

Trade Credit Insurance for TreDs financiers can aid MSMEs

The RBI Governor, Shri Shaktikanta Das, has recently announced that MSMEs having aggregate exposure of up to Rs 25 crore, and who have not availed restructuring under any of the earlier restructuring frameworks (including under the Resolution Framework 1.0 dated August 6, 2020), and who were classified as 'Standard' as on March 31, 2021, will be eligible to be considered under Resolution Framework 2.0.

Thus, genuine MSME borrowers, hit by the second wave of the Covid-19 crisis, can apply for restructuring of their loans. However, the reason behind many MSMEs defaulting on their loans emanates from delayed payments of their outstanding dues by large buyers such as corporates houses, PSUs and government departments.

The government had introduced the Trade Receivables and Discounting System (TreDs), in 2014, which allows MSMEs discount their bills receivable on the TreDs platform, thereby saving their working capital cycle from disruption. By enrolling on the TreDs platform, MSMEs can get their bills receivables financed through multiple financiers registered on the platform, competition among whom leads to better price discovery and lowering of the bill discounting costs for MSMEs.

However, many large organizations are reluctant to enroll on the TreDs platform, despite the fact that businesses with a turnover of Rs. 500 crore and above are required to register themselves on the same. The RBI is, therefore, exploring the possibility of allowing financiers on the TreDs platform to take trade credit insurance (TCI).

TCI can protect financiers, namely, banks, NBFCs, factors and other financial institutions, registered on the TreDs platform, when the large buyers default on their payments of the bills discounted by the financiers. TCI is currently offered by general insurers in the country, to suppliers of goods and services against delay or non-payment of trade credit.

However, given the rising financial stress in the MSME sector due to the Covid-led crisis, it becomes imperative to save them from defaulting on their loans to banks by easing their bills receivable discounting requirements.

Notifications

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<https://pib.gov.in/PressReleasePage.aspx?PRID=1716540>

Union Government formulates strategy for Kharif 2021

<https://pib.gov.in/PressReleasePage.aspx?PRID=1716492>

Statement on the US support for TRIPS Waiver

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RBI

EXIM Bank Line of Credit

<https://m.rbi.org.in//scripts/NotificationUser.aspx?Id=12088&Mode=0>

Resolution Framework 2.0

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