Credit Information Review

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Guidelines on Debit/Smart Cards

The Reserve Bank of India has issued guidelines to the banks for issuing of debit cards and smart cards. With the spread of information technology, electronic money, namely, debit cards and smart cards are being increasingly used as alternative payment instruments. These guidelines have been issued with a view to helping banks to introduce appropriate schemes in issuing of electronic cards to ease pressure on physical cash.

Debit cards are plastic cards connected with electro magnetic identification. Banks issue such cards to customers who could use them to pay for their purchases at specified points of sale terminals. Thus the cards facilitate the customers to effect the transactions on their own accounts remotely. Smart card, on the other hand, has an integrated circuit with micro processor chip embedded in it so that it could perform calculations, maintain records, act as an electronic purse. The cards can either be exhaustible or rechargeable. In either case, they have built-in memory and processor along with an operating system which performs the financial operations. The cards have built-in facility for protection against fraudulent operations.

As per the RBI guidelines, banks can introduce smart/debit cards with the approval of their boards subject to the compliance of the guidelines issued by the Reserve Bank. The banks should not, however, issue smart/debit cards in tie-up with any other non-bank entities.

The guidelines issued include criteria on the eligibility of customers to whom the cards can be issued, cash withdrawals, payment of interest on the balances transferred to the smart/debit cards, treatment of liability in respect of outstanding/unspent balances on the smart/debit cards, security aspects and other terms and conditions for issue of these cards by the banks. Although banks need not obtain prior approval of the Reserve Bank, the card issuing banks should review the operations of smart/debit cards on a half-yearly basis.

Coverage
The guidelines for issuing smart /debit cards should encompass all or any of the following operations:

- Electronic payment involving the use of card, in particular at the point of sale and such other places where a terminal/device for the use/access of the card is placed;
- The withdrawing of bank notes, the depositing of the bank notes and cheques and connected operations in electronic devices, such as, cash dispensing machines and ATMs;
- Any card or a function of a card which contains real value in the form of electronic money which someone has paid for in advance, some of which can be reloaded with further funds or one which can connect to the cardholder's bank account (online) for payment through such account and which can be used for a range of purposes.

Cash withdrawals
No cash transaction, that is, cash withdrawals or deposits should be offered at the point of sale, with the smart/debit cards under any facility, without prior authorisation of the Reserve Bank of India.

Customer eligibility
The banks should issue the smart/debit card to its customers having good financial standing and who have satisfactorily maintained the accounts for at least six months. The banks can, however, issue on-line debit cards to select customers with good financial standing even if they have maintained the accounts with the banks for less than six months. Banks can also extend the smart/debit card facility to those having saving bank account/current account/fixed deposit account with built-in liquidity features maintained by individuals, corporate bodies and firms. Smart/debit card facility should not be extended to cash credit/ loan account holders. The banks can, however, issue on-line

debit cards against personal loan accounts, where operations through cheques are permitted.

Treatment of liability

The outstanding balances /unspent balance stored on the smart/ debit cards should be subject to the computation for the purpose of maintenance of reserve requirements. This position would be computed on the basis of the balances appearing in the books of the bank as on the date of reporting.

Payment of interest

In case of smart cards having stored value (as in case of the off-line mode of operation of the smart card), no interest should be paid on the balances transferred to the smart cards. In case of debit cards or on-line smart cards, the payment of interest should be in accordance with the interest rate directives issued to banks from time to time.

Security and other aspects

- The bank should ensure full security of the smart card. The security of the smart card should be the responsibility of the bank and the losses incurred by any party on account of breach of security, failure of the security mechanism should be borne by the bank.
- No bank should despatch a card to a customer unsolicited, except in the case where the card is a replacement for a card already held by the customer.
- Banks should keep for a sufficient period of time, internal records to enable operations to be traced and errors to be rectified (taking into account the law of limitation for the time barred cases).
- The cardholder should be provided with a written record of the transaction after he has completed it, either immediately in the form of receipt or within a reasonable period of time in another form such as the customary bank statement.
- The cardholder should bear the loss sustained up to the time of notification to the bank of any loss, theft or copying of the card but only up to a certain limit (of fixed amount or a percentage of the transaction agreed upon in advance between the cardholder and the bank), except where the cardholder acted fraudulently, knowingly or with extreme negligence.
- Each bank should provide a system whereby his customers, at any time of the day or night could notify the loss, theft or copying of their payment devices.
- On receipt of notification of the loss, theft or copying of the card, the bank should take all action open to it to stop any further use of the card.

Terms and conditions for issue

The relationship between the bank and the card-holder should be contractual and should be subject to certain clearly laid out terms and conditions.

For detailed guidelines please see RBI website at www.rbi.org.in.

Y2K : Critical Minimum Parameterization

The Reserve Bank of India has advised all banks and financial institutions to attach high priority to the development, validation and implementation of Y2K contingency plans. Recently, it was felt that contingency planning was a key element in assuring the business continuity of the sector. Hence, the Reserve Bank advised banks and financial institutions that their board of directors and the top management should devote special attention to the strengthening of the Year 2000 contingency plans of their respective organisation.

Reiterating that banks and financial institutions should ensure that the contingency plans prepared by them are comprehensive, the Reserve Bank has compiled and sent to banks and financial institutions a list of minimum parameters that they might use for a self evaluation of their contingency plans and compare favorably when evaluated with reference to the suggested Critical Minimum Parameterization. Banks and financial institutions are also advised to keep their Board of Directors informed of the findings of their self evaluation of the organisation's Year 2000 Contingency Plans.

The Reserve Bank of India has compiled the list of common minimum parameters by picking out the common elements from contingency plans received from banks. These include, key assumptions, operations, cash and liquidity issues, participation in clearing, financial policy issues, legal issues, event management centres, triggers for activisation and duration of operation.

Banks to remain closed for Public on January 1, 2000

The Reserve Bank of India has advised all scheduled commercial banks, including Regional Rural Banks, to remain closed for public transactions on January 1, 2000. Banks, however, should be kept open on that day for staff members so that continuity of business operations in the year 2000 context could be checked. The Reserve Bank has advised banks to give due and sufficient notice to all the parties concerned who are likely to be affected by the closure to avoid any risk or liability in regard to non-performance of their obligations to be met on January 1, 2000.

Investment Porfolio of Banks

The Reserve Bank of India has clarified on value dating of securities that :

- In all cases, participants should indicate the deal/trade/contract date in Part C of the Subsidiary General Ledger (SGL) Form under 'Sale date', otherwise the SGL Form would not be accepted by the Reserve Bank of India.
- The existing instructions, viz that the date of lodgment of the SGL Form with the Reserve Bank should be within one working day after the date of signing of the Transfer Form, would continue to be operative. The `date of settlement' would be deemed to be the date of lodgment of SGL Transfer Form with the Reserve Bank for settlement.
- In cases of over the counter trades, the settlement has to be only on `spot' delivery basis as per Section 2(i) of the Securities Contract Act, 1956.
- In cases of deals on the recognised stock exchanges, settlement should be within the delivery period as per their rules, bye laws and regulations.

The clarification was sought after receiving a number of references from some of the banks on the date for reckoning of the deal.

Valuation of Investments in Subsidiaries

The Reserve Bank of India has decided that banks should follow Accounting Standard (AS) 13, issued by the Institute of Chartered Accountants of India (ICAI) for valuation of their investment in subsidiaries.

In terms of AS 13, long-term investments should be carried in the financial statements at carrying cost. Provision for diminution should, however, be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. This methodology for valuation of investment in subsidiaries will be applicable from the year ending March 31, 2000.

Reporting Subordinated Debt

The Reserve Bank of India has advised all scheduled commercial banks to submit a report giving details of the capital raised soon after the issue of subordinated debt for raising tier II capital is completed. The details should include the amount raised, maturity of the instrument, rate of interest, together with a copy of the offer document, etc.

Provision on Standard Assets

The Reserve Bank has clarified that:

- the general provision of 0.25 per cent on standard assets should be made on global loan portfolio basis and not on domestic advances alone;
- the provisions for standard assets might be netted from gross advances and only net advances should be shown in the balance sheet;
- provisions on standard assets should not be reckoned for arriving at net non performing assets (NPAs).

Earlier, banks were advised to make general provision on standard assets of a minimum of 0.25 per cent from the year ending March 2000.

Advances against Relief Bonds

The Reserve Bank of India, reiterating its earlier advice, has said that grant of advances against the security of 9 per cent Relief Bonds is permitted subject to certain terms and conditions. As per the conditions, the banks are required to:

- satisfy themselves the acceptability of the purpose, genuineness of the credit need of the borrower and end use of funds lent, and should not be guided solely by the availablity of the Relief Bonds as security;
- change the rate of interest in accordance with the directives on interest rates issued by the Reserve Bank of India from time to time; and
- keep adequate margin to cover defaults, if any, in repayment of the principal and interest at the appropriate rate.

Fixed Rate Loans

The Reserve Bank of India has clarified that the facility to offer fixed rate term loans, especially those requiring project finance, is available to banks for all term loans (repayable within a period of not less than three years) and for all purposes including small loans up to Rs. 2 lakh, subject to conformity to Asset Liability Management (ALM) Guidelines.

Unsecured Redeemable Bonds

The Reserve Bank of India has decided that the Regional Rural Banks (RRBs) may invest in Tier-II bonds issued by sponsor banks or other banks/financial institutions only to the extent of 10 per cent of the RRB's owned funds. For this purpose, the concept of owned funds would be the same as that defined in a RBI circular dated February 25, 1999.

PMRY Targets to J & K

The Government of India has enhanced the target for Jammu and Kashmir under the Prime Minister Rozgar Yojana (PMRY) for the year 1999-2000. The target has been revised upwards from 3500 beneficiaries to 4000 beneficiaries. The Reserve Bank of India has circulated the Government of Indias decision to all scheduled commercial banks..

Promoting Bills Culture

In the mid-term review of Monetary and Credit Policy for the year 1999-2000, announced on October 29, 1999, the Reserve Bank of India has given freedom to banks to charge interest rate on discounting of bills without reference to prime lending ratio (PLR). Banks would, now be able to offer competitive rate of interest on the bill discounting facility in view of predetermined dates of repayment and corporates would be motivated to go in for the bill route for receiving/paying their credit sales/credit purchases, in view of the cost advantage likely to accrue to them. Hence the mandatory stipulation of minimum 25 per cent of the total credit for acceptance of bills has been withdrawn.

Housing Finance

The Reserve Bank of India has now permitted all commercial banks to grant term loans to housing intermediary agencies against the direct loans sanctioned/proposed to be sanctioned (including those to Non-resident Indians) by the housing intermediaries irrespective of the per borrower size of the loan extended by these agencies. Such term loans would now be reckoned for the purpose of achievement of banks' housing finance allocation.

The banks should, however, ensure that housing finance intermediary agencies being financed by them are authorised by the Reserve Bank to grant housing loans to non-resident Indians (NRIs). Such indirect finance granted by commercial banks to NRIs would not form part of their finance under their annual housing finance allocations.

Banking A Public Utility

The Government of India, Ministry of Labour, New Delhi has declared the banking industry as a public utility service for a further period of six months from September 19,1999.

Project Export Proposals

The Reserve Bank of India has decided that authorised dealers may convey their approvals at pre bid/post-award stages in respect of project export proposals cleared by them in a certain proforma, in future with a view to standardising the approval letters. Additional conditions stipulated to the approval as well as other standard conditions for various facilities may also be incorporated in the approval letters in the anexures.

Exchange Control

Foreign Investment in India

Investment by NRIs/OCBs

The Reserve Bank of India has granted general permission to Indian companies for issuing non-convertible debentures to investors on repatriation as well as non-repatriation basis. Accordingly, Indian companies can issue, by way of public issue, non-convertible debentures on non-repatriation/repatriation basis and despatch them to non-resident Indians/overseas corporate bodies (NRIs/OCBs) without prior permission of Reserve Bank, subject to certain conditions.

Portfolio investment by NRIs/OCBs

The Reserve Bank of India has decided that all portfolio investments made by non-resident Indians(NRIs) and/or overseas corporate bodies (OCBs) on non-repatriation/repatriation basis in shares/debentures of Indian companies and other securities through designated branches of authorised dealers will not require specific permission from the Reserve Bank. Such NRIs/OCBs who make portfolio investment in shares/debentures, etc. through a designated branch of an authorised dealer will have Reserve Bank's permission under Section 29(1)(b) of Foreign Exchange Regulation Act, 1973 to acquire such shares/debentures etc. Accordingly, NRIs/OCBs desirous of making portfolio investment in shares/debentures of Indian companies and other securities on non-repatriatiion/repatriation basis may apply in form NRI/NRC or RPI/RPC, as applicable, to designated branch of authorised dealer.

Loans to NRIs

The Reserve Bank of India has permitted authorised dealers to grant loans and advances to non-resident Indians (NRIs) and persons of Indian origin (PIOs) against the security of shares/debentures/immovable property held by them in India, according to their commercial judgement and subject to certain conditions.

Minimum Maturity for FCNR(B)

The Reserve Bank of India has decided to raise the minimum maturity for Foreign Currency Non-Resident (Banks) deposits to one year. Accordingly, authorised dealers can now accept FCNR(B) deposits only for three maturity periods viz. one year and above but less than two years, two years and above but less than 3 years and three years only.

Investments in Mutual funds

The Reserve Bank of India has granted general permission to Indian mutual funds to issue units or similar instruments under schemes approved by Securities and Exchange Board of India (SEBI) to foreign institutional investors with repatriation benefits.

Penal Interest on ECBs

The Reserve Bank of India has permitted all authorised dealers to allow remittance of penal interest on external commercial borrowings (ECBs) irrespective of the period of default and the number of occasions on which defaults have occurred. Authorised dealers are, however, required to submit a report with full details to the Regional Office of the Reserve Bank where borrower has defaulted on three or more occasions.

Contributions to Organisations

The Reserve Bank of India has permitted all authorised dealers to release exchange towards membership contributions to international organisations on the basis of the invoices from overseas organisations supported by the approval from concerned administrative ministry.

Payment towards Advertisement

The Reserve Bank of India has permitted all authorised dealers to allow advance remittances towards cost of advertisement on TV /radio out of the funds held in Exchange Earners' Foreign Currency (EEFC) accounts of the advertisers concerned subject to a ceiling of US $ 15,000.

Sales under General Authority

The Reserve Bank of India has permitted all branches/offices of authorised dealers (including their exchange bureau at airports and seaports) to sell foreign currency notes and coins up to US$ 50 or its equivalent per person to outgoing travellers, after verifying from their travellers passage tickets that they are about to leave India and have not availed of U.S.$ 50 from the city/town office of an authorised dealer. Transit passengers who are holding foreign passports or, passengers holding foreign passports and travelling on open-dated return tickets issued outside India or, travellers proceeding to Bhutan and Nepal will, however, not be extended the facility. Authorised dealers' branches/offices in the city/town area should sell foreign currency notes/coins not earlier than 30 days from the date of departure on production of a confirmed journey ticket. All such sales should be endorsed on the travellers passports.

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