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# MONETARY AND CREDIT INFORMATION REVIEW

## POLICY

### Guidelines for Issue of Debit Cards

**G**eneral permission has been accorded to banks to issue debit cards, including co-branded debit cards, without seeking the Reserve Bank's prior approval. Banks should, however, ensure that all debit cards issued by them conform to the following guidelines:

#### Board Approved Policy

Banks should formulate a comprehensive debit cards issuance policy, including policy on co-branded debit cards, with the approval of their Boards and issue debit cards to their customers in accordance with this policy. Debit cards should be issued to customers having saving bank/current accounts but not to cash credit/loan account holders.

#### Types of Debit Cards

Banks may issue only online debit cards including co-branded debit cards where there is an immediate debit to the customer's account, and where straight through processing is involved.

#### Offline Debit Cards

Banks are, henceforth, not permitted to issue offline debit cards. Banks presently issuing offline debit cards should conduct a review of their offline debit card operations and discontinue operations of such cards within a period of six months from December 12, 2012. Banks should, however, ensure that customers are duly informed regarding switching over to online debit cards. Till such time as offline cards are phased out, the outstanding balances/unspent balances stored on the cards would be subject to computation of reserve requirements.

#### Payment of Interest on Balances

Payment of interest should be in accordance with the interest rate directives issued from time to time.

#### Terms/Conditions

- Banks should not despatch a card to a customer unsolicited, except when the card is a replacement for a card already held by the customer.
- The relationship between the bank and the card holder should be contractual.
- Each bank should make available to the cardholders in writing, a set of contractual terms and conditions governing the issue and use of such a card. These terms shall maintain a fair balance between the interests of the parties concerned.

- The terms should be expressed clearly.
- The terms should specify the basis of any charges, but not necessarily the amount of charges at any point of time.
- The terms should specify the period within which the cardholder's account would normally be debited.
- Banks may alter the terms but sufficient notice of the change should be given to the cardholder to enable him to withdraw if he so chooses.
- The terms should specify a contact point to which such notification can be made at any time of the day or night.
- The terms should specify that the bank will be responsible for direct losses incurred by a cardholder due to a system malfunction directly within the bank's control. A bank shall, however, not be held liable for any loss caused by a technical breakdown of the payment system if the breakdown of the system was recognisable for the cardholder by a message on the display of the device or otherwise known. The responsibility of the bank for the non-execution or defective execution of the transaction is limited to the principal sum and the loss of interest subject to the provisions of the law.

#### Cash Withdrawals

Cash transactions through debit cards should not be offered at the 'point of sale' under any facility without the Reserve Bank's prior authorisation.

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## Security

- (i) Banks should ensure full security of the debit card. The security of the debit card shall be the responsibility of the bank and the losses incurred by any party on account of breach of security or failure of the security mechanism shall be borne by the bank.
- (ii) Banks shall 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 time barred cases).
- (iii) The cardholder should be provided with a written record of the transaction after he has completed it, either immediately in the form of a receipt or within a reasonable period of time in another form, such as, the customary bank statement.
- (iv) The cardholder shall 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.
- (v) Each bank shall provide means whereby their customers may at any time of the day or night notify the loss, theft or copying of their payment devices.
- (vi) On receipt of notification of the loss, theft or copying of the card, the bank shall take all action open to it to stop any further use of the card.
- (vii) With a view to reducing instances of misuse of lost/stolen cards, banks may consider issuing cards with photographs of the cardholder or any other advanced methods that may evolve from time to time.

## International Debit Card

Issue of international debit cards would be subject to the directions issued under the Foreign Exchange Management Act, 1999, as amended from time to time.

## Grievance Redressal

Banks should put in place an effective mechanism for redressal of customer complaints. The grievance redressal procedure and the time frame fixed for responding to the complaints should be placed on the bank's website. The name, designation, address and contact number of important executives as well as the Grievance Redressal Officer may be displayed on the bank's website.

## Co-branding Arrangement

Co-branded debit cards issued by banks would be subject to the following terms and conditions, in addition to those indicated above:

### Board Approved Policy

The co-branding arrangement should be as per the bank's Board approved policy. The policy may specifically address issues pertaining to the various risks associated with such an arrangement including, reputation risk, and put in place suitable risk mitigation measures.

### Due Diligence

Banks should carry out due diligence in respect of the non-banking entity with which they intend to enter into tie-up for issue

of such cards to protect themselves against the reputation risk they are exposed to in such an arrangement. Banks should ensure that in cases where the proposed co-branding partner is a financial entity, it has obtained necessary approvals from its regulator for entering into the co-branding agreement.

### Outsourcing

The card issuing bank would be liable for all acts of the co-branding partner.

### Role of Non-bank Entity

The role of the non-bank entity under the tie-up arrangement should be limited to marketing/distribution of the cards or providing access to the cardholder for the goods/services that are offered.

### Confidentiality

The card issuing bank should not reveal any information relating to customers obtained at the time of opening the account or issuing the card and the co-branding non-banking entity should not be permitted to access any details of customers' accounts that may violate the bank's secrecy obligations

## Swap Facility for Expansion of PCFC

The Reserve Bank has advised that a US Dollar-Rupee swap facility has been introduced from January 21, 2013 to support incremental pre-shipment export credit in foreign currency (PCFC). Scheduled banks (excluding RRBs) have the option to access rupee refinance to the extent of the swap with the Reserve Bank under a special export credit refinance facility. The salient features of the new swap facility are:

- (a) The swap facility will be available to scheduled banks (excluding RRBs) from January 21, 2013 till June 28, 2013 for fixed tenor of 3/6 months. During any particular month, the maximum amount of dollars that banks would be eligible to avail of from the Reserve Bank through swaps would be equal to the incremental PCFC disbursed with reference to a base date (November 30, 2012), subject to a limit. The limits would be communicated to eligible individual banks separately. The limits would be reviewed periodically based on actual utilisation and other relevant factors.
- (b) Under the swap arrangement, a bank can buy US Dollars, up to its eligible swap limit, from the Reserve Bank and simultaneously sell the same amount of US Dollar forward as per the term of the swap at the prevailing market rates for swaps of similar tenor. At the end of the swap term, the bank will exchange with the Reserve Bank the US Dollars against Rupee. The Reserve Bank's decision regarding the pricing of the swap would be final and requests for any modification/revision to the same would not be entertained.
- (c) Banks desirous of availing the swap facility would have to furnish a declaration duly signed by their authorised signatories that they have actually disbursed the eligible incremental PCFC during the preceding month (s).
- (d) The swap facility will be operationalised by the Reserve Bank's Financial Markets Department at Mumbai. Depending upon the prevailing market conditions, the Reserve Bank would exercise the right to decide on the day of operation, number of banks that can avail of the facility on any particular day, the maximum amount of swap that the Reserve Bank would undertake with banks on any particular day and the

maximum quantum of swap that each bank can do on any particular day keeping in view the market conditions and other relevant factors.

- (e) Banks desirous of availing refinance under the special export credit refinance facility may approach the Reserve Bank's Regional Office at Fort, Mumbai with the required promissory note and a declaration indicating that they have availed the swap facility and the amount of refinance sought does not exceed the amount of swap outstanding under the swap facility. The promissory notes would need to be fully backed by eligible export bills under the PCFC.

The rupee rate of interest charged on refinance availed of under the special export refinance facility would be the prevailing repo rate under the liquidity adjustment facility (LAF), currently at 8.0 per cent.

This facility is available from January 21, 2013 till June 28, 2013. The present rupee export credit refinance (ECR) facility will continue, as hitherto.

### Revised Guidelines on CDS for Corporate Bonds

Based on the feedback received from the market and suggestions of the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets, the existing guidelines have been reviewed and it has been decided to –

- permit credit default swaps (CDS) on unlisted but rated corporate bonds even for issues other than infrastructure companies, in addition to listed corporate bonds;
- allow users to unwind their CDS bought position with original protection seller at mutually agreeable or Fixed Income Money Market and Derivatives Association of India (FIMMDA) price. If no agreement is reached, then unwinding has to be done with the original protection seller at FIMMDA price; and
- permit CDS on securities with original maturity up to one year like commercial papers, certificates of deposit and non-convertible debentures with original maturity of less than one year as reference/deliverable obligations.

### Revised Guidelines on Repo in Corporate Debt Securities

Taking into consideration the market feedback and suggestions of the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets, it has been decided to –

- permit repo in corporate debt on commercial papers, certificates of deposit and non-convertible debentures of less than one year of original maturity; and
- revise the minimum haircut, applicable on the market value of the corporate debt securities prevailing on the date of trade of 1st leg, as under:

Rating	AAA	AA+	AA
Existing Minimum Haircut	10%	12%	15%
Revised Minimum Haircut	7.5%	8.5%	10%

The above are minimum stipulated haircuts where the repo period is overnight or where the re-margining frequency (in case of longer tenor repos) is daily. In all other cases, the participants may adopt appropriate higher haircuts.

### Rupee denominated Co-branded Pre-paid Cards

General permission has been granted to banks to issue rupee denominated co-branded pre-paid cards in India. The terms and conditions in this regard are –

#### Board Approved Policy

The co-branding arrangement should be as per the bank's Board approved policy. The policy should specifically address issues pertaining to the various risks associated with such an arrangement including reputation risk and put in place suitable risk mitigation measures.

#### Due Diligence

Banks should carry out due diligence in respect of the non-banking entity with which they intend to enter into tie-up for issue of such cards to protect themselves against the reputation risk they are exposed to in such an arrangement. In case of proposed tie up with a financial entity, banks should ensure that that entity has the approval of its regulator for entering into such arrangement.

#### Outsourcing

The card issuing bank would be liable for all acts of the co-branding partner. Banks should adhere to the guidelines on "Managing Risks and Code of Conduct in outsourcing of financial services by banks" as contained in the Reserve Bank's circular of November 3, 2006.

#### Role of Non-bank Entity

The role of the non-bank entity under the tie-up arrangement should be limited to marketing/distribution of the cards or providing access to the cardholder for the goods/services that are offered.

#### Confidentiality

The card issuing bank should not reveal any information relating to customers obtained at the time of opening the account or issuing the card and the co-branding non-banking entity should not be permitted to access any details of customers' accounts that may violate the bank's secrecy obligations.

#### Interest Payment

As hitherto, no interest should be paid on the balances transferred to pre-paid payment cards.

Issue of foreign currency denominated pre-paid cards, including co-branding arrangements, if any, would be subject to the guidelines issued under the Foreign Exchange Management Act, 1999, as amended from time to time.

### BRANCH BANKING

#### Special Deposit Scheme 1975 - Payment of Interest

The Reserve Bank has advised banks to promptly disburse interest for the calendar year 2012 to Special Deposit Scheme, 1975 account holders at the rate of 8.6 per cent per annum from January 1, 2012 to March 31, 2012 and at the rate of 8.8 per cent per annum from April 1, 2012 to December 31, 2012, through electronic mode such as ECS/NECS/NEFT/RTGS or by way of account payee cheques on January 1, 2013.

**FEMA****ECB Policy****A) Low Cost Affordable Housing Projects**

It has been decided to allow external commercial borrowings (ECB) for low cost affordable housing projects as a permissible end-use, under the approval route. ECB can be availed of by developers/builders for low cost affordable housing projects. Housing finance companies (HFCs)/National Housing Bank (NHB) can also avail of ECB for financing prospective owners of low cost affordable housing units.

Detailed guidelines on ECB for low cost affordable housing scheme are as indicated below:

**Definition of Eligible Project**

A low cost affordable housing project for the purpose of ECB would be a project in which at least 60 per cent of the permissible floor space index (FSI) would be for units having maximum carpet area up to 60 square metres.

Slum rehabilitation projects will also be eligible under the low cost affordable housing scheme.

**Eligible Borrowers***Developers/builders*

To qualify for availing ECB for low cost affordable housing projects, developers/builders should -

- (i) be a company registered under the Companies Act, 1956;
- (ii) have minimum 5 years' experience in undertaking residential projects, and should have good track record in terms of quality and delivery;
- (iii) not have defaulted in any of their financial commitments to banks/financial institutions or any other agencies;
- (iv) not undertake a project under litigation;
- (v) undertake a project which is in conformity with the provisions of master plan/development plan of the area. The layout should conform to the land use stipulated by the town and country planning department for housing projects; and
- (vi) make available on record all necessary clearances from various bodies, including the Revenue Department, with respect to land usage/environment clearance, etc.

*Housing Finance Companies*

Housing finance companies (HFCs) can avail of ECB for financing prospective owners of low cost affordable housing units provided -

- (i) the HFC is registered with NHB and operating in accordance with the regulatory directions and guidelines issued by NHB;
- (ii) the minimum paid-up capital, as per the latest audited balance sheet, is not less than Rupees 50 crore;
- (iii) the minimum net owned funds (NOF) for the past three financial years is not less than Rupees 300 crore;

- (iv) borrowing through ECB should be within the HFC's overall borrowing limit of 16 times its NOF;
- (v) the net non-performing assets do not exceed 2.5 per cent of the net advances;
- (vi) the maximum loan amount sanctioned to the individual buyer is capped at Rupees 25 lakh subject to the condition that, the cost of the individual housing unit does not exceed Rupees 30 lakh; and
- (vii) the ECB shall be swapped into Rupees for the entire maturity on fully hedged basis.

NHB would be eligible to raise ECB for financing low cost affordable housing units of individual borrowers. If a developer of low cost affordable housing project is not able to raise ECB directly as envisaged above, NHB may avail of ECB for on-lending to such developers, who satisfy the prescribed conditions, subject to the interest rate spread set by the Reserve Bank.

*End-use*

ECB proceeds should be utilised only for low cost affordable housing projects and should not be utilised for acquisition of land.

*Nodal Agency*

Builders/developers meeting the eligibility criteria should apply to NHB in the prescribed format. NHB would act as the nodal agency for deciding a project's eligibility as a low cost affordable housing project, and on being satisfied, forward the application to the Reserve Bank for consideration under the approval route. Once NHB decides to forward an application for the Reserve Bank's consideration, NHB will advise the prospective borrower (builder/developer) to approach the Reserve Bank for availing ECB, through his authorised dealer.

Developers/builders/HFCs/NHB will not be permitted to raise foreign currency convertible bonds (FCCBs) under this scheme.

**B) NBFC- IFCs**

Non-banking finance companies (NBFCs) categorised as infrastructure finance companies (IFCs) are now permitted to avail of ECB, including outstanding ECBs, up to 75 per cent of their owned funds under the automatic route as against the earlier limit of 50 per cent of their owned funds. NBFC-IFCs desirous of availing ECBs beyond 75 per cent of their owned funds would require the Reserve Bank's approval and would, therefore, be considered under the approval route.

The hedging requirement for currency risk has been reduced from 100 per cent of the IFC's exposure to 75 per cent of the IFC's exposure.

**C) Indian Companies in the Hotel Sector**

Indian companies in the hotel sector (with a total project cost of INR 250 crore or more), irrespective of geographical location, have been allowed to avail of ECBs for repayment of outstanding Rupee loan(s) availed of from the domestic banking system and/or for fresh Rupee capital expenditure. ADs may certify the project cost at the time of forwarding the ECB application to the Reserve Bank.