Credit Information Review

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Swarojgar Credit Card Scheme

Pursuant to the Hon'ble Prime Minister's announcement in his address to the nation on the Independence Day, it has been decided to introduce a new credit facility for fishermen, rickshaw owners, self employed persons, etc. A model scheme called the 'Swarojgar Credit Card (SCC) Scheme' has since been prepared by the National Bank for Agriculture and Rural Development (NABARD) and approved by the Ministry of Finance. All scheduled commercial banks have been advised to introduce such a scheme on the lines of the model scheme.

Model Scheme

Objectives

The SCC Scheme aims at providing adequate and timely credit, i.e., working capital or block capital or both to small artisans, handloom weavers, service sector, fishermen, self employed persons, rickshaw owners, other micro-entrepreneurs, etc., from the banking system in a flexible, hassle free and cost effective manner. The facility may also include a reasonable component for consumption needs.

Implementation

The Scheme should be implemented by all commercial banks, regional rural banks (RRBs), state co-operative banks, district central co-operative banks (DCCBs), primary agricultural co-operative societies, (PACS), state co-operative agricultural rural development banks (SCARDBs) primary co-operative agricultural rural development banks (PCARDBs) and scheduled primary co-operative banks. Banks should actively market the scheme to the eligible clientele.

Nature of financial accommodation

The credit facility extended under the Scheme would be in the nature of a composite loan including term loan/revolving cash credit.

The term loan should be provided for meeting the investment requirements and it should be repaid within five years in suitable installments.

The revolving cash credit should be fixed taking into account the operating cycle/nature of the investment and available balance after sanction of term loan.

Ceiling

The ceiling per borrower for composite loan is Rs.25,000. The initial investment in fixed assets and/or working capital requirement/recurring expenditure of the borrower should be taken as the base for fixing the limit. The working capital/ recurring expenditure limit may be in the form of a revolving cash credit and fixed as a percentage of the turnover divided by the number of operating cycles per annum. A component for consumption credit could be built in keeping in view the value of family labour in productive activity. The total limit should have a relationship between the projected net earning and the repayment capacity of the borrower.

Validity and Issue

The SCC would normally be valid for five years subject to satisfactory operation of the account and could be renewed on a yearly basis through a simple review process. The operations in the account, however, should be regular.

The beneficiaries under the scheme would be issued a laminated credit card and a pass book incorporating the name, address, borrowing limit, validity, etc. This will serve as an identity card as well as facilitate recording of the transactions on an ongoing basis. Fees towards issue of card/processing should not exceed Rs. 50.

The pass book would also contain the repayment schedule of the term loan. A passport size photograph of the holder should be affixed on the card. The card holder should produce the card and the pass book whenever he/she withdraws cash from the account.

Self help groups (SHGs) may also be issued cards in their name. They would be liable jointly and severally for repayment.

Cluster approach should be followed in implementing the scheme.

Renewal of working capital limits

- Limits could be renewed annually based on the amount credited to the cash credit account and the repayment performance in the term loan account.

- Term loan component could be enhanced within the overall limit in case of need subject to satisfactory repayment performance of the borrower.

- The revolving cash credit to the extent of working capital repaid may be renewed within the overall ceiling of Rs.25,000 and it should normally be repaid within twelve months from the date of drawal. Where necessary, the working capital component could be enhanced within the overall ceiling to provide for escalation in the cost of inputs, etc., subject to satisfactory repayment performance.

- No drawal should be permitted if revolving cash credit remains outstanding for more than twelve months.

- The aggregate credits in the account during the twelve months' period should normally be equal to the maximum outstanding in the working capital component plus the installment of the term loan availed of, if any.

Operation

- Banks would have absolute freedom to select the clients for the card. There would be no subsidy from the government under this scheme.

- The borrower may avail the credit facility as per his/her requirements, i.e., either term loan or working capital loan or a combination of both.

- The issuing branch should maintain a ledger account for each SCC account holder. The term loan component and working capital component should be accounted for separately. The operations in the account should generally be through the card issuing branch. Banks may at their discretion, however, permit operations through the designated branches, taking into account the convenience of the clientele.

- Withdrawal from the account should be through withdrawal slips/cheques. The SCC and the pass book should be produced each time cash is withdrawn.

- Opening of savings bank acount should not be a precondition for issue of SCC. In case, however, a SCC holder desires on his/her own to open a savings bank account, he/she may be allowed to do so.

Insurance

Beneficiaries under the scheme would automatically be covered under the group insurance scheme and the premium would be shared by the bank and the borrower equally. Each bank may negotiate the terms of insurance with a company of its choice on a national or regional basis.

Security/margin/interest/prudential norms

Security, margin, rate of interest and prudential norms would be applicable as per the Reserve Bank's norms.

Monitoring

Banks are required to report the monthly progress to the regional offices of NABARD, it being the nodal agency for monitoring the scheme.

Target

It is expected that banks would issue 2 lakh cards during the year 2003-04 and achieve a target of 40 lakh before the end of the Tenth Five Year Plan. The state-wise targets would be proposed by NABARD and approved by the state level bankers' committee (SLBC).

Entry of Banks into Insurance Business

The Reserve Bank has advised all scheduled commercial banks that they need not obtain the Reserve Bank's prior approval for engaging in insurance agency business or referral arrangement without any risk participation. The banks should, however -

(a) Comply with the Insurance Regulatory and Development Authority (IRDA) regulations for acting as 'composite corporate agent' or referral arrangement with insurance companies.

(b) Not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company for assets financed by the bank. Customers should be allowed to exercise their own choice.

(c) Enter into an agreement with the concerned insurance company for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding three years at the first instance. The bank should have the discretion to renegotiate the terms depending on its satisfaction with the service or replace it by another agreement after the initial period. Thereafter, private sector banks would be free to sign a longer term contract with their Board's approval and public sector banks with the approval of the Government of India.

(d) Prominently state in all publicity material that participation by its customers in the insurance products is purely on a voluntary basis. There should be no 'linkage' either direct or indirect between the banking services offered by the bank to its customers and use of the insurance products.

(e) Ensure that risks, if any, involved in insurance agency/ referral arrangement should not get transferred to the business of the bank.

Banks satisfying the eligibility criteria framed by the Reserve Bank and intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in insurance companies for providing infrastructure and services support are, however, required to obtain the Reserve Bank's prior approval.

SLR for RRBs

The Reserve Bank has clarified to all RRBs and their sponsor banks that cash balances in current account maintained with sponsor banks qualify for statutory liquidity ratio (SLR) as per the provisions of the Banking Regulation Act, 1949. Balances maintained by RRBs in call or fixed deposits with sponsor banks would, however, not be treated as a part of SLR deposits. The SLR deposits of RRBs contracted before April 30, 2002 with sponsor banks and maturing beyond March 2003 would, however, be reckoned for SLR purposes till they mature.

In October 2002, RRBs were advised to convert their call/ fixed deposits with sponsor banks into government securities by March 2003.

Bank Finance for PSU Disinvestments

The Reserve Bank has clarified that those special purpose vehicles (SPVs) which comply with the following conditions would not be treated as investment companies and therefore, would not be considered as non-banking finance companies (NBFCs). Since, they are not considered as NBFCs, they would be eligible for bank finance for PSU disinvestments of Government of India :

The SPVs should -

(a) function as holding companies, SPVs, etc., with not less than 90 per cent of their total assets as investment in shares held for the purpose of holding ownership stake;

(b) not trade in these shares except for block sale;

(c) not undertake any other financial activities; and

(d) not hold/accept public deposits.

UCBs

UCBs - Declaration of Dividend

The Reserve Bank has set out the following criteria to be adopted by primary (urban) co-operative banks (UCBs) for declaration of dividends :

(i) Banks which have not been classified by the Reserve Bank as grade II, III or IV may declare dividend provided, the dividend pay-out does not impair the bank's liquidity position.

(ii) Banks classified as grade II should obtain prior permission from the Reserve Bank's concerned regional office to declare dividend. Applications of UCBs categorised as grade II would be considered if they comply with the parameters indicated below :

- Compliance with the capital to risk-weighted assets ratio (CRAR) norms as prescribed by the Reserve Bank.

- Net non-performing assets (NPAs) of the bank are less than 10 per cent after making all necessary provisions as per the assessment made by the Reserve Bank in its latest inspection report.

- There is no default in cash reserve ratio (CRR)/SLR during the year for which dividend is proposed.

- All the required provisions have been made for NPAs, investments and other assets as per the prudential norms prescribed by the Reserve Bank. Where the bank has not been inspected recently by the Reserve Bank and, therefore, NPAs, etc., have not been assessed by the Reserve Bank, an auditor's certificate stating that all necessary provisions have been made, should be submitted.

- Dividend is paid out of the net profit after making all statutory provisions and adjustment for accumulated losses.

(iii) Banks classified under grade III/IV should not declare any dividend until they are upgraded to grade I or Grade II and satisfy the conditions indicated above.

A tendency was observed among UCBs to distribute dividends at rates higher than what could be considered prudent in view of the financials of the bank. There were instances of UCBs declaring higher dividends than the maximum prescribed under the Co-operative Societies Act.

FOREX

Foreign Currency Account - Project/Service Exporters

Project/service exporters, being resident in India, have been permitted to open, hold and maintain foreign currency account with a bank outside or in India. Accordingly, the approving authority of the overseas contract, i.e., authorised dealer (AD)/ Exim Bank/Working Group may approve proposals of exporters to open, hold and maintain foreign currency account in India subject to the conditions that -

- The exporter would have to open, hold and maintain a separate foreign currency account for each project under execution abroad.

- ADs should not avail of rupee loans against the security of balances held in such accounts. Overdraft in the account should not be permitted.

- The balance in the account would be subject to SLR/CRR requirement as prescribed by the Reserve Bank from time to time.

It has also been decided that the project approving authority may on request, allow project/service exporters who have been permitted to open foreign currency accounts in India, to pay their Indian suppliers/service providers in foreign currency from their foreign currency accounts subject to the conditions indicated below :

(i) The project/service exporter should not claim export benefits on the payment made to Indian supplier/service provider.

(ii) The Indian supplier of goods/services should comply with export procedure as per the provisions/requirements of FEMA 1999.

ADs/Exim Bank have been advised to stipulate certain conditions for opening of foreign currency account in India while conveying post-award approval for projects/service contracts. The conditions are :

(a) The account may be maintained in any convertible foreign currency.

(b) Credits/debits which would be permitted are -

Credits

- Payment in foreign currency received from the client.
- Interest earned on surplus funds parked in short term deposits.

Debits

- Payment to overseas suppliers of goods and services to the extent approved by the approving authority.

- Transfer of funds to the project site.

- Bank charges.

- Project related expenses in rupees.

- Transfer of funds to rupee account in case payment made by the client for supply of material/equipment from India has to be temporarily credited to the account.

- Conversion of balance in the account into Indian rupees at the end of the contract.

All other credits/debits would require the Reserve Bank's/ approving authority's prior approval.

(c) The account should be closed immediately after completion of the project and the entire balance should be transferred to rupee account and/or exchange earners' foreign currency (EEFC) account, as per the prevailing guidelines.

(d) Project funds temporarily rendered surplus may be invested in short-term deposits not exceeding one year and on maturity they should be transferred to the project foreign currency account. The maturity period of the fixed deposit should not, in any case, go beyond the date of completion of the project.

(e) No forward cover facility would be available on these balances.

Rupee Loans to NRI/PIO Employees

It has been decided to grant general permission to Indian companies, viz., a body corporate registered or incorporated in India, to grant rupee loans to their employees who are nonresident Indians (NRIs) or persons of Indian origin (PIOs), subject to the following conditions :

(i) The loan granted should be utilised only for personal purposes including purchase of housing property in India.

(ii) The loan should be granted in accordance with the lender's staff welfare scheme/housing loan scheme and subject to other terms and conditions applicable to its staff resident in India.

(iii) The lender should ensure that the loan amount is not used for -

- chit fund business, or
- nidhi company, or
- agricultural/plantation activities/real estate business/ construction of farm houses or
- trading in transferable development rights (TDRs), or
- investment, whether by way of capital or otherwise, in any company or partnership firm or proprietorship concern or any entity, whether incorporated or not, or
- re-lending.

(iv) The lender should credit the loan amount to the borrower's non-resident ordinary (NRO) account in India or should ensure credit to such account by specific indication on the payment instrument.

(v) The loan agreement should specify that the loan would be repaid by remittance from outside

India or by debit to the non-resident (external)/non-resident ordinary/foreign currency non-resident (NRE/NRO/FCNR) account of the borrower. The lender should not accept repayment by any other means.

In May 2000, ADs and housing finance institutions in India, approved by the National Housing Bank (NHB), were permitted to provide housing loan to NRIs/PIOs resident outside India for acquiring residential accommodation in India.

Borrowing from Close Relatives Abroad

The Reserve Bank has further liberalised and simplified the regulations regarding borrowing from close relatives abroad. Accordingly, now an individual resident may borrow a sum not exceeding USD 2,50,000 or its equivalent from close relatives residing outside India, subject to the conditions that :

(i) the minimum maturity period of the loan is one year;

(ii) the loan is free of interest; and

(iii) the amount of loan is received by way of inward remittance in free foreign exchange through normal banking channels or by debit to the NRE/FCNR(B) account of the non-resident lender.

In May 2000, individual residents in India were permitted by the Reserve Bank, on application, to borrow a sum not exceeding USD 2,50,000 or its equivalent in foreign exchange from a close relative resident outside India, subject to certain conditions.

Export of Books on Consignment Basis

With a view to liberalising the procedure for export of books, it has been decided that henceforth ADs may approve proposals for export of books on consignment basis for realisation of export proceeds upto 360 days from the date of shipment. Exporters may also be allowed to abandon the books which remain unsold at the expiry of the period of the sale contract. Accordingly, exporters may show the value of the unsold books as deduction from the export proceeds in the Account Sales.

Purchase/Sale of Immovable Property

It has been decided to allow a foreign embassy/diplomat/ consulate general to purchase/sell immovable property in India other than agricultural land/plantation property/farm house provided -

(i) clearance from Government of India, Ministry of External Affairs is obtained for such purchase/sale, and

(ii) the consideration for acquisition of immovable property in India is paid out of funds remitted from abroad through banking channel.

Import of Gold

The Reserve Bank has advised ADs that letters of credit (L/Cs) for import of gold under the nominated agency scheme must be established only on behalf of the nominated agency themselves. Under no circumstances, should the L/C be issued on behalf of any other entity even if a letter of authority issued by the nominated agency is furnished by these entities.

Under the government's nominated agency scheme for import of gold, Mineral and Metal Trading Corporation (MMTC)/ Handicrafts and Handloom Export Corporation (HHEC)/State Trading Corporation (STC)/Project Equipment Corporation (PEC) designated as nominated agency by the government and banks permitted by the Reserve Bank, are authorised to import gold for supply to exporters with an export obligation. Accordingly, only these nominated agencies are permitted to open L/C for import of gold under the nominated agency scheme.

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