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**URBAN BANKS**

**Guidelines on Transactions in Securities**

Reiterating the guidelines issued since 1993 on investment portfolio and transactions in securities, the Reserve Bank has advised urban co-operative banks (urban banks) to strictly follow instructions as under :

- (i) Not to undertake any purchase/sale transactions with broking firms or other intermediaries on principal to principal basis.
- (ii) They should seek a scheduled commercial bank (SCB), a primary dealer (PD) or a financial institution (FI) as a counter-party for their transactions. Preference should be given to direct deals with such counter parties. UCBs should check prices from the banks or PDs with whom they maintain constituent SGL account (CSGL).
- (iii) They should take advantage of the non-competitive bidding facility provided to them for acquiring Government of India securities in the primary auctions by the Reserve Bank.
- (iv) If a deal is put through with the help of a broker, the role of the broker should be restricted to that of bringing the two parties to the deal together. Under no circumstances, should urban banks give power of attorney or any other authorisation to brokers/intermediaries to deal on their behalf in the money and securities markets.
- (v) Only brokers registered with NSE/BSE/OTCEI should be utilised for acting as intermediary. Disproportionate part of the business should not be transacted with or through one or a few brokers. Banks should have a list of approved brokers. A limit of 5 per cent of total transactions (both purchases and sales) entered into by an urban bank during a year should be treated as the aggregate upper contract limit for each of the approved brokers.
- (vi) Brokers should not be used in the settlement process at all. Both fund settlement and delivery of security should be done through the counter-parties directly. CSGL accounts should be used for holding securities and such accounts should be maintained in the same bank with whom the cash account is maintained. For all transactions delivery versus payment must be insisted upon by urban banks.
- (vii) All transactions must be monitored to see that delivery takes place on settlement day. The funds account and investment account should be reconciled on the same day before close of business.
- (viii) Dealing and back-up functions should be properly segregated. Officials deciding about purchase and sale transactions should be separate from those responsible for settlement and accounting.
- (ix) All investment transactions should be perused by the Board at least once a month.
- (x) They should keep a proper record of the SGL forms received/issued to facilitate counter-checking by their internal control systems/Reserve Bank inspectors/other auditors.

A recent scrutiny of investment transactions of some of the urban banks had revealed that some banks had not observed the Reserve Bank's guidelines and had undertaken transactions, which might have exposed the banks to significant risks.

### **Professional Management**

Pursuant to the recommendations of the High Power Committee on Urban Co-operative Banks, the Reserve Bank has advised all primary urban co-operative banks to ensure that, at all times, their board has at least two directors with suitable banking experience (at middle/senior management level) or with professional qualifications i.e., chartered accountants with bank accounting/auditing experience.

Urban banks have also been advised to amend their bye-laws suitably with a provision to incorporate this requirement.

It was noticed that one of the major reasons for the prevalence of weakness in the urban co-operative banking sector is the low level of professionalism of the board of directors of these banks.

### **G-Sec Investments in Demat**

The Reserve Bank has advised all state co-operative banks and district central co-operative banks to henceforth maintain their investments in government securities only in SGL accounts with the Reserve Bank or in constituent SGL accounts of public sector banks, other scheduled commercial banks, state cooperative banks, primary dealers, depositories and the Stock Holding Corporation of India Ltd. It has also stated that it would take a serious view of any violations of these instructions.

### **Limit on Credit Exposure**

The Reserve Bank has advised urban banks that accretion to or reduction in the share capital after the balance sheet date may be taken into account for determining exposure ceiling at half yearly intervals, with the approval of the board of directors. Accordingly, urban banks may, if they so desire, fix a fresh exposure limit taking into account the amount of share capital available as on September 30.

Urban banks have been further advised that accretions to capital funds other than to share capital such as half yearly profit etc., would not be eligible for reckoning the exposure ceiling as stated above. Urban banks should also ensure that they do not take exposures in excess of the ceiling prescribed in anticipation of infusion of capital on a future date.

In 1996 the Reserve Bank had advised urban banks to compute the exposure ceiling every year after finalisation and audit of their balance sheet was over.

### **Foreign Exchange**

#### **Crystallisation of ECB Liability**

The Reserve Bank has permitted authorised dealers (ADs) to crystallise their foreign exchange liability arising out of guarantees provided for external commercial borrowings (ECBs) raised by corporates in India, into rupees. Accordingly, ADs desirous of crystallising their foreign exchange liability in rupees, should submit an application to the Chief General Manager, Exchange Control Department, External Commercial Borrowings Division, Reserve Bank of India, Central Office, Mumbai, giving full details viz., name of the borrower, amount raised, maturity, circumstances leading to invocation of guarantee/letter of comfort, date of default, its impact on the liabilities of the overseas branch of the AD and other relevant factors.

Corporates in India, at times, raise ECBs against a guarantee/ letter of comfort from a bank in India and in certain cases the loan liability of the corporates gets devolved on banks.

### **Remittance of Current Income of NRIs**

The Reserve Bank has advised ADs to allow repatriation of current income like rent, dividend, pension, interest, etc., of nonresident Indians (NRIs), who do not maintain a non-resident (ordinary) (NRO) account in India. Such remittance may be permitted provided a chartered accountant certifies that the amount proposed to be remitted is eligible for remittance and that applicable taxes have been paid/provided for.

Earlier, ADs were permitted to allow remittance of current income in India by debit to the NRO accounts of the account holders.

### **Investment/Borrowing from Overseas Markets**

With a view to providing greater flexibility to banks in funds management, the Reserve Bank has enhanced the ceiling of banks' investment in overseas money market instruments and/or debt instruments from fifteen per cent to twenty-five per cent of their unimpaired Tier I capital or US \$ 10 million whichever is higher.

Banks in India would now have the freedom to invest the undeployed foreign currency non-resident (banks) [FCNR(B)] funds in overseas markets in long-term fixed income securities provided:

- (i) the instruments have ratings comparable to money market instruments/debt instruments.
- (ii) the type and maturity of the instruments as also the overall cap on the quantum of investments should be approved by the bank's Board. However, the maturity of such investments should not exceed the maximum maturity of the underlying FCNR (B) deposits.
- (iii) all investments should be subject to the gap discipline and risk management/ALM guidelines issued by the Reserve Bank from time to time.

Banks may now avail of loans/overdrafts from their head office/ overseas branches/correspondents up to twenty-five per cent of their unimpaired Tier I capital or US \$ 10 million or its equivalent, whichever is higher.

### **General Insurance Policies in Foreign Currency**

The Reserve Bank has decided that insurance companies registered with Insurance Regulatory and Development Authority (IRDA) may issue general insurance policies denominated in foreign currency and receive premium in foreign currency without the prior approval of the Reserve Bank in cases indicated as under:

- (i) Marine insurance for vessels owned by foreign shipping companies and chartered by Indian parties.

- (ii) Marine insurance policies in respect of vessels owned by foreign shipping companies but managed by Indian companies as technical operators for the vessels.
- (iii) Marine insurance policies in respect of vessels mortgaged to foreign financiers/banks as per the loan agreement and assignment of the same in favour of the foreign financiers/banks.
- (iv) Aviation insurance for aircrafts imported from outside India on lease/hire basis for the purpose of air taxi operations.
- (v) Marine-cum-erection all risks insurance policies to Indian companies in connection with a project to be set up in India with collaboration of foreign companies for supply of the equipment.
- (vi) Marine-cum-erection all risks policies favouring Indian companies for execution of projects in India being financed by external commercial borrowings (ECBs) or awarded to local companies under global tender requiring insurance in foreign currency.

Accordingly, ADs may allow remittances towards settlement of claims in such cases.

## **Export Credit**

### **Facilities to Status Holder Exporters**

It has been decided that exporters with proven track record who have been certified as “status holder exporters” in terms of the EXIM Policy, may be extended facilities as under :

*Credit to EEFC account* : They may credit up to 100 per cent of their eligible receipts of foreign exchange to their exchange earners’ foreign currency (EEFC) account. However, this facility would be available in respect of foreign exchange received by the exporters on or after April 1, 2002, till further notice.

*Despatch of Shipping Documents* : They may directly despatch the export documents to the consignees outside India subject to the conditions that (a) the export proceeds are repatriated through the AD named in the GR form and (b) the duplicate copy of the GR form is submitted to the AD for monitoring purposes within 21 days from the date of shipment of the goods.

*Realisation of Export Proceeds* : They may realise and repatriate the full value of export proceeds within a period of twelve months from the date of shipment.

These facilities will be available for shipment made on or after April 1, 2002.

### **Interest Rate on Export Credit**

In order to make the interest rate on export credit more competitive, the ceiling rate on foreign currency loans for exports by banks has been reduced to LIBOR plus 0.75 per cent from the earlier ceiling rate of LIBOR plus 1.00 per cent. Accordingly, banks have been advised to extend export credit in foreign currency to exporters at interest rates not exceeding 0.75 per cent over LIBOR with effect from April 29, 2002. Banks have also been advised to effect similar changes in interest rates in cases where EURO LIBOR/EURIBOR have been used as the benchmark.

The revision in the rates of interest would be applicable not only to fresh advances but also to the existing advances for the remaining period.

**Interest Rates on Export Credit in Foreign Currency**  
(Effective from April 29, 2002)

<b>Category</b>	<b>Interest Rate</b> (per cent per annum)
<b>1. Pre-shipment Credit</b>	
(a) Up to 180 days	Not exceeding 0.75 over LIBOR/EURO LIBOR/EURIBOR
(b) Beyond 180 days and up to 360 days	Rate for initial period of 180 days prevailing at the time of extension plus 2.0
<b>2. Post-shipment Credit</b>	
(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding 0.75 over LIBOR/EURO LIBOR/EURIBOR
(b) Usance bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable) Up to 6 months from the date of shipment	Not exceeding 0.75 over LIBOR/EURO LIBOR/EURIBOR
(c) Export bills (demand or usance) realised after due date but up to date of crystallisation	Rate for 2(b) above plus 2.0
<b>3. Export Credit Not Otherwise Specified (ECNOS)</b>	
(a) Pre-shipment credit	Free @
(b) Post-shipment credit	Free@

*@ Banks are free to decide the rate of interest being rupee credit rate keeping in view the PLR and spread guidelines.*

**Whole Turnover Post-shipment Guarantee Scheme**

The Reserve Bank has reiterated to all commercial banks that the cost of premium in respect of the whole turnover post-shipment guarantees taken by banks may be absorbed by the banks themselves and not passed on to the exporters.

## **Export of Goods and Services**

The Reserve Bank has decided to allow ADs to consider requests for reduction up to 10 per cent in invoice value of export bills in respect of export of gold/silver jewellery or articles made out of cut and polished diamonds.

Earlier ADs were permitted to allow reduction in invoice value of export, which did not involve gold or silver jewellery or articles made out of cut and polished diamonds.

## **Branch Banking**

### **OTS for Small/Marginal Farmers**

Pursuant to the Hon'ble Finance Minister's announcement in his budget speech 2002-03 of a special one time settlement (OTS) scheme for small and marginal farmers to cover loans upto Rs 50,000, the Reserve Bank has advised all public sector banks to formulate a policy for recovery of these loans. The scheme is to be formulated keeping in view the following parameters :

#### **Coverage**

- (a) The guidelines should cover all loan accounts with outstanding balance of up to Rs.50,000 principal amount (excluding any interest element) to small and marginal farmers, which have become non-performing assets (NPAs) as on March 31, 1998.
- (b) The guidelines should also cover suit-filed and decreed debts. After the settlement is reached, banks should take appropriate steps for closure of cases in respective courts.
- (c) The scheme should not, however, cover cases of fraud, malfeasance and wilful defaults.
- (d) The guidelines should be operative up to December 31, 2002.

#### **Settlement Formula**

The amount that should be recovered as settlement amount would be the balance outstanding towards principal in the loan account as on March 31, 1998. Any interest which is included in the outstanding amount as on March 31, 1998 or accrued on the balance outstanding after March 31, 1998 should be waived.

#### **Payment**

The amount of settlement arrived at, should normally be paid in one lump sum. In deserving cases, banks may consider recovering the settlement amount in installments with down payment of at least 25 per cent to be received at the time of settlement. The balance amount should be recovered within one year from the date of settlement.

#### **Sanctioning Authority**

The decision on the compromise settlement would be vested with the branch manager. In case the loan had been sanctioned by the branch manager himself, the decision on compromise settlement for such cases, should be taken by the next higher authority.

### **Non-discriminatory Treatment**

Banks should follow the guidelines for compromise settlement of NPAs without discrimination.

### **Formulation of Policy**

The board of directors of the bank should frame the policy on compromise settlement of NPAs. Banks can also devise their own accounting procedure for treatment of the outstanding amount subject to the one-time settlement.

### **Publicity**

Banks should adequately publicise the scheme so that eligible defaulting borrowers can avail of the opportunity of the OTS of their outstanding dues.

### **Review by the Board**

A monthly report on the progress and details of settlement made should be submitted by the concerned authority to the next higher authority and the head office. The compromise settlements reached should be reviewed by the Board at monthly intervals.

### **Banking Policy**

#### **Reduction in CRR Advanced**

On a review of the present liquidity situation, the Reserve Bank has advanced the date for reduction in the cash reserve ratio (CRR) to be maintained by banks. Accordingly, banks will have to maintain CRR at 5.0 per cent as against the earlier level of 5.5 per cent with effect from the fortnight beginning June 1, 2002.

It may be recalled that in the Monetary and Credit Policy for the year 2002-2003, it was proposed to reduce CRR by 50 basis points effective from the fortnight beginning June 15, 2002.

#### **Unsecured Advances and Guarantees**

The Reserve Bank has advised all commercial banks that while reckoning the quantum of unsecured advances and guarantees, outstanding credit card dues should be excluded from the total of unsecured advances.

In August 2001 banks were advised to limit their commitments by way of unsecured guarantees in such a manner that 20 per cent of their outstanding unsecured guarantees plus the total of their outstanding unsecured advances did not exceed 15 per cent of their total outstanding advances.



## **Smart Cards**

The Reserve Bank has advised all commercial banks (excluding RRBs) that they may issue smart cards (both on-line and off-line) to select customers with good financial standing even if they have maintained accounts with the bank for less than six months. Prior to issuing smart cards to such customers, banks should, however, implement the 'Know Your Customer' concept as stipulated in the Report of the Study Group on Large Value Bank Frauds forwarded to banks in June 1999. Banks introducing offline mode of operation of debit cards should adhere to the minimum period of satisfactory maintenance of accounts for six months.

In November 1999, banks were advised to issue smart/ debit cards to their customers having good financial standing and who have maintained the accounts satisfactorily for at least six months.

## **Insurance Linked Loan/Deposit Scheme**

The Reserve Bank has advised all regional rural banks (RRBs) that borrowers/depositors covered by insurance schemes should be provided with full particulars of the insurance coverage, terms and conditions, etc., and should be given a certificate indicating that they are covered by the insurance scheme.

It has come to the notice of the Reserve Bank that RRBs have been providing personal accident insurance coverage to their borrowers/depositors under the Janata Accidental Insurance Master Policy Scheme of the General Insurance Corporation and its subsidiaries.

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