CREDIT INFORMATION REVIEW

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DECEMBER
2001

Important Developments in 2001

January

- Dr. Bimal Jalan, Governor, the Reserve Bank of India inaugurated the Hindi website of the Bank
- Guidelines for licensing of new banks in the private sector revised. The guidelines were first issued in 1994.
- Interest-rate surcharge of 50 per cent on bank finance withdrawn.
- The Reserve Bank of India withdrew interest rate surcharge on import finance and minimum interest rate prescription on overdue export bills.
- Advisory Groups on 'Payment and Settlement System', 'Bankruptcy Laws', and 'International Accounting and Auditing' submitted reports.
- The Core Group on Voluntary Disclosure Norms for State Governments submitted report.
- The Reserve Bank of India relaxed ways and means advance (WMA) limits and overdraft regulations for Gujarat.

February

- The Reserve Bank of India introduced the revised Ways and Means Advance Scheme, titled "WMA Scheme 2001".
- The Reserve Bank of India reduced the Bank Rate from 8 per cent to 7.5 per cent and Cash Reserve Ratio from 8.5 per cent to 8 per cent.
- Advisory Group on 'Insurance Regulation' submitted its final report. The Group was constituted in December 1999.
- The facility for acquisition of shares and convertible debentures of Indian companies engaged in print media sector by foreign venture capital investors, foreign institutional investors(FIIs) as also by non-resident Indians/ overseas corporate bodies (NRIs/OCBs) withdrawn.
- In order to provide relief to the exporters affected by earthquake of 2001, concessions, such as, pre- shipment credit, conversion of dues into short-term loans and application of asset classification norm extended.
- FIs were advised that the prescription of interest at 25 per cent per annum (minimum) in respect of overdue export bills were withdrawn. The revision in the rate of interest would be applicable not only to fresh advances but also to the existing advances for the remaining period.
- Banks were advised to assign 20 per cent risk-weight on all loans and advances to staff which were fully covered by superannuation benefits and mortgage of flat / house and classify under 'Advances' in schedule 9 of the balance sheet all interest bearing loans and advances granted to their staff. However, all non-interest bearing loans and advances to their own staff was to be included in "Others" under 'Other Assets' in schedule 11 of the balance sheet.

March

- The Reserve Bank of India issued notifications to liberalise capital account.
- 'In principle' approval granted to Bank of America Securities (India) Pvt. Ltd., Bank of Baroda (subsidiary to be established), HSBC Primary Dealership (India) Pvt. Ltd., and Standard Chartered - UTI Securities India Pvt. Ltd., as primary dealers in the Government Securities Market.
- Banks were advised to further improve delegation of adequate discretionary powers to branch officials as per the recommendations of the Nayak Committee for providing credit to SSI sector.
- The Technical Group on phasing out of non-banks from call notice money market submitted its report to the Reserve Bank of India.
- Banks were advised to prepare action plan for issuing kisan credit cards to all eligible borrowers in agricultural sector within next three years.
- Public sector banks were instructed to annex only the annual accounts and auditors' report of the subsidiaries to its balance sheet and make available the directors' report in respect of the subsidiaries on the website of the parent bank.
- Decided that, on rescheduling, the restructured accounts could continue to be classified as standard and sub-standard, respectively, if the asset is fully secured and the sacrifice, if any, in interest, is either written off or fully provided for.

- FIs were advised to disclose, with effect from the financial year 2000-01, certain important financial ratios/data in their published annual accounts as part of 'Notes on Accounts' to enable the auditors to authenticate the information, notwithstanding the fact that such information might be contained elsewhere in the published annual report.
- It was clarified that all deposits placed with NABARD / SIDBI in lieu of shortfall in advances to priority sector vis-à-vis the prescribed target would attract 100 per cent risk-weight, since these deposits are in lieu of shortfall in assets which carry 100 per cent risk-weight.
- The Reserve Bank of India reduced the maximum rate of interest, which the non-banking financial companies can offer on their public deposits from 16 per cent to 14 per cent.
- The Reserve Bank of India re-fixed the limit of ways and means advance (WMA) available to the Government of India, the rate of interest and the minimum balance required to be maintained with the Bank.

April

- Monetary and Credit Policy for 2001-2002 announced. (see box)
- The operation of the guidelines for a simplified, non-discriminatory mechanism for settlement of dues relating to NPAs with outstandings upto Rs. 5 crore was extended upto June 30, 2001. The guidelines were first issued in July 2000.
- Banks were advised to implement modified educational loan scheme which was prepared by the Indian Banks Association and accepted by the Government of India. Earlier, in July 1999, the Reserve Bank has issued an educational loan scheme, under the direction of the Supreme Court. Banks were advised that schemes were separate and not in supersession.
- Effective from the year 2001-02, audit firms recommended by private sector banks for appointment as Statutory Central Auditors (SCAs) have to satisfy certain minimum standards.
- The liquidity support from the Reserve Bank discontinued for satellite dealers.
- Banks were given freedom to exercise discretion to disallow premature withdrawal of large deposits held by entities other than individuals and Hindu undivided families, subject to informing the depositors in advance.
- Banks were advised to incorporate a condition in the loan agreement for obtaining consent of borrowers to disclose their names if they become defaulters.
- The RBI-SEBI Technical Committee reviewed the RBI guidelines on banks investments in shares, as also, advances against shares and other connected exposures.
- For better transparency, banks were advised bi-annual circulation of defaulters list of Rs. 1 crore and above in the doubtful or loss category.
- Decided to introduce an electronic Negotiated Dealing System (NDS) by June 2001 to facilitate transparent electronic bidding in auctions and secondary market transactions on a real time basis.
- Banks, FIs, primary dealers and satellite dealers were directed to make fresh investments and hold Commercial Paper only in dematerialised form with effect from June 30, 2001 and convert the scrip form into dematerialised form by October 31, 2001.
- Interim prudential measures for urban co-operative banks (UCBs) proposed to provide greater security to depositors and members.(see box)
- A new apex supervisory body, proposed to take over the entire inspection / supervisory functions in relation to scheduled and non-scheduled urban co-operative banks (UCBs).
- Pursuant to High Power Committee's recommendation, Capital to Risk-weighted Assets Ratio (CRAR) was made applicable to urban co-operative banks (UCBs) in a phased manner.
- Branch Licensing Policy for licensed UCBs was revised.
- The FIs were advised that all applications relating to non-performing assets (NPAs) received upto June 30, 2001 should be processed and decisions on them should be taken not later than September 30, 2001.
- It was clarified that FIs would treat a credit facility as non-performing, if interest and / or instalment of principal remain overdue for more than 180 days with effect from the year ending March 31, 2002.
- The Reserve Bank enumerated several operational and regulatory issues for information and guidance of the FIs for evolving a path for transition of an FI to a universal bank.

Monetary and Credit Policy : 2001 - 2002

- Measures to reduce interest rates on export credit by 1 to 1.5 percentage points and rationalise export credit refinance.
- Steps to move forward to the next stage of Liquidity Adjustment Facility: wide ranging package of measures including back stop facility to banks and primary dealers.
- Cash Reserve Ratio made more flexible, interest on CRR balance increased.
- Prime Lending Rates norms liberalised.
- Banks allowed to offer higher interest on deposits held by senior citizens.
- Prudential measures to strengthen urban co-operative banks.
- The Reserve Bank of India to streamline its role by divesting ownership in financial institutions.
- Steps being taken to set a stage for seperation of debt management function from the Bank.
- Revised guidelines on exposure of banks to stock markets to be effective May 2001 after further consultations.

May

- Liquidity Adjustment Facility revised.
- Special fund facility for banks and primary dealers revised.
- Considering that higher loan loss provisioning adds to the overall financial strength of the banks and stability of the financial sector, banks were urged to voluntarily set apart provisions much above the minimum prudential levels as a desirable practice.

Prudential Measures for UCBs

The interim prudential measures for urban co-operative banks (UCBs) to provide greater security to depositors and members included are:

- Stop direct or indirect lending by urban co-operative banks to individuals or corporates against security of shares.
- Unwinding of existing lending to stock brokers or direct investments in shares.
- Limit borrowings from call money market up to 2 per cent of aggregate deposits as at end March in the previous financial year.
- No permission for increase in the term deposits in other UCBs and unwinding of existing term deposits by June 2002.
- Increase in the statutory liquidity ratio (SLR) holdings in government and other approved securities as per cent of NDTL by March 2002 from15 to 20 per cent for scheduled UCBs, from 10 to 15 per cent for non-scheduled UCBs with deposit base of Rs.25 crore and above and from zero to 10 per cent in case of other non-scheduled UCBs.
- Maintenance of the entire SLR of 25 per cent of NDTL for scheduled UCBs only in government and other approved securities with effect from April 1, 2003.
- Maintain investment in government securities of scheduled as well as non-scheduled UCBs only in SGL accounts with the Reserve Bank or in constituent SGL accounts of public sector banks and primary dealers.

- Revised guidelines were issued on bank financing of equities and investments in shares. The guidelines were first issued in November 2000. Under the guidelines, banks could invest up to 5 per cent in shares. The ceiling would apply to total exposure including both fund based and non-fund based, to capital market by a bank in all form.
- The Reserve Bank of India released the report of the Advisory Groups on 'Data Dissemination'.
- Banks and FIs advised that all cases of willful defaults of Rs. 100 crore and above should be reviewed and suits filed, if not done earlier. If in such cases of willful defaults, there are instances of cheating or fraud by the defaulting borrowers, banks should also file criminal cases.
- Guidelines were issued for compromise settlement of dues of banks and financial institutions through Lok Adalats.
- Guidelines issued for bank financing of film production.
- The Reserve Bank of India released the Report of the Advisory Group on 'Securities Market Regulation'.

June

- Guidelines were issued in respect of investment in non-SLR securities regarding due diligence to be undertaken, disclosures to be obtained and the credit risk analysis to be made in regard to privately placed investments especially for unrated instruments.
- User-friendly guidelines in question-answer format were issued with a view to reducing divergence in assessment of NPAs by banks, statutory auditors and RBI Inspectors.
- Guidelines on Internet banking were released.
- FIs were advised that the concept of capital funds as defined under capital adequacy standards for determining exposure ceiling for both tier I and tier II capital, non-fund based forward contracts in foreign exchange and other derivative products like currency swaps, options and the exposure ceiling in respect of single borrower.
- Asset-Liability Management (ALM) guidelines were announced for non-banking financial companies (NBFCs) including residuary non-banking companies (RNBCs) with assets of Rs. 100 crore and above or public deposits of Rs. 20 crore and above as per the balance sheet as on March 31, 2001.
- NBFCs were advised the desirability of constituting an asset-liability management committee under the charge of chief executive officer or other senior executive with other specialist members for carrying out the spadework for formalising ALM system in the institution.
- Monies received by issue of CPs by NBFCs exempted from the purview of public deposits.

August

- The scheme of Corporate Debt Restructuring (CDR) was finalised to ensure a timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of Board for Industrial and Financial Reconstruction (BIFR), Debt Recovery Tribunal (DRT) and other legal proceedings. The CDR scheme is to be applied only to multiple banking/syndicates/consortium accounts, in the standard and sub-standard category, with outstanding exposure of Rs.20 crore and above with the banks and FIs.
- FIs were advised to assign risk-weight of 20 per cent to all loans and advances granted by them to their own employees as are covered by superannuation benefits and mortgage of flats / houses. All other loans and advances to own employees should, however, be subject to 100 per cent risk-weight.
- It was clarified that credit exposure norms are also applicable to refinancing institutions, excepting their refinancing portfolio. However, from the prudential perspective, it is expected that these institutions evolve their own exposure norms relating to the capital funds/ regulatory capital of the FI concerned with the approval of their respective boards.
- It was decided to permit the FIs to make fresh investments and hold bonds, debentures, privately placed or otherwise, only in dematerialised form with effect from October 31, 2000. Outstanding investments in scrip form should also be converted into dematerialised form by June 30, 2002.
- Amended guidelines relating to Asset-Liability Management were issued to FIs covering time-buckets for slotting of the off-balance sheet items and treatment of securities in the trading book for interest rate sensitivity statement. The guidelines were first issued in June 2001.

September

- Based on the recommendations of the RBI-SEBI Technical Committee, it was decided to permit banks on an experimental basis to extend finance to stockbrokers for margin trading within the overall ceiling of 5 per cent prescribed for exposure of banks to capital market subject to certain conditions.
- A special financial package was drawn, in consultation with the Government of India, for large value exports of

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products, which are internationally competitive and have high value addition. The package was extended to : (a) pharmaceuticals (b) agro-chemicals (c) transport equipment (d) cement (e) iron and steel refractors and (f) electrical machinery.

- A reduction in the ceiling rate for export credit by 1.0 percentage point across the board for period upto March 31, 2002 was announced. Accordingly, the maximum rate that the bank would charge to exporters was revised to 2.5 percentage points below its PLR for pre-shipment credit upto 180 days and for post-shipment credit upto 90 days.

October

- Mid-term review of Monetary and Credit Policy done (see box).
- It was decided that banks should furnish the following, additional disclosures in the 'Notes on Accounts' in their balance sheets, from the year ending March 2002: (I) movement or provisions held towards NPAs and (ii) movement of provisions held towards depreciation on investments.
- Banks were given the freedom to change the composition of working capital by increasing the cash credit component beyond 20 per cent or to increase the 'loan component' beyond 80 per cent, as the case may be, for working capital limits of Rs. 10 crore and above. Banks are expected to appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.
- Insurance companies permitted to settle claims in foreign currency in respect of general insurance policies in foreign currency other than those covered by the provisions of General Insurance Manual subject to certain conditions.
- UCBs allowed to grant loans to individuals against security of shares, subject to certain parameters.
- The timeframe for achieving the prescribed levels of SLR holding by UCBs modified.
- It was clarified that scheduled UCBs are required to achieve capital adequacy norms gradually by March 2004 and the non-scheduled UCBs by March 2005.
- A clarificatory circular was issued to FIs on classification and valuation of investments, based on suggestions/ queries received from various FIs.

November

- The maximum rate of interest that NBFCs can pay on their public deposits was reduced, effective November 1, 2001, from 14 per cent to 12.5 per cent per annum.
- It was decided that infusion of capital by bank either through domestic issues or overseas float, after the published balance sheet date would be taken into account for determining exposure ceiling.
- The special financial package for large value exporters extended to leather and leather goods as also textiles. The package was first introduced for select products in September 2001.
- The Reserve Bank advised all scheduled commercial banks to ensure that no inconvenience is caused to borrowers under government sponsored programmes due to the insistence by banks for no due certificates from all the banks in the district.

December

- Authorised dealers and full fledged money changers were advised to display Euro exchange rates for travellers' cheques immediately and for currency notes from January 1, 2002 at their foreign exchange dealing branches, especially those located at airports and tourist centres. The Reserve Bank also advised authorised dealers and full fledged moneychangers to exchange legacy currencies held by residents to the Euro on its introduction.
- The Reserve Bank of India announced availability of non-competitive bidding facility in Government securities for retail investors.

Mid-term Review of Monetary and Credit Policy 2001-2002

- Bank Rate cut by 0.50 percentage point, from 7.0 per cent to 6.50 per cent to touch its lowest since May 1973.
- CRR reduced by 2.0 percentage points from 7.50 per cent to 5.50 per cent. Most of the exemptions available on CRR also removed.
- Interest rate paid on eligible CRR balance increased further to the level of Bank Rate, i.e., 6.5 per cent (from 6.0 per cent since April 21, 2001 and 4.0 per cent earlier).
- Measures to strengthen financial system to continue.
- Operational flexibility to banks in "Loan System" for credit delivery provided to banks.
- Steps initiated to closely monitor non-SLR investments by banks and FIs.
- RBI Current Account Facility rationalised.

CIR Wishes a Happy and Prosperous New Year to its Readers

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