

The Fair Practice Code & Internal Ombudsman in NBFCs: Insights from Mehta & Mehta Webinar

Non-Banking Financial Companies (NBFCs) have increasingly come under the regulatory spotlight for customer-centric practices, transparency, and accountability. In a recent webinar hosted by Mehta & Mehta, experts and participants deliberated on the **Fair Practice Code (FPC)** and the **role of Internal Ombudsman (IO)** under RBI's Scale-Based Regulations.

The session witnessed rich insights from industry professionals and raised pertinent questions on implementation challenges.

1. Fair Practice Code – Evolution and Significance

The FPC, introduced formally by RBI in 2006, is a framework ensuring **transparency, fairness, and customer protection** in NBFC operations.

Key highlights:

- **Transparency & Disclosure:** Loan applications, agreements, and sanction letters must be in a **language understood by the borrower**.
- **Key Fact Statement (KFS):** Mandatory disclosure of all charges, interest rates, and the true annual cost (APR). NBFCs cannot levy charges not disclosed in KFS unless explicitly approved later
- **Responsible Lending:** Return of property documents within **30 days of loan closure**; disclosure of complaint categories in financials; prohibition on vague, one-sided clauses.
- **Governance Responsibility:** RBI views FPC as a **fiduciary responsibility of the Board**, not just the compliance officer.

2. Internal Ombudsman – Strengthening Grievance Redressal

The IO mechanism has been introduced to enhance customer confidence and ensure **independent review of complaints not resolved satisfactorily by NBFCs**.

Key takeaways:

- IO functions as an **appellate authority** within the NBFC.
- All customer complaints rejected by the NBFC's grievance redressal team must be **escalated to the IO before final closure**.
- IO ensures **fairness, timeliness, and non-discrimination** in complaint handling

3. Implementation Challenges Highlighted

The webinar discussions revealed practical issues in rolling out FPC and IO guidelines:

- **Digital Lending & Documentation:** Participants asked whether sending loan agreements by SMS/email suffices, given that borrowers may not access links. Experts clarified that **mere dispatch is not enough**; NBFCs must obtain **acknowledgement/consent** (OTP, e-sign, or physical confirmation).
- **Language & Vernacular Requirements:** Questions arose on translating documents into multiple regional languages when operating across states. Experts advised that vernacular documents must be accurate, and compliance professionals should **verify translations** to avoid disputes.
- **Charges & Penal Interest:** Several concerns were raised about levy of **penal charges at pre-closure** and whether RBI caps NBFC interest rates. The panel clarified that while there's no fixed ROI cap, **charges must be transparent and not arbitrary**.
- **Return of Security Documents:** A participant asked if delay in updating CERSAI despite returning original documents could attract RBI penalties. Experts confirmed NBFCs must ensure full compliance, including statutory filings.

4. Expert Insights

The panelists emphasized:

- FPC is **not a checklist**, but a **trust-building tool** with regulators and borrowers.
- Borrower protection is the **central theme**, covering areas like harassment by recovery agents, hidden charges, and lack of disclosure.
- Compliance with vernacular disclosures and KFS ensures **informed decision-making by borrowers**, reducing disputes.
- The IO framework adds credibility to NBFC grievance redressal, especially in retail lending where complaints are frequent.

5. Conclusion

The Fair Practice Code and Internal Ombudsman framework are **critical pillars of customer protection in NBFCs**. While compliance demands effort particularly in vernacular documentation, digital lending, and transparent disclosures they ultimately strengthen governance, trust, and regulatory standing.

As the experts noted, RBI's intent is clear: **borrower protection, transparency, and accountability**. NBFCs that embed these principles into their business models will not only ensure compliance but also build long-term customer loyalty.

To access the webinar recording and other resources, visit the YouTube channel:

□ *"Decoding Corporate Laws with Mehta & Mehta"*