

AGLOC/2/2016

November 14, 2016

Mr. N.S. Vishwanathan  
Deputy Governor  
Reserve Bank of India  
Central Office Building  
19<sup>th</sup> Floor, Sahid Bhagat Singh Road,  
Mumbai 400 001.

Respected Sir,

Sub: Demonetization of existing Rs.500/- and Rs.1000/- Bank notes –  
Deposit of these notes into Loan accounts - Issues faced by Gold  
Loan companies in the matter of recovery/collection

We, the Association of gold Loan Companies (India) AGLOC(India), sincerely congratulate the Government of India and Reserve Bank of India for taking this bold step towards fighting the menace of accumulation of unaccounted wealth and illegal infusion of fake currency, in the financial system.

We stand fully committed to co-operate and assist in making this endeavor a success. For this, it is important to recognize and address the difficulties being faced by the common man/Ordinary citizens who have availed Gold Loan from the Gold Loan NBFCs and make suitable amendments to the operating guidelines.

Sir, as you are aware, NBFCs have played a significant role in expanding the borders of financial inclusion and in delivering credit to under-served and unbanked sections of our Society. A substantial number of our customers live in semi-urban and rural areas, where banking habits are still in a relatively under-developed state. A large part of our loans, are given to segments, farmers, SMEs and small traders, and the loans gets repaid on a routine basis through cash collections. The current demonetisation has introduced an amount of uncertainty in the minds of our gold loan customers, as well as among the Gold loan NBFCs as to how these loans would be serviced until the currency situation stabilises.

: 2 :

The disbursement of gold loans and the recovery/collection towards the Gold Loans has been affected seriously, with not enough money in circulation. Our experience reveal that, if we do not collect the available cash from the borrowers as and when it is due, it is most likely to roll forward to the next month as arrears, making it more difficult for gold loan borrowers to repay. This may lead to loan defaults thereby adding stress to the overall asset quality.

The Reserve Bank has rightly recognised this issue and through its notification DCM (PLG) No 1251/10.27.00/2016-17 dated November 10, 2016 permitted banks (only) to take old notes, so long as these are credited to the customers' deposit or loan accounts. The condition imposed is that strict adherence to CTR/STR reporting is mandatory.

NBFCs are also subject to the provisions of Prevention of Money Laundering Act, 2002 similar to banks, under which NBFCs are subject to CTR/STR reporting.

We therefore request that NBFCs should also be permitted to accept the old notes till December 30, 2016, subject to the following:

1. The amount so collected should only be credited to the loan accounts of the borrowers
2. Strict adherence to CTR/STR and other obligations under the PMLA Act.

This would go a long way in managing the current situation without compromising the objective of demonetisation, in any manner. In fact it may actually help in bringing some amount of money back into the mainstream thereby furthering the objective.

We once again reiterate our full support and assistance in making the demonetisation scheme a success.

We sincerely request you to kindly consider the above request and pass favourable orders in this regard. Assuring you of our full cooperation always and thanking in you in anticipation

Yours Faithfully  
For ASSOCIATION OF GOLD LOAN COMPANIES (INDIA)

  
Thomas George Muthoot  
Secretary