

RBI fresh circular on recovery agents largely a reiteration, unlikely to resolve customer complaints, experts say

Overall complaints relating to credit cards, failure to meet commitments, and Direct Selling Agents (DSAs) and recovery agents increased during July 1, 2020 to March 31, 2021 as against the previous year, with complaints related to DSAs and recovery agents surging 61%, the RBI said.

[PIYUSH SHUKLA](#)

AUGUST 16, 2022 / 06:24 PM IST



The RBI said regulated entities found in violation of fair recovery practices will be “viewed seriously”.

The Reserve Bank of India’s (RBI) circular on Friday directing entities regulated by it to follow a set protocol for recovery of loans using third-party agents is largely a reiteration of its earlier guidelines and unlikely to resolve a rising number of complaints against financial services providers, experts say. Financial institutions engage third-party service providers for loan recoveries. As per the RBI guidelines, banks and other lenders must publish details of all recovery agencies engaged by them on their websites.

“The RBI circular is not materially different (from earlier guidelines) but a step in the right direction, as a lot of cases are coming up of borrowers being harassed at odd hours. This circular will limit such cases, but the borrowers must also be made aware that calling at odd hours is harassment, and they can record a complaint with RBI,” said Akshay Ashok, a research analyst at securities firm Prabhudas Lilladher.

Sanjay Agarwal, senior director at CARE Ratings, shared his views.

“The RBI’s circular is largely a reiteration of its guidelines issued at regular intervals...guidelines ensure that customer interest is taken care of, and regulated entities keep tweaking their business models accordingly,” Agarwal said.

“Boards are required to take note of RBI requirements. This includes checks on recovery agent-related complaints by way of audits. Bank guidelines have been strengthened in terms of corporate governance,” he added.

Ateev Mathur, partner at SNG & Partners, said recovery agents deployed by banks connect with borrowers by calling them and, if needed, by visiting their residences.

“Our experience has shown that such communications quite often end up in verbal altercations though, with passage of time this, practice has been diluted to a great extent,” he said.

As per RBI data, a total of 65 complaints related to loan-recovery agents were filed by customers with the RBI against regulated entities between 2019 and 2020 under its ombudsman scheme. During July 2020 to March 2021, the number of such complaints dropped to 28.

“(Overall) complaints relating to credit cards, failure to meet commitments, and Direct Selling Agents (DSAs) and recovery agents increased during July 1, 2020 to March 31, 2021 vis-à-vis July 1, 2019 to June 30, 2020, with complaints related to DSAs and recovery agents registering a surge of over 60.66%,” RBI said in its 2021 annual ombudsman report.

The RBI on Friday only passed certain instructions so as to regulate the conduct of recovery agents engaged by the banks and other financial institutions, Mathur said.

“There have also been certain judgments passed by courts, including the Supreme Court of India, wherein practice of engaging recovery agents and their tactics have been deprecated,” he added.

RBI action

In its Friday circular, the RBI said regulated entities found in violation of fair recovery practices will be “viewed seriously”.

According to Ashok of Prabhudas Lilladher, the central bank may choose to impose a ban on a bank from engaging recovery agents in a particular area, either jurisdictional or functional, for a limited period.

In case of a persistent breach of guidelines, RBI may consider extending the ban or the area where it is in force.

Recovery agents are mainly engaged for high-value loans, but they also pursue retail customers whose dues are pending for a long time, mostly after two instalments are left unpaid, Ashok said.

For unsecured loans, recovery agents reach customers' houses and force them to pay while in secured loans, threat of the sale of asset is also issued.

“Agents constantly call you, your references, send messages to your contacts, show up at your workplace, among others. Just calling is not harassment, but recovery agents normally resort to very harsh practices,” Ashok said.

The central bank had on January 5, 2021, imposed a Rs 2.5 crore penalty on Bajaj Finance for failure to ensure that its recovery agents did not resort to harassment or intimidation of customers as part of its debt collection efforts. There were also persistent and repeat complaints about recovery and collection methods adopted by the company, the RBI said. “A notice was issued to the company advising it to show cause as to why penalty should not be imposed for such non-compliance. After considering the company’s reply to the notice, oral submissions made during the personal hearing and examination of additional submissions made by it, RBI concluded that the charge of non-compliance with the aforesaid RBI directions was substantiated and warranted imposition of monetary penalty,” the central bank said.

However, even as the regulator penalised Bajaj Finance for using harsh recovery practices, as per RBI’s annual ombudsman scheme report, the total number of maintainable customer complaints disposed of against Bajaj Finance rose to

3,490 between July 2020 and March 2021, from 1,968 during 2019-20, in absolute terms.

“In recent times, the RBI has introduced various measures like internal ombudsman and disclosure of category-wise complaint list. Banks are also having grievance redressal mechanism. Once circulars and captioned measures are implemented in spirit and come into practice, the committee will certainly be duly updated time-to-time,” Jugal Mantri, director and chief executive officer of Anand Rathi Global Finance, told Moneycontrol.