CREDIT INFORMATION REVIEW

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POLICY

Supervisory Role of Bank Boards

The Consultative Group of Directors of Banks and Financial Institutions set up by the Reserve Bank to review the supervisory role of boards, submitted its report in April 2002. The Reserve Bank, after examining the recommendations, has advised banks to place the Report as well as the recommendations before their Board of Directors. Based on the decision taken by their Board, banks may adopt and implement the recommendations. The recommendations are summarised below :

Recommendations

For All Banks

Responsibilities of the Board of Directors

The Board of Directors should ensure that responsibilities of directors are well-defined and before induction every director is familiarised with essential areas of the bank's functioning, such as :

- o Delegation of powers to various authorities by the Board,
- o Strategic plan of the institution,
- o Organisational structure,
- o Financial and other controls and systems,
- o Economic features of the market and competitive environment.

Role and Responsibilities of Independent and Non-executive Directors

(a) To familiarise the independent/non-executive directors with the bank's environment, banks may circulate among the new directors a brief note on the profile of the bank, the sub-committees of the Board, their role, details on delegation of powers, profiles of the top executives, etc.

(b) Banks may take an undertaking from each independent and non-executive director that he/she has gone through the guidelines defining the role and responsibilities and also obtain a covenant from them to discharge their responsibilities to the best of their abilities, individually and collectively.

Training for Directors

(a) Banks may design need-based training programmes/ seminars/workshops to acquaint their directors with emerging developments/challenges facing the banking sector so that participation in such programmes could make the directors more sensitive to their role.

(b) The Board should ensure that the directors are exposed to the latest managerial techniques, technological developments in banks and financial markets, risk management systems, etc., so as to discharge their duties to the best of their abilities.

(c) While the Reserve Bank can offer related training programmes/seminars at its training establishments, large banks may conduct such training programmes/ seminars in their own training centres.

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Submission of Routine Information

Reviews dealing with various performance areas may be put up to the Management Committee of the Board and only a summary on each of the reviews may be put up to the Board of Directors at periodic intervals. This will provide the Board more time to concentrate on more strategic issues such as risk profile, internal control systems, overall performance of the bank, etc.

Agenda and Minutes

(a) Draft minutes of the Board meeting should be forwarded to the directors, preferably *via* the electronic media, within 48 hours of the meeting and ratification obtained from the directors within a definite time frame. The directors may be provided with necessary technology assistance towards this end.

(b) The Board should review the status of the action taken on points arising from the earlier meetings till action is completed to the satisfaction of the Board, and any pending item should be continued to be put up as part of the agenda items before the Board.

Board Committees

(a) *Shareholders' Redressal Committee :* As communicated to banks in the Reserve Bank's circular of June 4, 2002, banks which have issued shares/debentures to public may form a committee under the chairmanship of a non-executive director to look into redressal of shareholders' complaints.

(b) Risk Management Committee : In pursuance of the risk management guidelines issued by the Reserve Bank in October 1999, every banking organisation is required to set up a Risk Management Committee. Banks should speed up the formation and operationalisation of such committee and their role should be further strengthened.

(c) Supervisory Committee : The role and responsibilities of the Supervisory Committee as envisaged by the Group, viz., monitoring of exposures (both credit and investment) of the bank, review of the adequacy of the risk management process and its upgradation, internal control system, ensuring compliance with the statutory/regulatory framework, etc., may be assigned to the Management Committee/ Executive Committee of the Board.

Disclosure and Transparency

Banks may, at regular intervals, disclose to the Board of Directors as follows :

- Progress made in putting in place a progressive risk management system, risk management policy and strategy followed by the bank.
- Exposures to related entities of the bank, viz., details of lending to/investment in subsidiaries, asset classification of such lending/investment, etc.
- Conformity with corporate governance standards, viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

For Public Sector Banks

Information flow

In order to improve the manner in which proceedings are recorded and followed up, public sector banks may initiate measures to provide information to their board as under :

- A summary of key observations made by the directors which should be submitted in the next board meeting.
- A more detailed recording of the proceedings which clearly bring out the observations, dissents, etc., by individual directors which could be forwarded to them for their confirmation.

Company Secretary

The Company Secretary is the nodal point for the Board to get feedback on the status of compliance by banks regarding provisions of the company law, listing agreements, Securities and Exchange Board of India (SEBI) regulations, shareholder grievances, etc. Banks should, therefore, consider appointing a qualified Company Secretary as the Secretary to the Board and have a Compliance Officer (reporting to the Secretary) for ensuring compliance with various regulatory/accounting requirements.

For Private Sector Banks

Eligibility Criteria for Nomination of Directors

(a) The Board of Directors of banks while nominating/ co-opting directors should be guided by certain broad 'fit and proper' norms for directors, viz., formal qualification, experience, track record, integrity, etc. For assessing integrity and suitability, features like criminal record, financial position, civil actions initiated to pursue personal debts, refusal of admission to or expulsion from professional bodies, sanctions applied by regulators or similar bodies, previous questionable business practices, etc., should be considered. The Board of Directors may, therefore, evolve appropriate systems for ensuring 'fit and proper' norms for directors, which may include calling for information by way of self-declaration, verification reports from market, etc.

(b) Private sector banks may also follow the criteria, which is applied by public sector banks while nominating independent/non-executive directors, such as :

  - The candidate should normally be a graduate (which can be relaxed while selecting directors from the categories of farmers, depositors, artisans, etc.)
  - He/she should be between 35 and 65 years of age.
  - He/she should not be a Member of Parliament/ Member of Legislative Assembly/Member of Legislative Council.

Commonality of Directors of Banks and NBFCs

In case, a director on the board of a non-banking finance company (NBFC) is to be considered for appointment as director on the board of the bank, it should be ensured that -

- He/she is not the owner of the NBFC, [i.e., share holdings (single or jointly with relatives, associates, etc.) should not exceed 50 per cent].
- He/she is not related to the promoter of the NBFC.
- He/she is not a full-time employee in the NBFC.
- The concerned NBFC is not a borrower of the bank.

Composition of the Board

Banks should make their Boards more contemporarily professional by inducting technical and specially qualified personnel. While electing/co-opting directors to their boards, banks should aim at having a blend of 'historical skills', i.e., regulation based representation of sectors like agriculture, small scale industries (SSI), co-operation etc., and 'new skills', i.e., need based representation of skills such as, marketing, technology and systems, risk management, strategic planning, treasury operations, credit recovery etc.

Minimum Amount for CDs

In order to increase the investor base, the Reserve Bank has decided to reduce the minimum size of certificates of deposit (CDs) to a single investor from Rs.5 lakh to Rs.1 lakh and in multiples of Rs.1 lakh thereafter. The amount relates to face value (i.e., maturity value) of CDs issued.

All other terms and conditions relating to issue of CDs by banks remain unchanged.

RRBs to Keep SLR in G-Secs

As a prudential measure, the Reserve Bank has advised all regional rural banks (RRBs) to maintain their entire statutory liquidity ratio (SLR) in government and other approved securities.

Accordingly, all RRBs should convert their existing deposits with sponsor banks into government securities by March 31, 2003.

Ready Forward Contracts

In supersession of its instructions of March 2000, the Reserve Bank has advised all primary (urban) co-operative banks that the revised terms and conditions for entering into ready forward contracts (including reverse ready forward contracts) are :

(a) Ready forward contracts may be undertaken only in (i) Dated Securities and Treasury Bills issued by the Government of India, and (ii) Dated Securities issued by state governments.

(b) Ready forward contracts in these securities may be entered into by a banking company, a co-operative bank or any person maintaining a subsidiary general ledger (SGL) account with the Reserve Bank, Mumbai.

(c) Such ready forward contracts may be settled through the SGL accounts of the participants with the Reserve Bank or through the SGL accounts of the Clearing Corporation of India Ltd., with the Reserve Bank.

(d) No sale transaction may be put through without actually holding the securities in the portfolio.

(e) All other instructions on securities transaction in force and issued from time to time should be complied with.

EXCHANGE CONTROL

Facilities to NRIs/PIOs and Residents

With a view to liberalising the exchange control regulations and providing additional facilities to non-resident Indians/persons of Indian origin (NRIs/PIOs), the Reserve Bank has decided to allow them to repatriate funds out of balances held by them in their non-resident ordinary rupee (NRO) accounts for the following purposes :

(i) Upto US$ 30,000 per academic year to meet expenses in connection with education of their children;

(ii) Upto US$ 100,000 to meet the medical expenses abroad of the account holder or his family members; and

(iii) Upto US$ 100,000 per year representing sale proceeds of immovable property held by them for a period of not less than 10 years.

In order to facilitate setting base abroad, the Reserve Bank has enhanced the limit of foreign exchange released to residents who have obtained emigration visa to US$ 25,000 from the earlier limit of US$ 5,000 or amount prescribed by the country of emigration.

Use of International Credit Cards on Internet

The Reserve Bank has clarified that :

(i) International Credit Cards can be used on internet for any purpose for which exchange can be purchased from an authorised dealer (AD) in India, e.g. for import of books, purchase of downloadable software or import of any other item permissible under the export-import policy.

(ii) International Credit Cards cannot be used on internet or otherwise for purchase of prohibited items, like lottery tickets, banned or proscribed magazines, participation in sweepstakes, payment for call-back services etc., since no drawal of foreign exchange is permitted for such items/activities.

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(iii) There is no aggregate monetary ceiling separately prescribed for use of International Credit Cards through internet.

The Reserve Bank has further clarified that debit cards and ATM cards can be used for any purpose for which foreign exchange can be purchased from an AD in India.

ADs are also permitted to accept payment by debit to credit cards for exports made out of India.

Earlier, in October 2000, the Reserve Bank had advised that credit cards, ATM cards and debit cards being only different methods of payment, all rules/regulations and directions issued under the Foreign Exchange Management Act, 1999 (FEMA), applied also to credit cards, debit cards and ATM cards.

Remittance for Lottery Schemes

ADs were advised in July 2001 to inform members of the public that remittance in any form towards participation in lottery schemes or lottery like schemes, functioning under different names like money circulation scheme, or remittances for the purpose of securing prize money/awards etc., is prohibited under the Foreign Exchange Management Act, 1999.

The Reserve Bank has clarified that prohibition on such payments include payment not only by a resident by use of cash/draft/credit card/debit card etc., but also payments made by NRIs on behalf of residents. As such, any person resident in India effecting/remitting such payment directly/indirectly would make himself/herself liable to be proceeded against for contravention of the Foreign Exchange Management Act, 1999.

The Reserve Bank has exhorted ADs to give wide publicity to these instructions with a view to cautioning the members of public.

Branch/Project/Liaison Offices in India

The Reserve Bank has decided to allow branch/project/liaison offices in India of foreign firms/companies to keep temporary surplus funds lying in their non-interest bearing account in term deposits with any AD. Accordingly, ADs may open term deposit account for a period not exceeding six months in favour of a branch/office of a person resident outside India provided –

- the AD is satisfied that the term deposit is out of temporary surplus funds; and
- the branch/office furnishes an undertaking that the maturity proceeds of the term deposit will be utilised for their business in India within three months of maturity.

ADs may, however, not extend such facility to shipping/airline companies.

Forex Accounts of Overseas Offices

ADs have been advised to allow remittances for the purpose of normal business operations of overseas office (trading/non-trading)/branch or representative of Indian entities, subject to conditions as under :

(i) The overseas office (trading/non-trading)/branch/representative should not create any financial liabilities contingent or otherwise for its head office in India.

(ii) The overseas office (trading/non-trading)/branch/representative should not invest surplus funds abroad without the Reserve Bank's prior approval. Any funds rendered surplus should be repatriated to India.

(iii) The overseas office/branch of software exporter company/firm, may repatriate to India 100 per cent of the contract value of each 'off-site' contract. It may also repatriate to India, at least 30 per cent of the contract value of each 'on-site' contract and utilise the balance amount, i.e., 70 per cent for contract related expenses including office/branch expenses abroad. The overseas office should send a duly audited yearly statement showing receipts under 'off-site' and 'on-site' contracts undertaken, to the AD.

The overseas office should promptly report to the AD, details of the bank account opened overseas.

In December 2001, the Reserve Bank permitted Indian entities to open, hold and maintain in the name of their office/branch set up outside India, a foreign currency account with a bank outside India by making remittance for the purpose of normal business operations of the office/branch or representative.

BRANCH BANKING

Credit to Minority Communities

The Government of India is keen to ensure that minority communities secure, in a fair and adequate measure, the benefits flowing from various development schemes. All primary (urban) co-operative banks have, therefore, been advised to initiate steps to enhance/augment flow of credit under priority sector to artisans, craftsmen, vegetable vendors, cart pullers, cobblers, etc., belonging to minority communities, functioning in urban and semi urban areas. For the purpose, the communities notified by the Government of India, Ministry of Welfare as minority communities are : Sikhs, Muslims, Christians, Zoroastrians and Buddhists.

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