RBI/2023-24/
DOR.STR.REC.57/21.06.001/2023-24 November 16, 2023

Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
Non-Banking Financial Companies (including HFCs)

Madam/Dear Sir,

Regulatory measures towards consumer credit and bank credit to NBFCs

Please refer to Governor's Statement dated October 6, 2023 flagging the high growth in certain components of consumer credit and advising banks and non-banking financial companies (NBFCs) to strengthen their internal surveillance mechanisms, address the build-up of risks, if any, and institute suitable safeguards, in their own interest. The high growth seen in consumer credit and increasing dependency of NBFCs on bank borrowings were also highlighted by Governor in the interactions with MD/CEOs of major banks and large NBFCs in July and August 2023, respectively.

2. In this context, it has been decided to effect the following measures as under:

A. Consumer credit exposure

(a) Consumer credit exposure of commercial banks

As per extant instructions applicable to commercial banks[1], consumer credit attracts a risk weight of 100%. On a review, it has been decided to increase the risk weights in respect of consumer credit exposure of commercial banks (outstanding as well as new), including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery, by 25 percentage points to 125%.

(b) Consumer credit exposure of NBFCs

In terms of extant norms, NBFCs' loan exposures generally attract a risk weight of 100%[2]. On a review, it has been decided that the consumer credit exposure of NBFCs

[1] Para 5.13.3 of 'Master Circular – Basel III Capital Regulations' and circular 'Risk Weight for Consumer Credit except credit card receivables' dated September 12, 2019

[2] Paragraph 84 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023

(outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans, shall attract a risk weight of 125%.

(c) Credit card receivables

As per extant instructions, credit card receivables of scheduled commercial banks (SCBs) attract a risk weight of 125%[3] while that of NBFCs attract a risk weight of 100%[4]. On a review, it has been decided to increase the risk weights on such exposures by 25 percentage points to 150% and 125% for SCBs and NBFCs respectively.

B. Bank credit to NBFCs

In terms of extant norms, exposures of SCBs to NBFCs, excluding core investment companies, are risk weighted as per the ratings assigned by accredited external credit assessment institutions (ECAI)[5]. On a review, it has been decided to increase the risk weights on such exposures of SCBs by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100%. For this purpose, loans to HFCs, and loans to NBFCs which are eligible for classification as priority sector in terms of the extant instructions shall be excluded.

C. Strengthening credit standards

(a) The REs shall review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Boards as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee.

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[3] Para 5.13.3 of 'Master Circular – Basel III Capital Regulations'

[4] Applicable to two NBFCs permitted to issue credit cards , viz. SBI Cards and Payment Services Private Limited and BOB Financial Solutions Limited

[5] Para 5.8.1 of the 'Master Circular – Basel III Capital Regulations' dated May 12, 2023, read with the circular 'Risk Weights for exposures to NBFCs' dated February 22, 2019

(b) All top-up loans extended by REs against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

3. The above instructions have been issued in exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

4. The above instructions, other than paragraph 2C(a), shall come into force with immediate effect. All REs shall endeavour to comply with the provisions at paragraph 2C(a) at the earliest, but in any case shall implement them by no later than February 29, 2024.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager