

Participant Handbook

Sector
BFSI

Sub-Sector
Lending

Occupation
Processing

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NSQF Level 4



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Debt Recovery Agent

Banking, Financial Services & Insurance (BFSI) Sector Skill Council of India
1407, Lodha Supremus Powai, Opp Saki Vihar Telephone Exchange, Saki Vihar Road, Powai
Mumbai – 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. ”



Certificate

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is hereby issued by the

BFSI SECTOR SKILL COUNCIL OF INDIA

for

SKILLING CONTENT - PARTICIPANT HANDBOOK

Complying to National Occupational Standards of
Job Role/Qualification Pack: **Debt Recovery Agent QP 2303 NSQF Level 4**

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Vijayalakshmi R Iyer
Chairman
BFSI Sector Skill Council of India

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The preparation of this handbook 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 participant handbook is dedicated to aspiring youth who desire to achieve special skills that will be a lifelong asset for their endeavors.

About this book

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



Key Learning
Outcomes



Unit
Objectives



Exercise



Notes



Practical

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1. Debt Recovery Agent

Unit 1.1 Introduction to Skill India Mission

Unit 1.2 Introduction to Banking Sector and the job role of a Debt Recovery Agent

Unit 1.3 Responsibilities of a Debt Recovery Agent



(BSC/ N 0701)

Key Learning Outcomes



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

1. Understand Skill India Mission and its initiatives
2. Overview of Skill India Mission Schemes
3. Skill India Mission Key Schemes
4. Benefits of Skill India Mission program for students
5. Banking, Financial and Insurance Sector in India
6. Responsibilities of a Debt Recover Agent

UNIT 1.1: Introduction to Skill India Mission

Unit Objectives



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

1. Understand about Skill India Mission
2. Over view of the Skill India Mission Scheme
3. Skill India Mission Key Schemes
4. Achievements of Skill India Mission Schemes
5. Benefits of Skill India Mission program for students

1.1.1 Skill India Mission

With the global economy rapidly changing, preparing the workforce with the right and appropriate skills is essential for any nation's development and progress.

The Government of India in 2015 launched this aspirational and ambitious initiative called The Skill India Mission to equip the country's workforce with the required mandatory skills to improve employability, fill the skills gap, and thereby 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.

1.1.2 Overview of Skill India Mission Scheme

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.

Skill India encourages international collaboration and targets to meet global market demands. This initiative aims to create a vibrant and skilled society, benefiting India's youth and growth to the Indian economy.

1.1.3 Skill India Mission Key Schemes

The Skill India Mission has launched for creating competent and skilled workforce to fulfil the dream of filling the existing skill gap between the industry demand and the available skilled manpower. The various components of these schemes address several aspects of skill development:

Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

PMKVY, a flagship program of Skill India, offers short-term skill training and certification to youth across diverse sectors through vocational training centres like Industrial Training Institutes (ITIs). The government covers the entire cost of training and assessment fees, making skill development accessible and affordable for a wide range of Indian youths, including those from diverse socio-economic backgrounds.

Sector Skill Councils (SSC)

These autonomous industry-led bodies, established by the National Skill Development Corporation (NSDC), play a pivotal role in developing occupational standards, qualification bodies, and competency frameworks. They organize programs such as Train the Trainer Programs, skill gap studies, and assessments to certify trainees. Presently, there are 38 Sector Skill Councils that are currently operational, each governed by a Governing Council consisting of over 600 corporate representatives.

Recognition of Prior Learning (RPL)

An integral part of PMKVY, RPL allows individuals with prior learning experience or skills to undergo assessments and receive certification for their existing knowledge and competencies. This recognizes and values the skills individuals have acquired through informal means or on-the-job training.

National Skills Qualifications Framework (NSQF)

The National Skills Qualifications Framework (NSQF) is a competency-based framework that organizes all qualifications according to a series of levels of knowledge, skills and aptitude. These levels, graded from one to ten, are defined in terms of learning outcomes which the learner must possess regardless of whether they are obtained through formal, non-formal or informal learning. NSQF in India was notified on 27th December 2013.

UDAAN

The Udaan Scheme, a Special Industry Initiative (SII) for the state of Jammu and Kashmir (J&K), is funded by the Ministry of Home Affairs and implemented by National Skill Development Corporation (NSDC). Based on the recommendations of the Rangarajan Committee, the scheme has been a major initiative of the central government towards making the educated youth – graduates, post-graduates and three-year diploma holders in engineering – of J&K employable.

Skills Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP)

Skill Acquisition and Knowledge Awareness for Livelihood Promotion ("SANKALP") is a programme of the Ministry of Skill Development with loan assistance from the World Bank. It aims to improve short term skill training qualitatively and quantitatively through strengthening institutions, bring in better market connectivity and inclusion of marginalised sections of the society. SANKALP was launched on 19th January 2018.

1.1.4 What is there for you in this scheme?

The following benefits are available to every student participating in a course under the Skill India program, which helps them advance their career from student to working professional.

Skill Development: The courses that the students pursue under this program focus on developing hands on experience skills relevant to job roles in that industry and enable them to gain expertise in that area and make them employment ready.

Certification: After successful completion of the course every student gets a certificate which is recognized by the employers, thus enhance their job prospects and credibility in the market.

Employment Opportunities: After completing the industry endorsed course the students can acquire new skills or upgrade their existing skills which increases their chance of finding employment or a growth in their career.

Industry-Relevant Training: The skill taught in these courses are in line with the industry needs. The courses are designed in consultation with industry experts. These factors contribute to their success in getting employment and succeed at their workplace.

Government Recognition: Skill India courses are part of a government initiative, which might open doors to opportunities supported or facilitated by government schemes or initiatives.

Entrepreneurship Development: Students undergo entrepreneurship development modules as part of their training which inculcates the idea of becoming an entrepreneur starting and managing their own business.

Financial Support: The government also provides financial assistance or scholarships to candidates who are eligible thereby encouraging them to participate in the program.

Networking Opportunities: The student can increase their professional network once they join these skill development programs by interacting with their peers, instructors, and industry experts.

Continuous Learning and Growth: These programs facilitate continuous learning and growth encouraging the students to continuously upgrade their skills, which are essential in today's rapidly changing job market.

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

Exercise



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

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

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

Notes

This image shows a single 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 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

1.2.1 Overview of Banking Sector in India

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.

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.

As of March 2023, the total number of ATMs in India reached 14,74,548. Moreover, there are 1,21,894 on-site ATMs and Cash Recycling Machines (CRMs) and 96,243 off-site ATMs and CRMs. Banks added 2,796 ATMs in the first four months of FY23, against 1,486 in FY22 and 2,815 in FY21. 100% of new bank account openings in rural India are being done digitally.

A growth rate of 10.2% was achieved from deposits of all scheduled banks totalling a substantial amount of Rs.1.98 lakh crore (US\$ 24.32 billion) as on May 5, 2023.

UPI transactions in India has reached 10.241 billion until August 30th, 2023 as reported by National Payments Corporation of India (NPCI).

Since 2020, bank assets have grown dramatically across all sectors. The combined assets of public and private banking sectors in 2022–2023 were US\$ 901.3 billion and US\$ 1,553.57 billion, respectively. 58.81% of all banking assets in 2022–2023 came from the assets of public sector banks (including public, private sector and foreign banks).

The banking industry has received support from the Indian government, particularly with regard to the financial inclusion initiative. The Pradhan Mantri Jan Dhan Yojana (PMJDY), a flagship initiative, was introduced in August 2014 with the goal of offering universal banking services to the unbanked by opening bank accounts and providing payment cards to everyone.

Note: These figures are dynamic in nature. For latest updates visit the bank and financial institutions site

As of 2022–2023, over 486 million bank accounts had been opened under the government's premier financial inclusion initiative, the Pradhan Mantri Jan Dhan Yojana (PMJDY), with deposits in these accounts totaling over US\$ 24.2 billion. Up to August 2023, 50.18 crore beneficiaries had banked.

Prime Minister Mr. Narendra Modi officially opened 75 Digital Banking Units (DBUs) in 75 Indian districts in October 2022.

It is anticipated that growing income will increase the need for financial services in rural areas, propelling the industry's expansion.

Mobile loan apps built on Android have a substantial market in India. These apps are used by 82% of online lenders worldwide, and there are about 887 active apps in use in India.

In India, the advent of digital payments is projected to bring about a profound shift.

1.2.2 Financial Systems in India

The Indian financial system plays a crucial role in the country's economy and its growth. It facilitates the flow of funds to individuals, enabling them to utilize these resources effectively for their betterment.

Indian Financial System – Overview

Financial institutions such as banks, insurance companies, pension funds, and others offer a variety of services, collectively forming the financial system.

1. The Financial institutions in India are broadly categorized into two groups: 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."

2. Banks are classified into commercial and cooperative categories. Commercial banks operate for profit, while cooperative banks 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".

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."

3. Cooperative Banks: a) Urban Cooperative Banks (UCB) b) Rural Cooperative Banks Urban Cooperative Banks (UCBs), also known as Primary Cooperative Banks, primarily serve communities, local workplace groups, and are predominantly located in urban and semi-urban areas. Their main clientele consists of small borrowers and businesses. UCBs are further classified into Scheduled and Non-scheduled categories, and within these, they are categorized as single-state and multi-state.

Public Sector Banks: Public sector banks are those controlled by the federal or state governments, with ownership exceeding 51 percent. Examples include SBI and its affiliates, Punjab National Bank, Bank of India, among others. Nationalized banks (private banks taken over by the government) that were nationalized in the 1969 and 1980s also fall under the category of public sector banks, as the government owns more than 51% of these banks.

Private Sector Banks: Private sector banks are Indian banks owned by private individuals or entities. Examples include ICICI Bank, HDFC Bank, Axis Bank, etc."

6. Foreign Banks: Foreign banks are those established in India and providing banking services but owned by foreign entities. For instance, examples include Citi Bank, HSBC Bank, Standard Chartered Bank, among others.

7. Regional Rural Banks (RRBs): The Regional Rural Banks Act of 1976 instituted RRBs in 1975 with the objective of fostering rural economy development by extending credit and other facilities, especially to small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs. This aid aims to promote agriculture, trade, commerce, industry, and other productive activities in rural areas. RRBs are jointly owned by the national government, the respective state government, and the sponsor bank in a 50:15:35 ratio (each RRB is sponsored by a specific bank). RRBs are mandated to allocate 75% of their funds to priority sectors. Additionally, NABARD supervises RRBs

8. Local Area Banks (LAB): They were started in 1996 as a part of an initiative run by the Indian government. The plan of the government was to create new private local banks that would control one or two nearby districts. To enable local organizations to mobilize rural savings and make them available for investments in local areas, local area banks were established. In India, there are only four non-scheduled local area banks; Coastal Local Area Bank is located in Vijayawada, Andhra Pradesh. All India Financial Institutions (AIFIs), Non-Banking Financial Companies (NBFCs), and Primary Dealers (PDs) are the three primary sectors of the Non-Banking Financial Institutions (NBFIs) industry in India that are under the regulatory and supervisory authority of the RBI. The Reserve Bank of India oversees Credit Information Companies (CICs), a subset of non-banking financial institutions.

9. AIFIs are Institutional structures known as AIFIs are in charge of giving particular sectors long-term financing. Four AIFIs, often referred to as Development Financial Institutions (DFIs), are currently under the supervision and regulation of the RBI.

10. NABARD: In accordance with the National Bank for Agriculture and Rural Development Act of 1981, NABARD was founded in 1982. Its goal is to provide financing to support rural areas' allied economic activities, small-scale enterprises, cottage and village industries, handicrafts, and other rural crafts. Regarding rural development, NABARD offers support to the government, RBI, and other institutions. Additionally, it provides banks, cooperatives, and other organizations with research and training resources on rural development issues.

11. Small Industries Development Bank of India (SIDBI): In 1990, SIDBI was founded in accordance with the Small Industries Development of India Act 1989. The Micro, Small, and Medium Enterprise (MSME) sector is promoted, funded, and developed by SIDBI, which also acts as the main financial institution for coordinating the operations of various organizations engaged in related activities. In order to enable banking institutions to lend to MSMEs, SIDBI generally offers indirect financial support in the form of refinancing.

12. MUDRA Bank: A government-owned financial organization called MUDRA (Micro Units Growth and Refinance Agency Ltd.) is committed to the growth and refinancing of microbusinesses. A non-banking financial firm called MUDRA Ltd. has been established as a SIDBI subsidiary while an act establishing MUDRA Bank is being passed. The purpose of MUDRA is to finance small, non-corporate (informal sector) enterprises in both rural and urban areas that require up to Rs 10 lakhs in funding. Examples of these businesses include shopkeepers and small manufacturing facilities. All Last Mile Financiers—Micro Financial Institutions, Non-Banking Finance Companies, Societies, Trusts, Companies, Co-operative Societies, Small Banks, Scheduled Commercial Banks, and Regional Rural Banks—that lend to micro and small business entities involved in manufacturing, trading, and services would fall under MUDRA's purview when it comes to refinancing.

13. Non-Banking Financial Companies (NBFCs): The NBFC is a company that operates under the Companies Act, 1956/2013. Its activities include lending and advances, buying government or local authority-issued shares, bonds, or debentures, or other marketable securities of a similar kind, leasing, hire-purchase, insurance, and chit business, but not farming, manufacturing, or the buying or selling of any goods. The majority of NBFCs are institutions in the private sector.

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14. Primary dealers (PDs): Companies that are Primary Dealers that have registered with the RBI are able to buy and sell government securities. PDs purchase government securities directly from the government in the primary market with the intention of reselling them to other buyers in the secondary market (RBI issues these assets on behalf of the government). As a result, they have a big effect on the secondary as well as primary government securities markets

15. Credit Information Companies (CIC): A CIC is a non-profit organization that gathers data and identifying information for specific clients and businesses while admitting banks, NBFCs, and other financial institutions as members. Based on a borrower's payment history, CICs determine for banks whether or not the borrower is creditworthy. The quality of the information at hand affects both consumers' capacity to obtain loans at reasonable rates and lenders' ability to evaluate risk. Under the Credit Information firms (Regulation) Act of 2005, the RBI oversees and grants licenses to credit information firms (CICs). The four CICs that are now in operation in India are Equifax, Experian, TransUnion Credit Information Bureau of India Limited (CIBIL), and High Mark Credit Information Services.

16. Payment Banks: The Reserve Bank of India (RBI) granted licenses to 11 Payment Banks in August 2015. The maximum amount of deposits that payment banks can accept from individuals is Rs. 1 lakh, dictated by the Reserve Bank of India. This restriction means that only businesses that are really committed to helping the underprivileged will be eligible to apply for payment bank licenses. Payment banks' low-cost savings accounts and remittance services will therefore primarily benefit migrant workers, self-employed people, low-income households, and others; this will enable those who currently transact only in cash to make their first step into the formal banking system (payment banks will not be permitted to lend or issue credit cards). They will only accept demand deposits.

17. Small Finance Banks: Small Financial Banks are granted license by RBI in September 2015. There are about 10 such banks and it's a big step towards furthering financial inclusion. The main functions of the small finance banks will include basic banking operations such as accepting deposit and lending to underserved and unserved groups, such as small businesses, marginalized and small farmers, micro and small industries, and organizations in the unorganized sector.

1.2.3 Components of Indian Financial System

Financial Institutions

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.

1. Central Banks

These are the financial organizations that oversee, regulate, and manage every other bank. The RBI is referred to as India's central bank. Large financial institutions collaborate directly with the RBI to offer goods and services to the general public; individuals do not deal directly with central banks.

2. Retail and Commercial Banks

These banks offer products to consumers, and commercial banks work directly with businesses. Most banks now offer savings accounts, loans, and financial advice. These banks offer services such as checking accounts, savings accounts, certificates of deposit (CDs), personal and mortgage loans, credit cards, and business bank accounts.

3. Internet Banks

These are similar to the retail banks. Internet bank is of two type-

- **Digital banks** - These are affiliated with traditional banks and are online-only platforms
- **Neo banks** - These are pure digital native banks are not affiliated with any traditional banks

4. Credit Unions

These financial institutions provide standard banking services which are founded and administered by its members. These unions usually provide services to military personnel and teachers based on their field of membership .

5. Insurance Companies

Insurance companies assume the risk of personal loss. These companies save individuals and businesses from financial losses caused by disability, death, accidents, property damage, and other disasters by providing financial assistance to cover losses.

Financial Markets

The marketplace 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

It 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 the 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 organisation, 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 function in the Life Insurance business and the other which serves 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

S.No.	Health Insurance Companies
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 Bila 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

1.2.6 Key Trends in the Growth of the Indian Insurance Sector

Indian Insurance Industry is growing steadily ever since its presence in Indian demography. The following are the major trends which contributed to the remarkable growth and the evolution of this sector in India:

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 with 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 are 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 expertise 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 _____
2. Activities of Non-Banking Financial Companies are _____,
_____, _____, _____, _____
3. Cooperative banks typically offer a _____ compared to commercial banks.
4. In the _____ buyers and sellers exchange debt (loans) and equity (ownership of assets) in this market.
5. Name Five insurance Companies.

6. _____ organization also strives to oversee and control the efficient operation of India's insurance market.

Notes

[illegible]

UNIT 1.3: Responsibilities of a Debt Recovery Agent

Unit Objectives



At the end of this unit, the students will be able to:

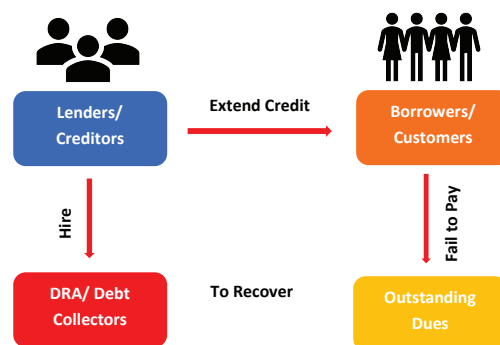
1. Understand the responsibilities of a Debt Recovery Agent
2. Understand the terminologies used in Banking Sector

Debt Recovery Agents play an important role within the Debt collection department of the financial institution. Their dedication and focus towards their work help in recovering the outstanding debts borrowed by the needy people or organisations, thus reducing the loss of revenue for the organisation. 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 the 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

Why Debt Recovery Agents/Debt Recovery Collectors?



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 (RDBFI), 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.

Responsibilities of Debt Recovery Agent/Debt Collector



1.3.1 Terminologies used in Banking Sector

Debt Recovery Agents should know the basic terminologies used in the Banking Sector. This will help them to carry out their work efficiently with proper understanding. It will aid the agents in effectively communicating and strategizing while recovering debts. Let's begin with Bank 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 individuals 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 the difference between Banks and NBFCs.

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

1. For opening a new account
2. For availing loan and credit facilities
3. For availing locker facility
4. For availing investment products or insurance

Why KYC (Know your customer)?

- To be aware of the identity of the customer
- To be aware of the location/address of the customer
- Manage risks associated with customers
- Prevent the banking system from being used by anti-social /criminal/terrorist elements.

KYC compliance is crucial to prevent fraud, money laundering, and other financial crimes.

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.

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.

What is money laundering?

Converting Black money into white money

What is anti-money laundering?

Prevention of Money Laundering

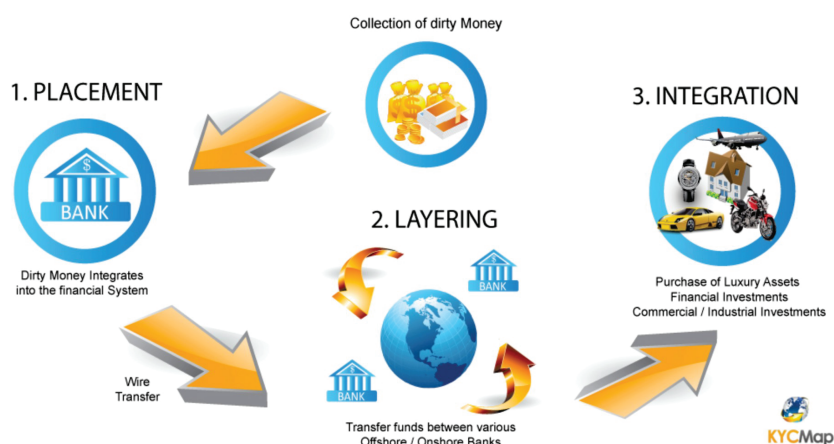


Banks and Money Laundering

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

$$\text{Simple Interest} = \frac{5,00,000 * 10 * 36}{100}$$

- a. Calculate the interest amount.
- b. principal and the interest Sheila would pay to the bank.

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.

3. Write the difference between IMPS, NEFT and RTGS.
4. What do you understand by joint account?
5. What is an offshore account?
6. What are the basic documents needed for filling the KYC form?

Notes

[illegible]

2. Perform Pre-Recovery Activities



Unit 2.1 Debt Recovery - Policy and Procedures
Unit 2.2 Credit Products
Unit 2.3 Debt Recovery System
Unit 2.4 Debt Management Plan



Key Learning Outcomes



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

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

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

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

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:

- i. 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).

ii. 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.

iii. 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.

iv. 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.

v. Use simple business language in all verbal/ written communication with customers.

vi. 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).

vii. 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 damages.

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.

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

1 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.

2 You can ask to see the agent's ID card and letter of authorization from the bank.

3 You have a right to privacy: Recovery agents cannot discuss your debt with any other person.

4 You can specify the hours between 7am and 7pm for contact, unless the special circumstances of your business or occupation require otherwise.

5 You can choose a time and place to receive calls.

6 You can have access to time and number of calls and contents of conversation documentation.

7 You can seek assistance to resolve disputes or differences regarding dues.

8 You have to be treated with decency and decorum has to be maintained.

9 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

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.

Extract of the RBI guidelines between bank and Recovery agents

RBI/2007-2008/296

DBOD.No.Leg.BC.75 /09.07.005/2007-08

April 24, 2008

All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir,

Mid-Term Review of the Annual Policy for the year 2007- 08 – Recovery Agents engaged by banks

Please refer to the paragraph 172 and 173 of the mid-term review of the Annual Policy for the year 2007-08, a copy of which is enclosed. In view of the rise in the number of disputes and litigations against banks for engaging recovery agents in the recent past, it is felt that the adverse publicity would result in serious reputational risk for the banking sector as a whole. A need has therefore arisen to review the policy, practice, and procedure involved in the engagement of recovery agents by banks in India. In this backdrop, Reserve Bank issued draft guidelines which were placed on the web-site for comments of all concerned. Based on the feedback received from a wide spectrum of banks/ individuals/ organizations, the draft guidelines have been suitably revised and the final guidelines are as follows:

Engagement of Recovery Agents

2. Banks are advised to take into account the following specific considerations while engaging recovery agents:

(i) 'Agent' in these guidelines would include agencies engaged by the bank and the agents/ employees of the concerned agencies.

(ii) Banks should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process. The due diligence process should generally conform to the guidelines issued by RBI on outsourcing of financial services vide circular DBOD.No.BP.40/ 21.04.158/ 2006-07 dated November 3, 2006. Further, banks should ensure that the agents engaged by them in the recovery process carry out verification of the antecedents of their employees, which may include pre-employment police verification, as a matter of abundant caution. Banks may decide the periodicity at which re-verification of antecedents should be resorted to.

(iii) To ensure due notice and appropriate authorization, banks should inform the borrower the details of recovery agency firms / companies while forwarding default cases to the recovery agency. Further, since in some of the cases, the borrower might not have received the details about the recovery agency due to refusal / non-availability / avoidance and to ensure identification, it would be appropriate if the agent also carries a copy of the notice and the authorization letter from the bank along with the identity card issued to him by the bank or the agency firm / company. Further, where the recovery agency is changed by the bank during the recovery process, in addition to the bank notifying the borrower of the change, the new agent should carry the notice and the authorization letter along with his identity card.

(iv) The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. Banks should ensure that there is a tape recording of the content / text of the calls made by recovery agents to the customers, and vice-versa. Banks may take reasonable precaution such as intimating the customer that the conversation is being recorded, etc.

(v) The up to date details of the recovery agency firms / companies engaged by banks may also be posted on the bank's website.

(vi) Where a grievance/ complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed of any grievance / complaint lodged by the concerned borrower. However, where the bank is convinced, with appropriate proof, that the borrower is continuously making frivolous / vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance / complaint is pending with them. In cases where the subject matter of the borrower's dues might be sub judice, banks should exercise utmost caution, as appropriate, in referring the matter to the recovery agencies, depending on the circumstances.

(vii) Each bank should have a mechanism whereby the borrowers' grievances with regard to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency as at item (iii) above.

Incentives to Recovery Agents

(viii) It is understood that some banks set very stiff recovery targets or offer high incentives to recovery agents. These have, in turn, induced the recovery agents to use intimidatory and questionable methods for recovery of dues. Banks are, therefore, advised to ensure that the contracts with the recovery agents do not induce adoption of uncivilized, unlawful and questionable behaviour or recovery process.

Methods followed by Recovery Agents

(ix) A reference is invited to (a) Circular DBOD.Leg.No.BC.104/ 09.07.007 /2002-03 dated May 5, 2003 regarding Guidelines on Fair Practices Code for Lenders (b) Circular DBOD.No.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006 regarding outsourcing of financial services and (c) Master Circular DBOD.FSD.BC.17/ 24.01.011/2007-08 dated July 2, 2007 on Credit Card Operations. Further, a reference is also invited to paragraph 6 of the "Code of Bank's Commitment to Customers" (BCSBI Code) pertaining to collection of dues. Banks are advised to strictly adhere to the guidelines / code mentioned above during the loan recovery process.

Training for Recovery Agents

(x) In terms of Para 5.7.1 of our Circular DBOD.NO.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006 on guidelines on managing risks and code of conduct in outsourcing of financial services by banks, banks were advised that they should ensure that, among others, the recovery agents are properly trained to handle with care and sensitivity, their responsibilities, in particular aspects like hours of calling, privacy of customer information etc.

(xi) Reserve Bank has requested the Indian Banks' Association to formulate, in consultation with Indian Institute of Banking and Finance (IIBF), a certificate course for Direct Recovery Agents with minimum 100 hours of training. Once the above course is introduced by IIBF, banks should ensure that over a period of one year all their Recovery Agents undergo the above training and obtain the certificate from the above institute. Further, the service providers engaged by banks should also employ only such personnel who have undergone the above training and obtained the certificate from the IIBF. Keeping in view the fact that a large number of agents throughout the country may have to be trained, other institutes/ bank's own training colleges may provide the training to the recovery agents by having a tie-up arrangement with Indian Institute of Banking and Finance so that there is uniformity in the standards of training. However, every agent will have to pass the examination conducted by IIBF all over India.

Taking possession of property mortgaged / hypothecated to banks

(xii) In a recent case which came up before the Honourable Supreme Court, the Honourable Court observed that we are governed by rule of law in the country and the recovery of loans or seizure of vehicles could be done only through legal means. In this connection it may be mentioned that the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and the Security Interest (Enforcement) Rules, 2002 framed thereunder have laid down well defined procedures not only for enforcing security interest but also for auctioning the movable and immovable property after enforcing the security interest. It is, therefore, desirable that banks rely only on legal remedies available under the relevant statutes while enforcing security interest without intervention of the Courts.

(xiii) Where banks have incorporated a re-possession clause in the contract with the borrower and rely on such re-possession clause for enforcing their rights, they should ensure that the re-possession clause is legally valid, complies with the provisions of the Indian Contract Act in letter and spirit, and ensure that such repossession clause is clearly brought to the notice of the borrower at the time of execution of the contract. The terms and conditions of the contract should be strictly in terms of the Recovery Policy and should contain provisions regarding (a) notice period before taking possession (b) circumstances under which the notice period can be waived (c) the procedure for taking possession of the security (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property (e) the procedure for giving repossession to the borrower and (f) the procedure for sale / auction of the property.

Use of forum of Lok Adalats

(xiv) The Honourable Supreme Court also observed that loans, personal loans, credit card loans and housing loans with less than Rs.10 lakh can be referred to Lok Adalats. In this connection, banks' attention is invited to Circular DBOD.No.Leg.BC.21/09.06.002/2004-05 dated August 3, 2004 wherein they were advised to use the forum of Lok Adalats organized by Civil Courts for recovery of loans. Banks are encouraged to use the forum of Lok Adalats for recovery of personal loans, credit card loans or housing loans with less than Rs.10 lakh as suggested by the Honourable Supreme Court.

Utilisation of credit counsellors

(xv) Banks are encouraged to have in place an appropriate mechanism to utilise the services of the credit counsellors for providing suitable counselling to the borrowers where it becomes aware that the case of a particular borrower deserves sympathetic consideration.

Complaints against the bank / its recovery agents

3. Banks, as principals, are responsible for the actions of their agents. Hence, they should ensure that their agents engaged for recovery of their dues should strictly adhere to the above guidelines and instructions, including the BCSBI Code, while engaged in the process of recovery of dues.

4. Complaints received by Reserve Bank regarding violation of the above guidelines and adoption of abusive practices followed by banks' recovery agents would be viewed seriously. Reserve Bank may consider imposing a ban on a bank from engaging recovery agents in a particular area, either jurisdictional or functional, for a limited period. In case of persistent breach of above guidelines, Reserve Bank may consider extending the period of ban or the area of ban. Similar supervisory action could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any bank or its Directors/ Officers/ agents with regard to policy, practice and procedure related to the recovery process.

5. It is expected that banks would, in the normal course ensure that their employees also adhere to the above guidelines during the loan recovery process.

Periodical Review

6. Banks engaging recovery agents are advised to undertake a periodical review of the mechanism to learn from experience, to effect improvements, and to bring to the notice of the Reserve Bank of India suggestions for improvement in the guidelines.

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 _____
 _____ 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, _____

3. Agent is authorized to create a contract between his _____ and _____
4. Various _____ are given to agents and they can also be _____ 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.

Notes

[illegible]

Unit 2.2 Credit Products

Unit Objectives



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

- Understand credit products
- Understand different types of loans

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

2.2.2 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.

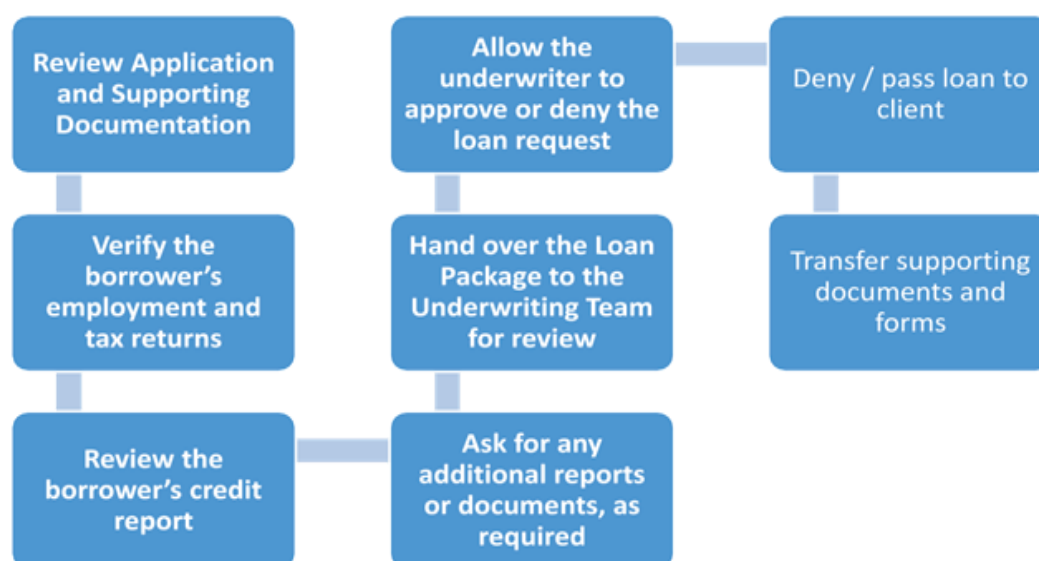
Home Equity Loans

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 make 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.

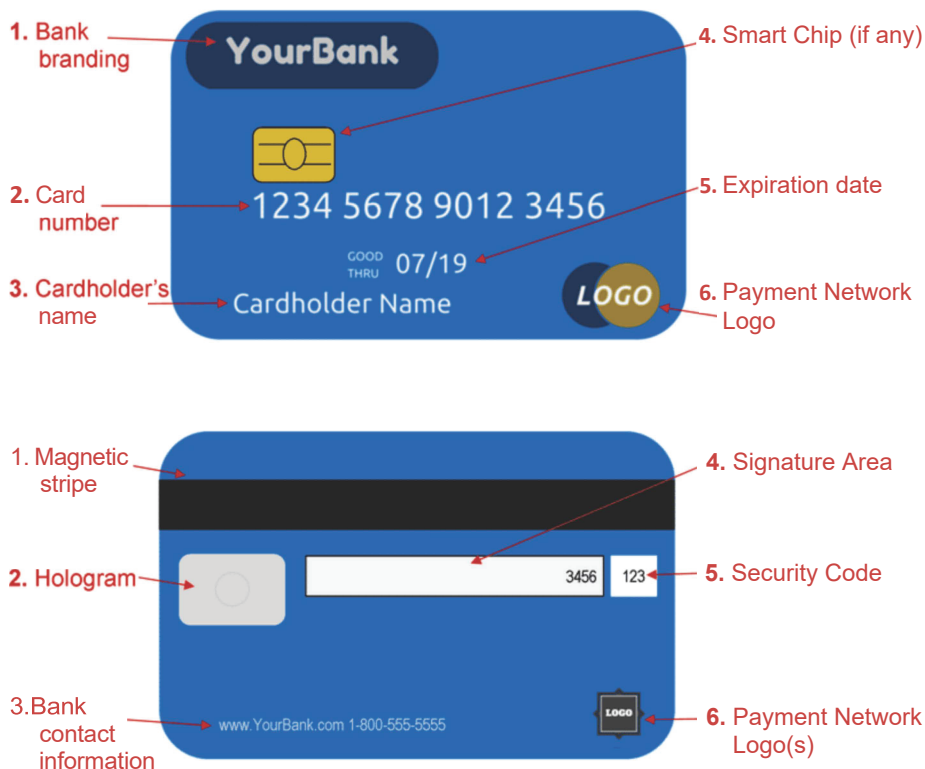
Description of a Credit Card

- 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

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

Exercise



1. Define the following:
 1. Loan
 2. Collateral
 3. Pledge
 4. Lien
 5. Mortgage
2. What is limitation period?
3. What are the features of a close-ended loan?
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
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?

Notes

This image shows a single 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 2.3 Debt Recovery System

Unit Objectives

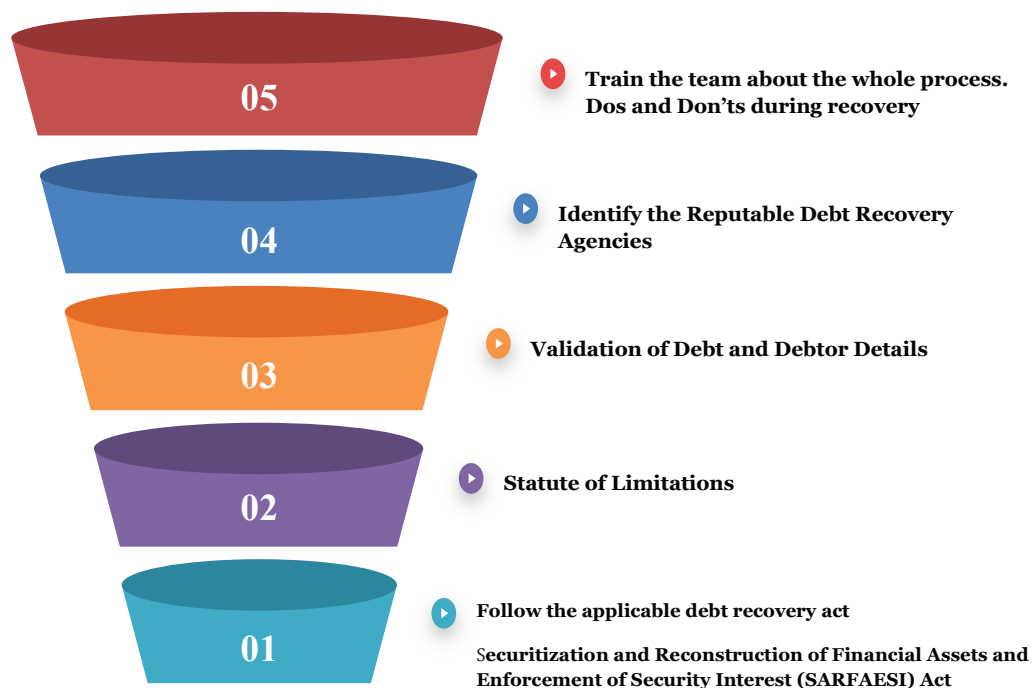


By the end of this unit, the participants will be able to:

- The term Debt Recovery
- Debt Recovery Agencies
- The steps involved in Debt Recovery
- Legal obligations involved in Debt Recovery System

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.



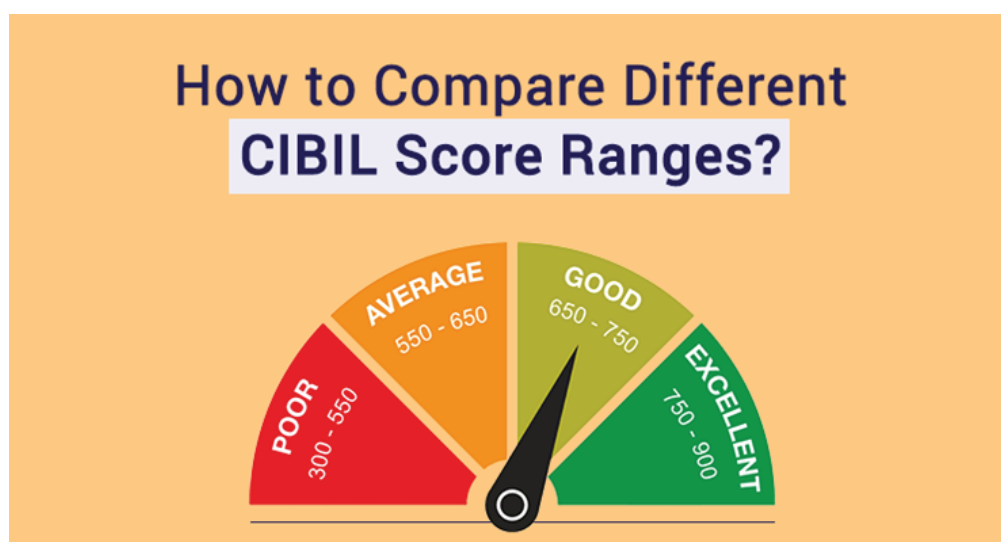
Lending institutions have a well-defined process and after reviewing the identity and eligibility and other relevant document the loan is disbursed. In other word it's a fairly straight forward process. However, recovering the outstanding amount from wilful defaulters can sometimes be difficult and challenging. 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

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.

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.



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 recovery 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

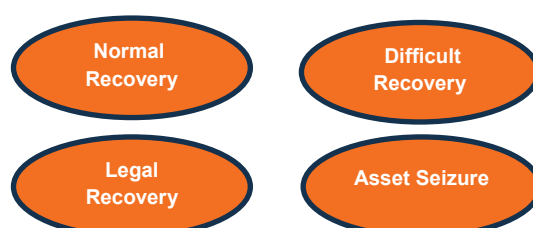
How it works?

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.

2.3.3 Types of Debt Recovery

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.



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.

2.3.6 Important points for Debt recovery

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



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.
- ii. If you are a Debt Recovery Agent, how would you handle this situation?
- iii. Is it appropriate for a Recovery Agent to talk about the dues in front of others in the family?
- iv. Is it appropriate for a Recovery Agent to involve his friends in the recovery process?
- v. Is it appropriate to take over the things which are not funded by the debt?
- 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?

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

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.

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

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

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

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 disbursal 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.

Notes

[illegible]

Unit 2.4 Debt Management Plan

Unit Objectives



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

1. Debt Management Plan
2. Credit Counselling

Introduction

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/her 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.

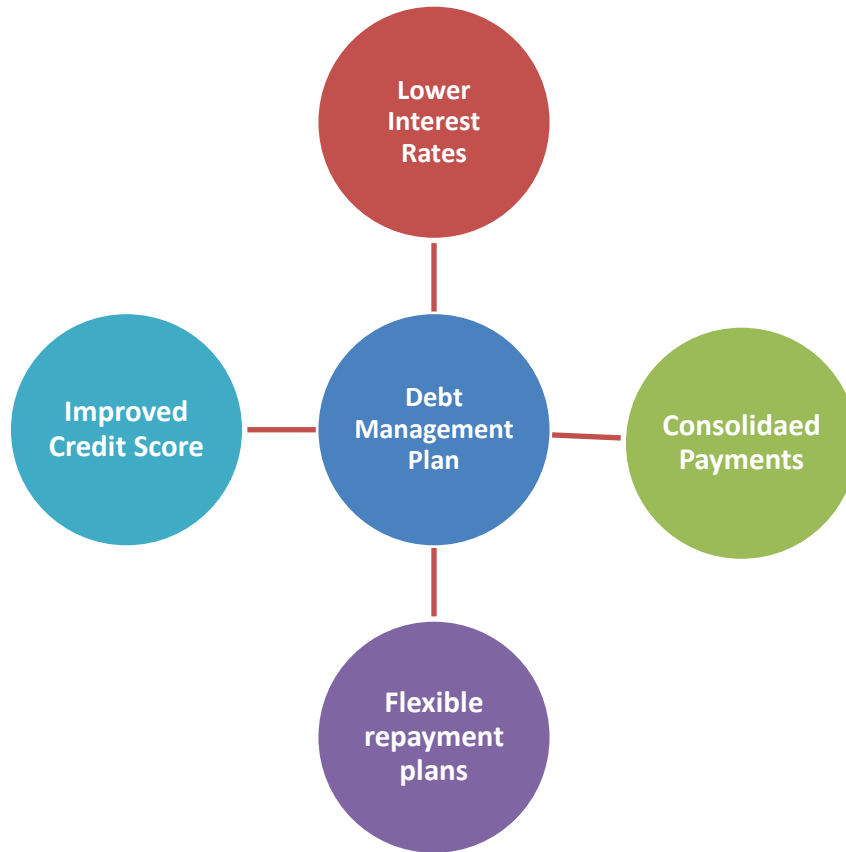
1. Lower interest rates: One of the most significant benefits of a debt management plan is that it can help lower interest rates on outstanding debts. Many debt management plans negotiate with creditors to reduce interest rates, which can help individuals pay off their debts faster and more affordably. 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?
2. Who are the people involved in DMP?
3. Explain Credit Counselling.

Notes

[illegible]

Unit 2.5 Customer Queries/Complaints related to debt

Unit Objectives



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

- Understand the common queries by client with regarding to debt
- Understand the complaints by the customers regarding debts

Introduction

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 thereby 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 debt 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 off some percentage of the total due and recover the balance amount. The lender issues the settlement letter and the customer pays 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.
2. Name three customer complaints with regard to Debt Recovery

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.



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 the Legal Team



Key Learning Outcomes



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

1. SOP- Collection
2. Basics of Accounting
3. Account receivable Collection activities
4. Reporting Fraud
5. Collaboration with the Legal Team

Unit 3.1 Collection Policy- Sample Standard Operating Procedure

Unit Objectives



At the end of this unit the students will be able to understand

1. Features of the Collection Policy Standard Operating Procedure

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 bonds.

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 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'Ts'

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?
2. _____ to be carried out strictly as per the company's norm and not beyond 1900hrs
3. DRA has to carry with them _____ and _____
4. Employee or the agents shall not accept any form _____
5. DRA must be _____ and _____ 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

[illegible]

Unit 3.2 Basics of Accounting

Unit Objectives



At the end of this unit the students will be able to understand:

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

3.2.1 Introduction

The Debt Recovery Agents should possess basic knowledge of accounting in order to perform their daily responsibilities with ease and more effectively. Let's discuss them in detail.

Accounting: The process of maintaining financial transactions of a business is called Accounting. It includes summarizing, analysing these transactions. After analysis, this may be reported to the management, owners, government and other stakeholders of the business.

Accounting Standards: Accounting standards are the rules and guidelines that companies must follow when maintaining & reporting financial data. In India, accounting standards are issued by the Institute of Chartered Accountants of India (ICAI).

Accrual: Accrual accounting is an accounting method where incomes & expenses are recorded when they are earned or incurred. This allows a company to record income when it has arisen, irrespective of when money is actually received or record expenses when they arise irrespective of when the payment for them has been made.

Accrued Income: Accrued income means income which has become due or receivable, but has not been received as on date. Such accrued income is treated as an asset of the business.

Balance Sheet: The report which contains the asset, liabilities and equity of an organization as on a particular date is called a Balance Sheet.

Bank Overdraft: This is a situation where the banks allow payments/withdrawals in excess than the available balance. This results in a negative or credit bank balance.

Bill of Exchange: Bill of exchange is a negotiable instrument where one party promises to pay another party a fixed sum of money on a pre-determined date.

Book Value: Book value is the carrying value of an asset after reducing the accumulated depreciation from the cost of the asset. It is the net value of an asset reflected in the Balance Sheet. It is also known as 'Written Down Value'.

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.

Cost Accounting: Cost accounting is a form of accounting which measures & records the cost incurred for a business activity.

Creditor: Creditor is a party to whom amount is payable by the business for the goods or services purchased from it.

Current Assets: Current assets are assets which are expected to be realised by a company within one year or within a normal operating cycle.

Current Liabilities: Current liabilities are liabilities which are payable by a company within one year or within a normal operating cycle.

Current Tax: Current tax indicates the provision made for income tax by a company for a financial year and is disclosed in its Profit & Loss statement.

Custom Duty: Customs duty is an indirect tax paid on import of goods into the country.

Debtor: Debtor is a party from whom amount is receivable by the business for the goods or services sold / supplied to it.

Depreciation: Depreciation indicates the reduction in the value of an asset (tangible or intangible) due to passage of time or use.

Due Date: means the last date by which an invoice must be paid by a customer in accordance with the terms of payment on the Invoice.

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.

Good & Services Tax (GST): Goods & Services Tax is an indirect tax levied on the supply of goods and service within India. This tax has been introduced from 1st July 2017.

Gross Profit: Gross profit is the profit a company makes after deducting the direct costs associated with making its products, or providing its services. Gross profit will appear on a company's income statement and can be calculated by subtracting the cost of goods sold (COGS) from the sales.

Hypothecation: Hypothecation occurs when an enterprise pledges an asset as security against a loan. The lender can seize the asset and recover the outstanding loan due if the enterprise fails to repay the loan.

Income Tax: Income tax is a direct tax levied on persons on income arising in India as per the Income Tax Act, 1961.

Indirect Tax: An indirect tax is collected by one entity in the supply chain (usually a producer or retailer) and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service. The consumer is ultimately paying the tax by paying more for the product. Eg. GST, Customs Duty.

Insurance claim: An insurance claim is a compensation paid by the insurance company to an insured party for the loss suffered by the party to its assets due to an unforeseen event.

Interest: Interest is the price paid for borrowing money.

Investments: An investment is an asset acquired with the goal of generating income or appreciation of wealth. Eg. Investment could be in shares, securities, immovable property, jewellery, paintings, business ventures.

Invoice: means a document requesting payment from an external customer for goods or services provided by the company/business to the customer.

Mutual funds: 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.

Net Profit: Net Profit is the net income earned by a business. It is calculated by reducing all expenses from all the incomes earned by a business.

Operating expense: Operating expenses are those expenses that are directly related to the business activity. These may be broadly divided into sub-groups like manufacturing, administrative, finance, selling or distribution expenses.

Operating income: Operating income is the income earned from the core activity of the business. Eg. Sales.

Outstanding expense: Outstanding expense is the expense that has accrued or become due for an accounting period, but which has not been paid till date. It is treated as a liability for the business. **Profit & Loss Statement:** Profit & Loss Statement is a financial statement that summarizes the incomes and expenses that have accrued to the business enterprise for a specified period (Eg. For a financial year or for 3 months). This statement indicates the profit or loss incurred by the business.

Proforma invoice: Proforma Invoice is an unofficial document prepared by a business indicating the probable value of the goods to be sold or delivered. This document is not recorded in the books of accounts.

Revenue Statement: Revenue Statement is a general term used to refer to a statement or an account that shows the income and expenditure of a business. Eg. Manufacturing A/c, Trading A/c, Profit & Loss A/c, Income & Expenditure A/c.

Secured loan: A loan or borrowing against which certain assets have been offered as a security is called Secured Loan. If the borrower defaults on the repayment of the loan, the lender has the right to take over the secured assets and recover the amount of the loan by disposing of those assets.

Standard Payment Options: cash, cheque, certified cheque, credit card, debit card, and Electronic Funds Transfer.

Statement: means of communication issued to the customer detailing the previous month's balance and current month's transactions including any Interest Charges.

Tangible assets: Assets that have a physical form are called Tangible Assets. Eg. Machinery, Furniture.

Tax invoice: Tax invoice is a document issued on the supply of goods or services indicating the nature of the goods or service supplied, the quantity supplied, the sale price and the GST levied on the supply.

TDS payable: Tax Deducted at Source (TDS) payable is the amount of TDS which an enterprise has deducted on the payment made by it to another party. This amount is then payable to the Government and is in the nature of a current liability for the enterprise.

TDS receivable: TDS receivable is the amount of income tax (TDS) deducted by another party on the payment made to us. This represents the amount of income tax paid on our behalf by the other party and is treated as a current asset.

Unsecured loans: Loans taken against which no security has been offered are called Unsecured Loans. In case of a default, the lenders have no mechanism to recover the outstanding dues. The lenders can only opt for legal action to recover the dues.

Working Capital: Working Capital represents the amount of funds required to ensure the smooth running of routine business activities. Technically it is represented as the difference between the Current Assets & the Current Liabilities.

Write Off: means to remove an Account Receivable that is deemed uncollectible from the City's financial records.

3.2.2 Debit and Credit in Accounting

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

Debit and Credit entry

Let's see how the debit and credit entry is done in the journal.

Date	Account	Debit	Credit
XX/XX/XXXX	Account	X	
	Opposite Account		X

Example 1

Let's say you decide to purchase a new LED TV for your company for Rs.36000.00

This is an asset, so you must debit Rs.36000 to your Fixed Asset account to show an increase. Purchases made also mean the liabilities are increased. To record the increase in your books, credit your Accounts Payable account Rs.36,000.

Enter the new equipment purchase of Rs.36,000 in your accounts like this

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Fixed Assets	Purchase of equipment	36000	
	Accounts Payable			36000

Example 2

If a business purchase stationary items for Rs.5000 from a vendor with cash. This transaction is debited in the inventory account and credited in the cash account.

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Inventory	Purchase of Stationary	5000	
	Cash			5000

Since both these are asset accounts, the Inventory account increases with the debit while the Cash account decreases with a credit.

Example 3

This example shows sale on credit. You make a Rs.50000 sale to a customer who pays with credit. This will increase your Revenue account through a credit and increase your Accounts Receivable account with a debit.

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Accounts Receivable	Sale to a customer on credit	50000	
	Revenue			50000

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.**

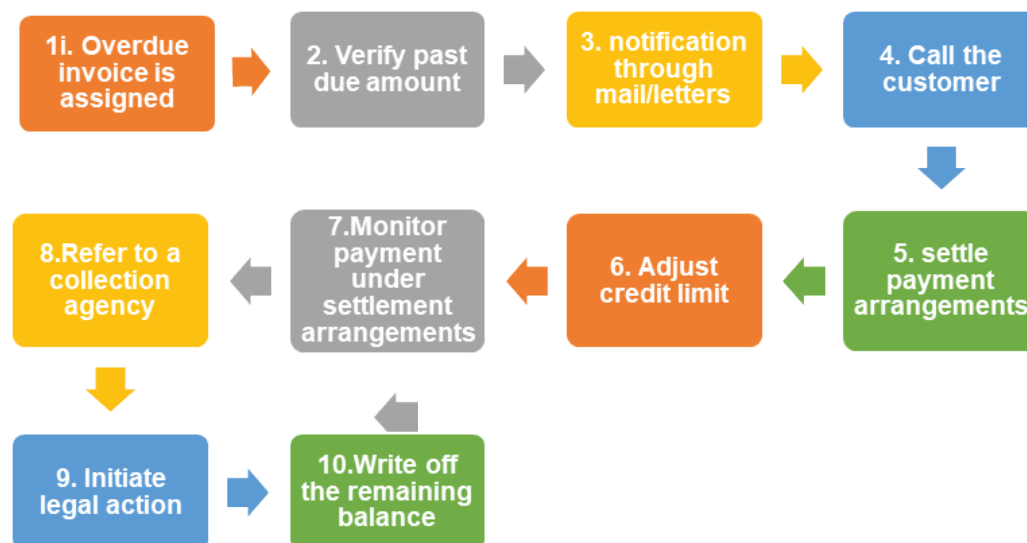
Every business uses one of these software for its journal entry.

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?
2. Explain Debit and Credit in the books of account.
3. Name two accounting software.
4. Explain the following terms:
 - a. Cash Flow statement
 - b. Equated Monthly Instalments
 - c. Mutual Fund
 - d. Profit and Loss Statement
 - e. Overdraft
5. What is 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.

Click on the QR code to view the video on Accounts Receivable vs Account Payable:
https://www.youtube.com/watch?v=x_aUWbQa878

Notes



Notes

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Unit 3.3 Account Receivable Collection Activities

Unit Objectives



At the end of this unit, the student will be able to understand:

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

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

IDebt 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?
2. Explain how the collected funds are remitted.
3. From where do the DRA's get the debtor details?
4. When is Legal action initiated?

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 3.4 Reporting Frauds

Unit Objectives



At the end of the unit, the students will be able to understand

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

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.
2. What is cyber-attack?
3. Explain few frauds prevention measures.
4. What is ATM Skimming?

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.

Notes

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Unit 3.5 Collaboration with the Legal Team

Unit Objectives



At the end of this unit, the students will be able to understand,

1. Need for collaboration with the Legal Team
2. Legal Procedures in India to recover overdue amount
3. Write off amount

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.
2. What happens in Asset Seizure?
3. What does a demand notice contain?

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.

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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