of the code of bank's commitment to customer's under the banking codes and standards board of India as such a debt recovery agent must take all due care to keep the required privacy and confidentiality as regards the records of each debtor furnished by the bank (principal) and also as regards the collections made and remitted by him to the principal.

3.3.5 Documenting and Reporting

A debt recovery agent is required to document the important developments and events in the collection process, particularly in disputed and difficult cases and send reports periodically to the principal in terms of the agency agreement. Some banks may require agents to record conversations they have with the customers during recovery process.

further from accounting angle the receivables collection by the agents would be required to be reported periodically to the principal the account statement would normally show the due receivable, amount collected and remitted and balance yet to be collected debtor-wise.

3.3.6 Repossessing Security

When the debtor refuses to repay the overdue loan or advance, the bank (creditor), in terms of the loan agreement can take possession of the security charged to it by way of hypothecation or pledge of movable assets, and sell the assets without the intervention of the court. Of course, the bank has to follow the legal provisions in this regard including giving reasonable notice to the debtor (owner of the secured assets). In cases where the creditor's security is by way of a mortgage of immovable property court's intervention is required to re-possess and sell the security to adjust the outstanding loan. Under SARFAESI ACT the bank can enforce the mortgage without intervention of the court. In both cases of re-possession (I e with or without the intervention of court) the creditor can give authority to a collection agency that has expertise in this field.

3.3.7 Initiating Legal Action

In case the debtors/guarantors have means and assets but are unwilling to repay the loan the debt recovery agent can recommend legal action to the principal/creditor, who then initiates the legal proceeding with the help of the legal team. The Debt Recovery Agency does not have the authority to initiate it.

3.3.8 Tracing Debtors

Debt collecting agencies with nation - wide presence, large resources, and computerized databases also act as tracing agents of defaulters/debtors who have disappeared and are not traceable time and money, which is otherwise spent in trying to track down the missing debtors.

3.3.9 Compiling Opinion Report

The information on the means and net worth of the principal debtors/guarantors, who have not paid the dues for a long period, remains unknown to the lender for want of information from the defaulters. Debt recovery agents can reach the relevant sources to collect information about such debtors/guarantors their income and assets, which may be very difficult and cumbersome for the lender to provide. Such information can help the lender decide about the feasibility of taking legal action for recovery against the defaulters. The sources of information to compile opinion reports on the means and assets of the defaulters can be obtained from:

- **Public Records:** Accessing publicly available records such as property ownership, business registrations, and court records to identify assets and financial history.
- **Credit Bureaus:** Retrieve credit reports and credit scores from credit bureaus like CIBIL to understand the debtor's financial behavior and outstanding obligations.
- **Online Databases:** Utilizing online databases and specialized software to search for information on assets, real estate holdings, vehicles, and other financial data.
- **Surveillance:** Employing surveillance or investigative methods to observe the debtor's lifestyle, businesses, or any hidden assets
- **Third-Party Sources:** Seeking information from third-party contacts like neighbours, employers, or business associates who might have relevant knowledge about the debtor's financial situation.
- **Financial Institutions:** Collaborating with other financial institutions or banks to cross-verify financial statements and loan history.
- **Legal Documentation:** Reviewing legal documents, such as contracts or loan agreements, to extract pertinent information about the debtor's obligations.

These sources can provide insights into a debtor's financial status and aid in making informed decisions regarding potential legal actions or debt recovery strategies.

Exercise



1. What are the different modes of paying the overdue amount?

Ans: Cash: If the debtor prefers to settle the dues in cash, they might be directed to the company's office or a designated payment center to make the payment.

Cheque: Some debtors might prefer to pay by cheque. In this case, the DRA may request the cheque to be given in the company's name and specify the process for submitting the cheque.

Electronic Transfer: Debtors might also be offered the option of making payments through electronic transfer, such as bank transfers or online payments. The DRA usually facilitates the payment process by providing necessary information, guidance on where to remit payments, and ensuring that the payment is correctly allocated against the outstanding debt.

2. Explain how the collected funds are remitted.

Ans: The funds (cheques) collected from the debtors should be sent/remitted/deposited by the agent to the creditor (bank) periodically as per the agency arrangement. A statement of collections remitted should also be sent along with the remittance preferably in duplicate and the copy acknowledged by the bank (creditor) be kept on record by the agent. This should be arranged in chronological order for future reference. This statement of remittances will form the basis of claiming the agreed fee or commission by the agent from the principal (bank) in due course.

3. From where do the DRA's get the debtor details?

Ans: Debt collecting agencies with nation-wide presence, large resources, and computerized databases also act as tracing agents of defaulters/debtors who have disappeared and are not traceable time and money, which is otherwise spent in trying to track down the missing debtors.

4. When is Legal action initiated?

Ans: In case the debtors/guarantors have means and assets but are unwilling to repay the loan the debt recovery agent can recommend legal action to the principal/creditor, who then initiates the legal proceeding with the help of the legal team. The Debt Recovery Agency does not have the authority to initiate it.

Notes



Lined area for taking notes, enclosed in a large rectangular box.

Unit 3.4 Reporting Frauds

Unit Objectives



By the end of this unit, the participants will be able to:

1. Types of frauds in banking sector
2. Reporting and Prevention of frauds

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students, explaining the various types of fraud, the mechanisms financial institutions follow to report frauds, and the preventive measures adopted to mitigate fraud risks

Say



Good morning and welcome the students to the training session. Tell them today they will learn about the various types of frauds, mechanism used by the financial institutions to report fraud, and measures taken to prevent them from happening.

Elaborate



When explaining various types of frauds, reporting mechanisms, and prevention measures to students, it's important to provide clear and concise explanations while engaging them with examples and real-world scenarios. Here's a suggested approach:

Introduction to fraud

Define fraud as deceptive or illegal activities carried out with the intention of obtaining financial gain or causing financial loss to others.

Explain that fraud can occur in various forms and contexts, including banking, insurance, credit cards, identity theft, and online scams.

Types of frauds

Briefly introduce common types of frauds, such as:

Identity theft: Unauthorized use of someone else's personal information for fraudulent purposes.

Payment card fraud: Unauthorized use of credit or debit card information for fraudulent transactions.

Wire transfer fraud: Manipulation or unauthorized transfer of funds through electronic means.

Phishing scams: Attempts to trick individuals into revealing sensitive information, such as passwords or financial details, through deceptive emails or websites.

Insider fraud: Fraudulent activities committed by individuals within an organization, such as embezzlement or falsifying records.

Reporting Mechanisms

Explain the importance of reporting fraud promptly to prevent further losses and protect individuals and organizations.

Discuss various reporting mechanisms available, such as:

Contacting the fraud department of financial institutions directly.

Reporting to regulatory authorities, such as the Federal Trade Commission (FTC) or Securities and Exchange Commission (SEC).

Using online reporting platforms provided by government agencies or consumer protection organizations.

Preventive Measures

Outline preventive measures taken by financial institutions to detect and prevent fraud, including:

Implementing robust authentication and security measures for online transactions.

Conducting regular audits and reviews of financial records to identify irregularities or suspicious activities.

Educating customers and employees about fraud awareness and prevention techniques.

Collaborating with law enforcement agencies and industry partners to share information and combat fraud effectively.

By following this structured approach and incorporating interactive elements, you can effectively educate students about various types of fraud, reporting mechanisms, and preventive measures in financial institutions.

3.4.1 Introduction

The main factors contributing to major bank frauds in India include a lack of proper monitoring systems, insufficient risk management practices, weak regulatory oversight, illegal cooperation between bank officials and fraudsters, complex loan approval processes, and gaps in the due diligence process.

In India, the banking system faces several types of fraud, including:

Loan Frauds: submitting forged paperwork, exaggerating assets, or giving false information to obtain loans. This covers instances of deliberate nonpayment and money misappropriation.

Payment Card Frauds: Fraudsters indulge in unauthorized transactions on credit/debit cards using various methods like Card skimming, phishing, or cloning.

- **Card Skimming:** This involves using a device to illegally collect card information, often at ATMs or card readers, which is then used to make unauthorized transactions.

- **Phishing:** Fraudsters send deceptive emails or messages pretending to be legitimate entities, tricking individuals into providing their card details or personal information.

- **Cloning:** Criminals use card information obtained through various means to create cloned cards, allowing them to conduct unauthorized transactions.

Cyber-attacks: Attacks include hacking into the banking system, phishing attempts or intentionally introduce malware. Using these tactics the hackers access sensitive data of customers, disrupt banking operations, or even the financial system is compromised.

Identity Theft: Stealing personal information to access accounts, create fake identities, or conduct unauthorized transactions.

Cheque Frauds: Forgery, alteration, or issuing bad checks.

Money Laundering: Illegally processing funds obtained from criminal activities to make them appear legitimate.

Insider Frauds: Fraudulent or illegal activities carried out by employees or insiders within the bank.

ATM Skimming: Hidden recording devices captures the card information and PINs in the ATM Machine.

Online Banking Frauds: stealing personal information or login credentials of customers using deceptive techniques like Phishing emails, fake websites, or social engineering to tricks

Forex Frauds: manipulating forex rates and other fraudulent practices in foreign exchange transactions

Preventing these frauds requires robust security measures, technological advancements, continuous monitoring, and strict regulatory compliance. Banks also need to educate customers about safe banking practices to minimize risks.

3.4.2 Reporting Fraud in the banking sector

Banking fraud can be reported using any one of these ways:

Contact the Bank: contact the bank officials and bring it to the notice of the officials about the fraudulent or suspicious activities in your account whenever it happens. The bank will take immediate action to secure the account, investigate the issue, and prevent further unauthorized transactions.

File a complaint: Visit the branch and meet the grievances cell to lodge a written complaint

Banking Ombudsman: Banking Ombudsman is a grievance redressal mechanism for customers to lodge complaints regarding service deficiency, which includes fraud and unresolved complaints by the bank.

Contact Regulatory Authorities: The customer can approach RBI complaint Cell or SEBI in case of investment-related frauds that are not responded to by the provider.

Law Enforcement Agencies: In case of cybercrime or identity theft, the customer is advised to report it to the cybercrime department and police.

Always keep records of communication, transactions, and any other evidence related to the fraud when reporting it to ensure proper resolution.

3.4.3 Effective fraud solutions for banks

Strong Authentication techniques: Implement multi-factor authentication for customers while accessing the account using online or app

Monitoring Transactions: high-value transactions should be monitored for any crime. Monitor both the web and app activity as a proactive measure to prevent fraud.

Strong passwords: encourage customers to protect their account with strong passwords while using the account through the web or app

Collaboration with Law Enforcement: collaborate with law enforcement agencies to address and combat banking fraud effectively.

Fraud Detection Technology: introduce AI driven fraud detection systems that can identify patterns and discrepancies in transactions.

Internal Control Mechanism: Maintain strict internal controls and rotation of roles to prevent internal fraud by employees.

Periodic Audits and Reviews: conduct audits and reviews of the security systems, processes, and customer accounts to identify potential weaknesses and fraudulent activities.

Train the employees: Train the staff to recognize and handle potential frauds emphasizing the importance of data security and customer privacy

Encryption and Firewalls: implement strong encryption techniques and firewalls to protect data transmitted through networks and stored within the bank's systems.

By adopting these techniques, the banking system can prevent fraudulent activities. But the partial responsibility lies in the users understanding the potential threats and strictly follow the guidelines prescribed by the banks to safeguard their bank account and their personal credentials.

Exercise



1. Explain Card Skimming.

Ans: Card Skimming: This involves using a device to illegally collect card information, often at ATMs or card readers, which is then used to make unauthorized transactions.

2. What is cyber-attack?

Ans: Cyber-attacks: Attacks include hacking into the banking system, phishing attempts or intentionally introduce malware. Using these tactics the hackers access sensitive data of customers, disrupt banking operations, or even the financial system is compromised.

3. Explain few frauds prevention measures.

Ans:

Strong Authentication techniques: Implement multi-factor authentication for customers while accessing the account using online or app

Monitoring Transactions: high-value transactions should be monitored for any crime. Monitor both the web and app activity as a proactive measure to prevent fraud.

Strong passwords: encourage customers to protect their account with strong passwords while using the account through the web or app

Collaboration with Law Enforcement: collaborate with law enforcement agencies to address and combat banking fraud effectively

Fraud Detection Technology: introduce AI driven fraud detection systems that can identify patterns and discrepancies in transactions

Internal Control Mechanism: Maintain strict internal controls and rotation of roles to prevent internal fraud by employees.

Periodic Audits and Reviews: conduct audits and reviews of the security systems, processes, and customer accounts to identify potential weaknesses and fraudulent activities.

Train the employees: Train the staff to recognize and handle potential frauds emphasizing the importance of data security and customer privacy

Encryption and Firewalls: implement strong encryption techniques and firewalls to protect data transmitted through networks and stored within the bank's systems.

4. What is ATM Skimming?

Ans: ATM Skimming: Hidden recording devices capture the card information and PINs in the ATM Machine.

Case Study

Harshit has a savings bank account in XYZ bank. And he has created his login for online transaction. Hackers got into his bank account and siphoned his money. How can you get this resolved and get your money back.

Ans: If Harshit's bank account has been compromised by hackers and his money has been siphoned, he should take immediate action to resolve the issue and recover his funds. Here are the steps Harshit can take:

Contact the Bank: Harshit should contact XYZ Bank immediately to report the unauthorized access to his account and the fraudulent transactions. He can do this by calling the bank's customer service hotline or visiting a branch in person.

Freeze the Account: Harshit should request the bank to freeze his account to prevent any further unauthorized transactions. This can help limit the damage caused by the hackers and prevent additional funds from being stolen.

Provide details to the bank: Harshit should provide the bank with all relevant details about the unauthorized transactions, including the date, time, and amount of each transaction. He may need to fill out a fraud claim form or provide a written statement describing the fraudulent activity.

Cooperate with Bank's investigation: Harshit should cooperate fully with the bank's investigation into the security breach and the fraudulent transactions. This may involve providing additional information or documentation as requested by the bank.

File a police Report: Harshit should file a police report with the local authorities to document the cybercrime and obtain a case number. This can help support his claim with the bank and may be necessary for further legal action.

Monitor Account Activity: Harshit should closely monitor his bank account for any further unauthorized activity. He can set up alerts or notifications to receive updates on account transactions and check his account regularly for any suspicious activity.

Follow up with the bank: Harshit should follow up with XYZ Bank regularly to check on the status of his fraud claim and ensure that it is being investigated promptly. He should also inquire about the bank's policies and procedures for reimbursing funds lost due to fraud.

Consider legal action: If Harshit is unable to resolve the issue with the bank or recover his lost funds, he may need to seek legal advice and explore other options for recourse, such as filing a complaint with banking regulators or pursuing legal action against the hackers.

Contacting Banking Ombudsman to get his issues resolved.

By taking these steps promptly and diligently, Harshit can work towards resolving the issue of unauthorized access to his bank account and recovering his stolen funds. It's important for him to act quickly to minimize any further financial damage and protect his assets.

Notes



This image shows a full page of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. In the top left corner, there is a small orange icon resembling a notepad or a document with a pencil, followed by the word "Notes" in an orange font. The rest of the page is blank, with no handwriting or other markings.

Unit 3.5 Collaboration with legal team

Unit Objectives



By the end of this unit, the participants will be able to:

1. Need for collaboration with the Legal Team
2. Legal Procedures in India to recover overdue amount
3. Write off amount

Resources to be Used



- Available objects such as a duster, pen, notebook, projector and other teaching aids
- Presentation slides
- Multimedia

Notes



Introduce the topic to the students, explaining the need for collaborating with the legal team

Say



Good morning and welcome the students to the training session. Tell them today they will learn about the collaboration between the recovery team and the legal team. Discuss about the legal procedures followed in India to recover the due amount and when does the amount gets written off.

Elaborate



The collaboration between the debt recovery team and the legal team is essential for several reasons:

Legal Expertise: The legal team possesses specialized knowledge of laws and regulations related to debt collection, consumer rights, and contract law. Their expertise ensures that the debt recovery process adheres to legal requirements and avoids any violations that could lead to legal repercussions.

Risk Management: Legal professionals can assess the legal risks associated with debt collection practices and provide guidance on mitigating those risks. They help the debt recovery team navigate complex legal issues and minimize the likelihood of lawsuits or legal disputes arising from the debt recovery process.

Compliance Assurance: The legal team ensures that the debt recovery activities comply with applicable laws, regulations, and industry standards, such as the Fair Debt Collection Practices Act (FDCPA) in the United States. Compliance with these regulations is crucial to avoid penalties, fines, or damage to the organization's reputation.

Dispute Resolution: In cases where debtors dispute the validity of the debt or raise legal objections, the legal team plays a crucial role in resolving disputes through negotiation, mediation, or litigation. They represent the organization's interests and work towards reaching a favorable outcome.

Documentation and Evidence: Legal professionals assist in the preparation of legal documents, such as demand letters, settlement agreements, and court filings. They ensure that documentation is thorough, accurate, and legally enforceable, which strengthens the organization's position in debt recovery efforts.

Enforcement of Remedies: If informal negotiations fail to resolve the debt, the legal team can initiate legal proceedings to enforce debt repayment, such as obtaining judgments, garnishing wages, or seizing assets. They have the expertise to navigate the legal process efficiently and effectively.

Training and Education: The legal team provides training and education to the debt recovery team on relevant legal issues, compliance requirements, and best practices. This ensures that the debt recovery team is knowledgeable about legal considerations and conducts their activities ethically and legally.

Overall, collaboration between the debt recovery team and the legal team is essential for ensuring that debt recovery efforts are conducted lawfully, ethically, and effectively. It helps mitigate legal risks, ensures compliance with regulations, and enhances the organization's ability to recover debts while preserving positive relationships with debtors.

3.5.1 Introduction

The Banking System in India caters to the various needs of the customers. Customers open bank accounts like savings and Current accounts and apply for credit cards to better manage their financial needs. They avail the loan for buying a house or buying a new vehicle and pay it over some time with interest. The Banks follow the mandatory guidelines to provide credit cards or disburse their loan.

Availing of a loan is a fairly straightforward process and it takes 3-5 days of applying for it.

However, the banks face a major challenge while recovering the due amount from the customers.

Some of them opt for ECS payment (i.e. electronic clearance system) where in their money is deducted from one of their operational/salaried accounts electronically.

In many cases, the banks collect the EMI in the form of post-dated cheques from the borrowers. On the due date, the banks deposit the cheques in their account and secure the monthly due.

Banks have seen many instances where the cheques are often bounced due to insufficient funds. This may happen once or multiple times. When the cheque is bounced and the amount is not paid, the representatives from the Collection department call the customers and inform them about the cheque bounce. They are also notified through SMS and emails.

They then start following up with them until the payment is recovered. There are intentional defaulters, who abscond from their homes, unavailable in the contact numbers are difficult to trace. For such borrowers, the banks give a grace period to make the payment and settle the account. If the borrower continues to default, the Collection Team approaches the Legal Department of the bank and discusses about the legal proceedings against that borrower.

The Debt Recovery Agencies are not authorized to take legal actions on their own. They don't have that power. The DRA's have to brief the supervisors/ Principal creditors about the status of the calls/Visits and the continuous defaulters need to be notified to them and suggest legal actions against them. Ultimately, it's usually the creditor or lender who decides and takes legal action against defaulters based on the information and recommendations provided by the recovery agencies.

3.5.2 Various Legal Actions for Debt Recovery in India

In India, several legal actions can be taken to recover debts. Some common procedures include:

Demand Notice: The creditor or lender sends a formal notice to the debtor demanding repayment of the overdue amount.

File a Civil Suit: The creditor or lender can file a civil suit in the appropriate court to recover the due amount if the debt remains unpaid.

Summary Suit: For certain cases involving a clear debt, summary suits under Order 37 of the Civil Procedure Code can be filed for a quicker recovery process.

Debt Recovery Tribunals: DRT handle recovery cases for certain types of debts (like those covered by the SARFAESI Act for banks and financial institutions)

Garnishee Proceedings: These allow the recovery of debt by attaching or garnishing the debtor's salary or bank accounts.

Asset Seizure and Sale: Court orders may allow the seizure and sale of the debtor's assets to recover the owed amount.

Insolvency and Bankruptcy Code (IBC): For larger debts, initiating insolvency proceedings under the IBC may be an option.

These actions are subject to specific legal procedures and may vary based on the nature of the debt and the jurisdiction. The legal team of the Creditor/ Lender organisation needs to work closely with the collection teams on this.

Exercise



1. Explain insolvency.

Ans: Insolvency refers to the financial state of an individual, company, or organization that is unable to meet its financial obligations or pay its debts as they become due. In other words, insolvency occurs when liabilities exceed assets, and the entity is unable to generate sufficient cash flow to cover its debts.

2. What happens in Asset Seizure?

Ans: Asset seizure refers to the legal process by which authorities or creditors take control of and confiscate assets belonging to an individual or entity to satisfy outstanding debts, judgments, fines, or legal obligations. This process typically occurs as a result of non-payment of debts, failure to comply with court orders, or criminal activities.

3. What does a demand notice contain?

Ans: The creditor or lender sends a formal notice to the debtor demanding repayment of the overdue amount.

A demand notice, also known as a demand letter, is a formal written communication sent by one party (the creditor) to another party (the debtor) requesting payment of a debt owed. The contents of a demand notice may vary depending on the nature of the debt, applicable laws, and specific circumstances, but typically, it includes the following components:

Header: The demand notice usually begins with a header containing the name and address of the creditor, along with the date of the letter. It may also include reference numbers or identifiers for tracking purposes.

Introduction: The letter typically begins with a brief introduction stating the purpose of the communication, such as informing the debtor of the outstanding debt and requesting payment.

Details of the Debt: The demand notice should provide specific details about the debt, including the amount owed, the date the debt was incurred, and any relevant account numbers or reference information.

Payment Terms: The letter should specify the terms of payment, including the total amount due, the due date, and acceptable payment methods (such as check, bank transfer, or credit card)

Consequences of Non Payment: The demand notice may outline the consequences of failing to pay the debt, such as late fees, interest charges, or further legal action. It may also specify a deadline by which payment must be made to avoid these consequences.

Legal Rights and Remedies: The letter may inform the debtor of the creditor's legal rights and remedies in the event of non-payment, such as pursuing legal action, initiating collection proceedings, or reporting the debt to credit bureaus.

Contact Information: The demand notice should provide contact information for the creditor or their representative, including a phone number, email address, and mailing address, where the debtor can reach out with any questions or concerns.

Enclosures: If applicable, the letter may include enclosures such as copies of invoices, statements, or other relevant documents supporting the debt claim.

Closing: The letter typically concludes with a polite closing, such as "Sincerely" or "Thank you for your attention," followed by the signature of the creditor or their authorized representative.

Overall, a demand notice serves as a formal request for payment and provides the debtor with clear information about the outstanding debt and the steps required to resolve it. It is an important initial step in the debt collection process and may precede further legal action or collection efforts if the debt remains unpaid.

Case Study

Abhay started a BPO and took a loan of RS.1,00,00,000 from XYZ bank and committed for a monthly repayment for 5 years. He repaid successfully for the first 2 years, but in the third year his business did not do well as expected. He had no work and had to downsize the team. This put him in a financial stress and could not repay his loan. When the Debt Recovery Agents tried to reach him through phone, email or personal visits he was avoiding meeting them. What are the actions the XYZ bank take on Abhay for not paying and avoiding the DRA team.

When the borrower Abhay fails to repay a loan and avoids communication with Debt Recovery Agents (DRAs), the bank may take several actions to address the situation. Here are some potential steps XYZ Bank could take:

Issuing formal notice: XYZ Bank may start by issuing formal notices to Abhay, reminding him of his overdue payments and the consequences of non-payment. These notices could be sent via registered mail or delivered in person to ensure they are received by Abhay.

Legal Action: If Abhay continues to ignore communication and fails to make arrangements to repay the loan, XYZ Bank may escalate the matter by initiating legal action against him. This could involve filing a lawsuit to recover the outstanding debt through the court system.

Asset Seizure: As part of the legal process, XYZ Bank may seek court orders to seize Abhay's assets to recover the outstanding debt. This could include placing liens on his property, garnishing his wages, or seizing other valuable assets.

Credit Reporting: XYZ Bank may report Abhay's delinquent account to credit bureaus, which could negatively impact his credit score and ability to access credit in the future. This could serve as a deterrent to non-payment and encourage Abhay to address the debt.

Debt Collection Agencies: XYZ Bank may engage third-party debt collection agencies to assist in recovering the outstanding debt. These agencies may use various methods to locate Abhay and negotiate repayment arrangements on behalf of the bank.

Debt Settlement: In some cases, XYZ Bank may be willing to negotiate a debt settlement with Abhay, where a portion of the outstanding debt is forgiven in exchange for a lump-sum payment or structured repayment plan. This could be a mutually beneficial solution to resolve the debt while avoiding further legal action.

Foreclosure of Repossession: If Abhay used collateral to secure the loan, such as property or equipment, XYZ Bank may initiate foreclosure or repossession proceedings to seize the collateral and recover the outstanding debt.

It's important to note that the specific actions taken by XYZ Bank will depend on various factors, including the terms of the loan agreement, applicable laws and regulations, and the bank's internal policies and procedures. XYZ Bank will likely work to recover the outstanding debt while also considering Abhay's financial circumstances and potential hardship.

Notes



Notes

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Chapter No.	Unit No.	Topic Name	Page No.	QR Code
1.	1.2	Financial System in India		 Click/Scan this QR code to watch the difference between Banks and NBFCs
2.	2.3	Banking Products		 Click/Scan this QR code to watch the video on Retail Banking
3.	2.3	Debt Recovery System		 Click/Scan this QR code to view the video on how to make a collection call
4.	2.3	Debt Recovery System		 Click/Scan this QR code to view the video on making a collection call with a solution
5.	3.2	Basics of Accounting		 Click/Scan this QR code to view the video on Accounts Receivable vs Accounts Payable



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