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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Risk Weight and Provisioning

The Ministry of Housing and Urban Poverty Alleviation, Government of India has set up the Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH). Regarding issue of assignment of appropriate risk weight for loans guaranteed by CRGFTLIH and prescription of requisite provisioning norms for such loans on the lines of credit facilities guaranteed by the Credit Guarantee Fund Trust for Micro and Small Enterprises, the Reserve Bank has advised banks as below:

Risk Weight

Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter-party.

Provisioning

In case the advance covered by CRGFTLIH guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances.

Bank Guarantees

Noticing large disparities in the application of credit conversion factor (CCF) on guarantees issued by banks, the Reserve Bank has advised them to keep in view the following principles for application of CCF for determining the credit equivalent amount with regard to non-market related off-balance sheet items :

(a) Financial guarantees are direct credit substitutes wherein a bank irrevocably undertakes to guarantee the repayment of a contractual financial obligation. Financial guarantees essentially carry the same credit risk as a direct extension of credit i.e., the risk of loss is directly linked to the creditworthiness of the counterparty against whom a potential claim is acquired. An indicative list of financial guarantees attracting a CCF of 100 per cent is as under:

- Guarantees for credit facilities.
- Guarantees in lieu of repayment of financial securities.
- Guarantees in lieu of margin requirements of exchanges.

- Guarantees for mobilisation advance, advance money before the commencement of a project and for money to be received in various stages of project implementation.
 - Guarantees towards revenue dues, taxes, duties, levies etc., in favour of tax/customs/port/excise authorities and for disputed liabilities for litigation pending at courts.
 - Credit enhancements.
 - Liquidity facilities for securitisation transactions.
 - Acceptances (including endorsements with the character of acceptance).
 - Deferred payment guarantees.
- (b) Performance guarantees are essentially transaction-related contingencies that involve an irrevocable undertaking to pay a third party in the event the counterparty fails to fulfil or perform a contractual non-financial obligation. In such transactions, the risk of loss depends on the event which

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need not necessarily be related to the creditworthiness of the counterparty involved. An indicative list of performance guarantees, attracting a CCF of 50 per cent is as under:

- Bid bonds.
- Performance bonds and export performance guarantees.
- Guarantees in lieu of security deposits/earnest money deposits for participating in tenders.
- Retention money guarantees.
- Warranties, indemnities and standby letters of credit related to particular transaction.

Small Savings Schemes - Revision of Interest Rates

Pursuant to the Government of India revising the rate of interest on various small savings schemes for the financial year 2013-14, it is advised that, from April 1, 2013, the rates of interest on the Public Provident Fund Scheme, 1968 and the Senior Citizens Savings Scheme, 2004, on the basis of interest compounding/payment built-in in the schemes, will be as under:

Small Savings Scheme	Earlier Rate of Interest (in per cent)	Revised Rate of Interest (in per cent)
Senior Citizens Savings Scheme, 2004	9.3	9.2
Public Provident Fund Scheme, 1968	8.8	8.7

Agency banks have been advised to instruct their branches to display the revised interest rates on their notice boards for the information of the subscribers of these schemes.

Prudential Norms on Advances to Infrastructure Sector

The Reserve Bank has advised banks that in case of public-private partnership (PPP) projects, debts may be considered as secured to the extent assured by the project authority in terms of the Concession Agreement, subject to the following conditions:

- User charges/toll/tariff payments are kept in an escrow account where senior lenders have priority over withdrawals by the concessionaire.
- There is sufficient risk mitigation, such as, pre-determined increase in user charges or increase in concession period, in case project revenues are lower than anticipated.
- The lenders have a right of substitution in case of concessionaire default.
- The lenders have a right to trigger termination in case of default in debt service.
- Upon termination, the project authority has an obligation of (i) compulsory buy-out; and (ii) repayment of debt due in a pre-determined manner.

In all such cases, banks must satisfy themselves about the legal enforceability of the provisions of the tripartite agreement and factor in their past experience with such contracts.

Implementation of Basel III Capital Regulations

The Reserve Bank has advised that in view of the shift in the start date of Basel III implementation from January 1, 2013 to April 1, 2013, all instructions applicable as on January 1, 2013, except those relating to credit valuation adjustment (CVA) risk capital charge for over the counter (OTC) derivatives, would become effective from April 1, 2013 with banks disclosing Basel III capital ratios from the quarter ending June 30, 2013. As the introduction of mandatory forex forward guaranteed settlement through a central counterparty has been deferred pending resolution of certain issues, such as, exposure norms, etc., the CVA risk capital charges would become effective as on January 1, 2014. The other transitional arrangements would remain unchanged and Basel III will be fully implemented as on March 31, 2018.

UCBs

Unsecured Exposure Norms

With a view to promoting lending to priority sectors and providing impetus to the objective of financial inclusion, primary (urban) co-operative banks (UCBs) fulfilling the following conditions may now, with the Reserve Bank's prior approval, grant unsecured loans (with or without surety) up to 25 per cent of their total assets:

- The entire loan portfolio of the bank should be covered under priority sector.
- All the loans should be sanctioned as small value loans i.e., up to Rs. 20,000 in a single account.
- The UCB should have assessed capital to risk-weighted assets ratio (CRAR) of 9 per cent.
- The assessed gross non-performing assets (NPAs) of the UCB should be less than 10 per cent of gross advances.

Financial parameters for the above purposes, may be considered as on March 31 of the previous year. Assessed CRAR and gross NPAs would be as assessed by the latest inspection carried out by the Reserve Bank.

Earlier, the total unsecured loans and advances granted by UCBs to their members could not exceed 10 per cent of their total assets.

UCBs desirous of granting unsecured loans in excess of 10 per cent of their total assets, as mentioned above, may approach the Regional Office of the Urban Banks Department, Reserve Bank for permission.

Norms for Self Help Groups Simplified

In order to address the difficulties faced by self help groups (SHGs) in complying with 'know your customer' (KYC) norms while opening savings bank accounts and credit linking of their accounts, it has been decided to simplify certain norms for SHGs.

Accordingly, UCBs have been advised that while opening a savings bank account of a SHG, it is not necessary to do KYC verification of all the members of the SHG and KYC verification of all the office bearers would suffice. As regards KYC verification at the time of credit linking of SHGs, it is clarified that since KYC would already have been verified while opening the savings bank

account and the account continues to be in operation and is to be used for credit linkage, no separate KYC verification of the members or office bearers is necessary.

The Reserve Bank has advised UCBs to revise their KYC policy in the light of these instructions and ensure that they are strictly adhered to.

NBFCs

Core Investment Companies—Investment in Insurance

In view of the unique business model of core investment companies (CICs), it has been decided to issue a separate set of guidelines for their entry into insurance business.

While the eligibility criteria, in general, are similar to that for other non-banking finance companies (NBFCs), no ceiling has been stipulated for CICs in their investment in an insurance joint venture. Further, it is also clarified that CICs cannot undertake insurance agency business.

CICs exempted from registration with the Reserve Bank do not require its prior approval provided they fulfil all the necessary conditions of exemption as provided under/in CC No.206 dated January 5, 2011. Their investment in insurance joint venture would be guided by the Insurance Regulatory and Development Authority (IRDA) norms.

The guidelines for the entry of CICs into the insurance business are:

- (a) Any core investment company registered with the Reserve Bank which satisfies the eligibility criteria given below would be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such a CIC can hold in the joint venture company would be as per IRDA's approval.
- (b) The eligibility criteria for a joint venture participant, as per the latest available audited balance sheet, would be:
 - (i) the owned funds of the CIC should not be less than Rs. 500 crore;
 - (ii) the level of net non-performing assets should be not more than 1 per cent of the total advances;
 - (iii) the CIC should have registered net profit continuously for three consecutive years;
 - (iv) the track record of the performance of the subsidiaries, if any, of the concerned CIC should be satisfactory; and
 - (v) the CIC should comply with all applicable regulations including the CIC Directions, 2011. Thus core investment companies - non-deposit taking - systemically important (CICs-ND-SI) are required to maintain adjusted net worth which shall be not less than 30 per cent of aggregate risk weighted assets on their balance sheet and risk adjusted value of off-balance sheet items.
- (c) No CIC would be allowed to conduct such business departmentally. Further, an NBFC (in its group/outside the group) would normally not be allowed to join an insurance company on risk participation basis and hence should not provide direct or indirect financial support to the insurance venture.
- (d) Within the group, CICs may be permitted to invest up to 100 per cent of the equity of the insurance company either on a solo basis or in joint venture with other non-financial entities in the group. This would ensure that only the CIC either on a solo basis or in a joint venture with the group company is exposed to insurance risk and the NBFC within the group is ring-fenced from such risk.
- (e) In case where a foreign partner contributes 26 per cent of the equity with the approval of IRDA/Foreign Investment Promotion Board (FIPB), more than one CIC may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those CICs which satisfy the criteria given above, would be eligible.
- (f) CICs cannot enter into insurance business as agents. CICs that wish to participate in insurance business as investors or on risk participation basis would be required to obtain the Reserve Bank's prior approval. The Reserve Bank will give permission on case to case basis keeping in view all relevant factors. It should be ensured that risks involved in insurance business do not get transferred to the CIC.

It may be noted that -

- Holding of equity by a promoter CIC in an insurance company or investment in insurance business would be subject to compliance with any rules and regulations laid down by IRDA/central government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid-up capital within a prescribed period of time.
- CICs exempted from registration with the Reserve Bank in terms of the Core Investment Companies (Reserve Bank) Directions, 2011 do not require its prior approval provided they fulfill all the necessary conditions of exemption.

FEMA

External Commercial Borrowings Policy

On a review, it has been decided to permit all entities to avail of external commercial borrowings (ECBs) under the automatic route as per the current norms, notwithstanding pending investigations/adjudications/appeals by law enforcing agencies, without prejudice to the outcome of such investigations/adjudications/appeals. Accordingly, in case of all applications where the borrowing entity has indicated about the pending investigations/adjudications/appeals, authorised dealers while approving the proposal, should intimate the concerned agencies by endorsing a copy of the approval letter. The same procedure would also be followed by the Reserve Bank while approving such proposals.

These modifications to the ECB guidelines have come into effect from March 5, 2013. All other aspects of the ECB policy, under the automatic route, such as, amount of ECB, eligible borrower, recognised lender, end-use, all-in-cost ceiling, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

Earlier, corporates under investigation by any law enforcing agencies like the Directorate of Enforcement etc., were not allowed to access ECB under the automatic route. Any request by such corporates for ECB was examined by the Reserve Bank under the approval route.

Overseas Direct Investments – Clarification

It has been observed that eligible Indian parties are using overseas direct investments (ODI) automatic route to set up certain structures facilitating trading in currencies, securities and commodities. It has come to the notice of the Reserve Bank that such structures having equity participation of Indian parties have also started offering financial products linked to Indian Rupee (e.g. non-deliverable trades involving foreign currency, rupee exchange rates, stock indices linked to Indian market, etc.). It is clarified that any overseas entity having equity participation directly/indirectly should not offer such products without the Reserve Bank's specific approval, given that currently the Indian Rupee is not fully convertible and such products could have implications for the exchange rate management of the country. Any incidence of such product facilitation would be treated as a contravention of the extant FEMA regulations and would consequently attract action under the relevant provisions of FEMA, 1999.

Money Changing Activities

On a review, it has been decided that authorised money changers may sell Indian rupees to foreign tourists/visitors against international credit cards/international debit cards. They should, however, take prompt steps to obtain reimbursement through normal banking channels.

INFORMATION

Cheque Collection Policy

Non-payment or inordinate delay in payment or collection of cheques, drafts, bills, etc., is one of the grounds of complaints under the Banking Ombudsman Scheme. The 15 offices of the Banking Ombudsman situated across the country resolve complaints received on this ground. The total number of complaints regarding non-payment or inordinate delay in payment or collection of cheques, drafts, bills, etc., received in respect of commercial banks during the last three years is as under:

	July 2009 - June 2010	July 2010 - June 2011	July 2011 - June 2012
Complaints received	4,054	3,354	2,951

The Reserve Bank has issued a Master Circular on Customer Service on July 2, 2012 whereby banks are required to formulate a comprehensive and transparent cheque collection policy (CCP), which should include provisions on immediate credit for local/outstation cheques, time-frame for collection of cheques and interest payment for delayed collection. While formulating

such a policy, banks are also required to take into account their technological capabilities, system and process adopted for clearing arrangements and other internal arrangements for collection through correspondents; and obtain specific approval of their Board on the reasonableness of the policy and compliance with the spirit of the Reserve Bank's guidelines. Further, on noticing that the CCPs of various banks did not include a provision on compensation for delay in realisation of local cheques, the Reserve Bank had advised banks on August 13, 2012 to reframe their CCPs to include compensation payable for the delayed period in the case of collection of local cheques also. The Reserve Bank's guidelines also provide that in case no rate is specified in the CCP for delay in realisation of local cheques, compensation at savings bank interest rate should be paid for the corresponding period of delay.

Source: Parliament Questions

RBI signs Currency Swap Agreement with RMAB

The Reserve Bank signed the first Currency Swap Agreement with the Royal Monetary Authority of Bhutan (RMAB) on March 8, 2013. The Royal Monetary Authority of Bhutan can make drawals of US Dollar, Euro or Indian Rupee in multiple tranches up to a maximum of US\$ 100 million or its equivalent. This is expected to further economic co-operation between the two countries.

The agreement is valid for a period of three years from the date of signing.

In May 2012, RBI Governor Dr. D. Subbarao had announced in the SAARCFINANCE Governors' meeting, held in Pokhara, Nepal, that the Reserve Bank of India would offer swap facilities aggregating US\$ 2 billion, both in foreign currency and Indian Rupee to the neighbouring countries of the SAARC region. The facility is available to all SAARC member countries, viz., Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka. The swap arrangement is intended to provide a backstop line of funding for the SAARC member countries to meet any balance of payments and liquidity crises till longer term arrangements are made or if there is a need for short-term liquidity due to market turbulence. The arrangement will also further financial stability in the region.

Financial Sector Regulators sign MoU

The financial sector regulators (Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority and Pension Fund Regulatory and Development Authority) signed a memorandum of understanding (MoU) at a meeting held on March 8, 2013, for co-operation in the field of consolidated supervision and monitoring of financial groups identified as financial conglomerates. The Sub-Committee of the Financial Stability and Development Council (FSDC) also approved the National Strategy for Financial Education (NSFE). The NSFE has been revised incorporating the feedback received from public consultations and from a global peer review.