

Credit Information Review

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**December
1999**

Important Developments in 1999

January

- Nominated agencies permitted to grant gold (metal) loans as per the Export Import Policy 1997-2000.
- The Reserve Bank allowed banks to extend concessional credit for working capital purposes in respect of export related activities of all agro products, including purchase of fertilizers, pesticides and other inputs for growing of flowers, grapes, etc.
- Authorised dealers permitted to release foreign exchange to whole time directors of public sector banks and financial institutions for their business visits abroad without prior approval of the Ministry of Finance if the visit did not exceed the number of days indicated in the Government of India Notification.

February

- The Reserve Bank gave autonomy to banks, including foreign banks operating in India, to raise rupee subordinated debt as tier II capital, subject to certain terms and conditions.
- The Reserve Bank issued final guidelines on Asset-Liability Management (ALM) Systems for implementation by banks effective from April 1, 1999. The guidelines mainly address liquidity and interest rate risks and have been formulated to serve as a benchmark for banks not having formal ALM systems.
- In partial modification of its instruction on bridge loans, the Reserve Bank permitted banks to extend bridge loans against the expected proceeds of non-convertible debentures, external commercial borrowings, global depository receipts and/or funds in the nature of foreign direct investment.
- On review of the instructions relating to eligibility of direct housing finance for achievement of annual housing finance targets, the Reserve Bank withdrew the stipulation regarding the age of old dwelling units (so far restricted to five years).

March

- The Reserve Bank set up a "Regulation Review Authority" to seek suggestions from the public and various agencies for elimination of unnecessary circulars, cumbersome procedures and forms which did not fulfil their stated purpose, or which were no longer required in view of the changes that have taken place in technology, regulatory framework or market development.
- The Reserve Bank announced major simplification and revamping of the schemes of export credit in foreign currency, with a view to making credit available to exporters at pre-shipment and post-shipment stages, at internationally competitive rates.
- Banks and financial institutions were asked to report all cases of wilful default, which occurred or were detected after March 31, 1999, on a quarterly basis. The information on wilful default was expected to cover all non-performing borrowal accounts with outstandings

(funded facilities and such non-funded facilities which were converted into funded facilities) aggregating Rs.25 lakh and above.

- Bank rate was reduced from 9 per cent to 8 per cent, effective from the close of business hours on March 1, 1999.
- Repo rate was reduced from 8 per cent to 6 per cent, effective from March 3, 1999.
- Cash Reserve Ratio (CRR) reduced from 11 per cent to 10.5 per cent effective from the fortnight beginning March 13, 1999.

April

- The Reserve Bank announced the Monetary and Credit Policy: 1999-2000 on April 20,1999.
- The Reserve Bank advised that in cases where loss assets were more than two years old on the books of the bank without legal action being initiated, banks should submit a review note to the management committee/board giving specific reason as to why suits were not filed.
- The Reserve Bank of India introduced Non-Resident (Special) Rupee (NRSR) Account with effect from April 15,1999 for non-residents of Indian nationality/persons of Indian origin. The principal and the interest in the account would be non-repatriable.

May

- The Reserve Bank removed the ceiling on bank credit prescribed for all registered non banking financial companies (NBFCs), engaged in principal business of equipment leasing, hire purchase, loan and investment activities.
- The Reserve Bank entrusted the board of directors of each bank with the responsibility of formulating guidelines for determining the date of 'commencement of commercial production'.

June

- All commercial banks advised to carry the legend "Nomination Registered" on the face of the passbook.
- The Reserve Bank set-out the guidelines for constitution of Settlement Advisory Committees (SACs) for compromise settlement of non-performing assets of small sector for public sector banks.

July

- The Reserve Bank allowed scheduled commercial banks (excluding Regional Rural Banks), primary dealers and all-India financial institutions to undertake Forward Rate Agreements/Interest Rate Swaps (FRAs/IRSs).
- The Reserve Bank advised all public sector banks to adopt a certain netting procedure for reconciling nostro accounts as a one-time measure after an inspection of their books by the internal auditors and after getting the proposal placed before their respective boards.
- All commercial banks advised to instruct their branches to deduct tax at source (TDS) on interest payment on term deposits on accrual basis and to immediately remit the tax so deducted to the Central Government account.
- The Reserve Bank advised the banks, authorised to deal in gold, to grant gold (metal) loans to the jewellery exporters who are the customers of other banks not authorised to deal in gold by accepting the standby letter of credit or bank guarantee issued by their bankers.

August

- The Reserve Bank evolved an educational loan scheme for students in private professional colleges to facilitate financial assistance to students seeking admission to these colleges under free/merit and payment categories. The scheme was effective from August 1, 1999.
- The Reserve Bank further liberalised the regulations governing release of exchange for studies abroad.
- The rates of interest on the pre-shipment credit on foreign currency scheme and re-discounting of export bills abroad were permitted to be fixed with reference to eurolibor/euribor, wherever applicable.

September

- The powers of chairman and managing director of public sector banks for waiver/write-off of loans raised from the existing limit of Rs 10 lakh to Rs 50 lakh.
- The Reserve Bank advised the Indian Banks' Association (IBA) and the Foreign Exchange Dealers Association (FEDAI) to totally dispense with the practice of fixing benchmark service charges on behalf of member banks including charges for forex transactions and to give freedom to banks in prescribing service charges.
- The Reserve Bank enhanced the financing limits for retail traders and for housing purposes from Rs 2 lakh to Rs 5 lakh. Loans for repairs to damaged houses similarly stood raised from Rs 25,000 to Rs 50,000 per borrower.

October

- The Reserve Bank announced the Mid-term Review of Monetary and Credit Policy 1999-2000 on October 29, 1999.
- The Reserve Bank issued detailed guidelines for risk management system in banks. The guidelines broadly cover management of credit, market and operational risks. The guidelines on risk management issued together with the ALM guidelines were purported to serve as a benchmark to the banks, yet to establish an integrated risk management system.
- The Reserve Bank circulated detailed guidelines for the gold deposit scheme, authorising the banks, dealing in gold and having the required infrastructure for managing the scheme, expertise/experience in gold business and proper risk management systems to launch the gold deposit scheme. Banks proposing to introduce a gold deposit scheme were also asked to take the Reserve Bank approval for introducing the scheme.

November

- The Reserve Bank issued guidelines to the banks for issuing of debit cards and smart cards with a view to helping banks to introduce appropriate schemes in issuing of electronic cards to ease pressure on physical cash.
- The Reserve Bank 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.

December

- Authorised dealers were allowed subject to certain conditions the remittances towards prepayment/part-prepayment of external commercial borrowings (ECBs) by the borrower.

Reports and Committees of 1999

- RBI set up a working group for revival of weak public sector banks on February 8, 1999. The group was set up to suggest measures for revival of weak public sector banks. The report was submitted and released on October 4, 1999.
- RBI set up a monitoring group of bankers for close monitoring of the implementation of the revamped and simplified foreign currency export credit schemes on March 3, 1999. The group was set up with a view to closely monitoring implementation by banks of the simplified procedures and to sorting out any operational problem that might arise in making foreign currency credit facilities available to exporters liberally, more particularly small and medium scale exporters.
- RBI released the report of the technical committee on State Government guarantees on March 10, 1999. The technical committee was set up on October 29, 1998.
- RBI constituted the National Payment Council on May 26, 1999 with the focus on the broad policy parameters for designing and developing an integrated, state-of-the-art, robust payment and settlement system for the country with the proposed Real Time Gross Settlement (RTGS) system as its core.
- RBI set up a high power committee on urban co-operative banks on May 27, 1999 to review the performance of urban co-operative banks and suggest necessary measures to strengthen them. The committee submitted its report on December 3, 1999.
- RBI set up a working group to explore the possibilities of setting up a credit information bureau in India on June 8, 1999. The report of the working group was submitted on November 1, 1999.
- RBI set up technical advisory committee on money and Government securities markets on July 12, 1999. The standing committee would advise the Reserve Bank, on an ongoing basis, on development of the money and Government securities market.
- RBI released the report on technology upgradation in banking sector (Vasudevan Committee Report) on July 20, 1999. The committee was set up in September 1998 to examine the various issues pertaining to technology upgradation in the banking and financial sectors and to suggest steps for a time-bound implementation schedule of the Narasimhan Committee recommendations to be followed by banks and financial institutions.
- RBI released the report on repurchase agreements for market feedback on August 6, 1999.
- RBI released the report of the working group on international banking statistics on August 19, 1999. The group recommended introduction of a comprehensive return to enable effective monitoring of the international claims and liabilities of the Indian banking system on a quarterly basis.
- RBI formed a senior bankers' committee for financing of enterprises based on output of research and development and industrial research organisation on August 25, 1999. The committee is expected to examine the ways to strengthen the financing of enterprises which seek to undertake commercial production of products and services based on industrial research and development particularly in areas of new technology by banks and financial institutions.
- RBI released the report of the working group on deposit insurance on November 2, 1999. The group was set up to undertake a study of the existing system of deposit insurance in India and of the need for reforms in it as a crucial component of the financial sector reforms.

- RBI released the report of the informal group on valuation of banks' investment portfolio on November 3, 1999.
- RBI set up a working group on discounting of bills by banks on December 3, 1999 to examine the possibility of extending bill discounting facility to services sector.
- RBI set up a Standing Committee on International Financial Standards and Codes on December 10, 1999 to evolve sound standards based on recognised best practices in fiscal financial and accounting areas, for adopting transparency while adhering to the codes.

For full text of the reports released by the Reserve Bank of India, please visit the RBI website. Special URL for reports on the website is www.reports.rbi.org.in

Y2K Measures

Landmarks

- July 7, 1996 - Issue of the circular by the Department of Information Technology indicating to the banks the nature of Y2K problem
- September 22, 1997 - asking the banks to initiate steps to address Y2K problem & send quarterly report to the Department of Banking Supervision
- February 1998 - setting up of the Working Group on Y2K issues by the Reserve Bank of India to oversee progress in ensuring readiness by the banks
- May 16, 1998 - asking of the plan of action for Y2K compliance by the banks
- June 27, 1998 - asking the banks to achieve Y2K readiness by end of September 1998
- July 17, 1998 - calling the information from the banks on inventory preparation, scoping remediation measures
- August 12, 1998 - insisted on the bimonthly review of compliance by the board, maintenance of the test results by the banks for verification by the internal auditors, statutory inspection and third parties and ensuring the compliance by December 31, 1998
- November 6, 1998 - mandatory testing of SWIFT system by the member banks
- December 1, 1998 - drawal of the contingency plans by the banks
- January 15, 1999 - penal measures for the failure (issue of the supervisory letter of caution to the management, higher capital to risk asset ratio (CRAR), monetary penalties on the graded scale. Restrictions on the expansion, accountability of the Chairman and Managing Director (CMD) and the restrictions on participation in the call market, securities market and clearing houses
- May 21, 1999 - information sharing/disclosures with the information of the Board (extent of the exposure, remedial measures taken, progress in relation to the plans drawn, financial cost involved and internal and external testing programme)
- July 17, 1999 - Third party testing
- August 21, 1999 - the MICR cheque processing systems at the National Clearing Cell, Mumbai made Y2K compliant
- September 17, 1999 - contingency planning for stocking cash
- October 18 and 22, 1999 - setting up of event management centres
- October 29, 1999 - Monetary and Credit Policy announces liquidity and other supportive measures for meeting Y2K contingency
- November 1, 1999 - the Reserve Bank issues directive advising that all scheduled

commercial banks, including regional rural banks would remain closed for public transactions on January 1, 2000.

- November 2, 1999 - The RBI circulate among banks check-points to follow for combating the Y2K bug.

The details relating to Y2K preparations and readiness of the financial sector in India is also available on the RBI website under a special URL www.y2k.rbi.org.in

Monetary and credit policy 1999-2000

Highlights

- The Reserve Bank advised authorised dealers to provide forward exchange cover to FIIs to the extent of 15 per cent of their outstanding equity investment as at the close of business of March 31, 1999 converted into dollar terms at the rate of US\$ 1 = Rs.42.43, as well as for the entire amount of any additional investment made after March 31, 1999.
- The Reserve Bank began considering requests from export houses/trading houses/star trading houses/super star trading houses for availing of fund based/non-fund based facilities from overseas banks for their trading offices abroad, provided the terms and conditions under which such facilities were extended by the overseas banks were reasonable.
- The Cash Reserve Ratio (CRR) reduced from 10.5 per cent to 10.0 per cent effective from the fortnight beginning May 8, 1999.
- Interim Liquidity Adjustment Facility (ILAF) introduced against collaterals.
- UTI, LIC, IDBI and other non-bank participants in the money market were allowed to access short term liquidity through repos.
- Money market mutual funds (MMMFs) were permitted to offer 'cheque writing' facility to their investors.
- The Reserve Bank decided (a) to obtain minimum bidding commitment from each PD for the auctions of Treasury Bills so that together they absorb 100 per cent of the notified amount, and (b) to offer an enhanced underwriting option to PDs for the entire notified amount in auctions of dated securities and proposed to announce a calendar for issue of Treasury Bills for the entire year and to introduce 182 day Treasury Bill which will be issued every fortnight as part of the calendar.
- Banks were given freedom to operate different prime lending rates (PLR) for different maturities with transparency.
- Banks were permitted to offer fixed rate loans subject to conformity to ALM guidelines.
- A bank's or a financial institution's investment in tier II bonds issued by other banks and financial institutions was permitted up to 10 per cent of the investing bank's total capital, which would be the same as that reckoned for the purpose of capital adequacy.
- The draft ALM guidelines to financial institutions were issued. The FIs were expected to introduce the ALM system with effect from October 1, 1999 on a trial basis and switch over to a regular ALM system from April 1, 2000.
- The requirement of minimum net owned fund was raised to Rs. 2 crore for new NBFCs to be incorporated on or after April 20, 1999 and which seek registration with the Reserve Bank.

- A National Payments Council (NPC) with a Deputy Governor as the Chairman and representative membership was constituted. The NPC has been set-up with a view to designing and developing an integrated, state-of-the-art, robust payments and settlements system for the Country with the proposed Real Time Gross Settlement (RTGS) system as its core.

Mid-term Review of Monetary and Credit Policy

Highlights

- Reduction of the cash reserve ratio (CRR) by one percentage point from the present level of 10 per cent to 9 per cent in two instalments, effective from the fortnights beginning November 6, 1999 and November 20, 1999;
- Withdrawal of the interest rate surcharge of 30 per cent on import finance and stipulation of a minimum rate of 20 per cent interest on overdue export bills;
- Increase in the minimum maturity for FCNR(B) deposits from six months to one year;
- Freedom to banks to charge interest rates without reference to prime lending rate (PLR) in certain categories;
- Extension of coverage of the risk weight of 2.5 per cent for the risk arising out of market price variations to all investments including securities outside the statutory lending rate (SLR), effective from the year ending March 31, 2001;
- Lowering the exposure ceiling in respect of an individual borrower from the present level of 25 per cent to 20 per cent of the bank's capital funds effective April 1, 2000;
- Introduction of certain changes in the norms for determining the housing finance allocation by banks.

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