With a view to harmonizing the present regulations pertaining to different interest rates for various categories of customers and products and also to review the regulations on operational aspects of deposits, the Reserve Bank had constituted a Working Group on 'Interest Rates on Deposits and Procedures' under the Chairmanship of Shri H. N. Sinor, Chief Executive Officer, Indian Banks' Association. After considering the recommendations of the Working Group, it has been decided to make the following changes in the extant guidelines :

Renewal of Overdue Deposits

Banks have now been given the freedom to decide all aspects concerning renewal of overdue deposits. Banks' boards should, however, lay down a transparent policy in this regard which should be non-discretionary and non-discriminatory. Banks should also notify their customers of the terms and conditions of renewal including interest rates, at the time of acceptance of deposit.

Earlier, banks could renew overdue domestic term deposits at the interest rate prevailing on the date of maturity provided the depositor approached them within 14 days from the date of maturity of the deposit. In case the application for renewal was made 14 days after the date of maturity, the rate of interest offered was the rate prevailing on the date of renewal of deposit. Banks were free to decide the interest rate payable for the period between the date of maturity and date of renewal.

Margin on Advance against Term Deposit

Decisions regarding margin on advance against term deposit have been left to the discretion of individual banks subject to their board laying down a transparent policy in this regard.

Earlier, banks were required to maintain a reasonable margin on any financial accommodation allowed against the security of a term deposit. The margin, however, was determined by them on a case-to-case basis.

Deceased Depositor's Account

Decisions regarding interest payable on maturity proceeds of the deposit account of a deceased depositor have also been left to the discretion of individual banks subject to their board laying down a transparent policy in this regard.

'Year' for Calculating FD Interest

It had been reported to the Reserve Bank that while calculating interest on domestic term deposits (FD) repayable in less than three months or where the terminal quarter was incomplete and interest was to be paid proportionately for the actual number of days, some banks adopted the model of reckoning the year at 366 days in a leap year and 365 days in other years. It is advised that while banks are free to adopt their methodology for calculation of such interest, they should provide information to their depositors about the manner of calculation of interest while accepting the deposits and also display it at their branches.

Maintenance of CRR/SLR on CBLO Transactions

The Clearing Corporation of India Ltd. (CCIL) has developed and introduced a money market instrument called Collateralised Borrowing and Lending Obligation (CBLO) from January 20, 2003. In order to encourage CBLO as a money market instrument, the Reserve Bank has decided to grant banks special exemption from cash reserve ratio (CRR) prescription provided, a bank maintains statutory minimum CRR of 3 per cent.

On enquiries received from banks on the treatment of CBLO in regard to maintenance of CRR and statutory liquidity ratio (SLR), the Reserve Bank has clarified that -

- Since CCIL is considered as a non-bank institution, borrowing banks should classify their borrowings under CBLO as 'liability in India to others" which qualify for reserve requirements. Accordingly, scheduled commercial banks

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(SCBs) should include in their net demand and time liability (NDTL), the borrowing under CBLO.

- Banks should also maintain SLR of 25 per cent on NDTL including borrowing through CBLO.
- Banks may reckon for SLR purposes, securities lodged in their gilt account, maintained with CCIL under constituent subsidiary general ledger (CSGL) facilities, remaining unencumbered at the end of any day. For this purpose, CCIL would provide daily statements to banks/Reserve Bank listing the securities lodged/utilised/remaining unencumbered.

Time Limit for Compromise Settlement of NPAs Extended

In consultation with the Government of India, the Reserve Bank has extended the time limit up to July 31, 2004, for receipt of applications for one time settlement of chronic non-performing assets (NPAs) of public sector banks up to Rs. 10 crore. Consequently, the last date for processing applications has also been extended up to October 31, 2004.

IFIs permitted to Invest in G-Secs

It has been decided to permit International Financial Institutions (IFIs), like multilateral development banks, such as, International Finance Corporation (IFC), Asian Development Bank (ADB), etc., which are specifically permitted by the Government of India to float rupee bonds in India, to purchase government dated securities (g-secs). The multilateral development banks should make the payment for the g-secs purchased by them, either by inward remittance through normal banking channels or out of funds held in their fund account opened with the Reserve Bank's specific approval.

If the g-secs are sold by a multilateral development bank, the net maturity proceeds after payment of taxes, may either be remitted abroad or credited to their fund account which has been opened with the Reserve Bank's specific approval.

Old Coins withdrawn

The Government has decided that old coins of value up to Re.1 made from cupro-nickel alloy and aluminum should be withdrawn and sent to mints for melting. Banks have, therefore, been advised to issue instructions to their branches and to ensure that the currency chests and small coin depots maintained by their branches remit such coins to the mints.

Note Counting Machines

All commercial banks have been advised to ensure that sufficient note counting machines are provided at their branches for use of customers.

Earlier, in November 2001, banks were advised to issue/accept notes in unstapled condition. Banks were also advised to provide adequate number of dual display note counting machines/note counting machines at payment counters to enable customers to satisfy themselves about the numerical accuracy of the notes issued.

RRBs

Frauds in Housing/Consumer/Retail Finance : RRBs Cautioned

In view of the cases of frauds reported by regional rural banks (RRBs) in the housing, consumer and retail finance portfolios, perpetrated by unscrupulous borrowers by submitting fake/forged/ stolen documents, the Reserve Bank has advised them to exercise due caution while processing such loans. RRBs have been advised to review the existing systems and controls and plug the lacunae to

Credit Guarantee Fund Trust for Small Industries

To alleviate the problems being faced by small scale industries (SSI)/tiny units and small scale service and business (industry related) enterprises (SSSBEs), especially first generation entrepreneurs, in availing finance required for their projects without any collateral security and/or third party guarantee, the Ministry of Small Scale Industries, Government of India has set up a Credit Guarantee Fund Trust for Small Industries (CGTSI). CGTSI gives guarantee to its member lending institutions (MLIs) comprising, scheduled commercial banks, select regional rural banks, Small Industries Development Bank of India (SIDBI), National Small Industries Corporation (NSIC) and North-Eastern Development Financial Corporation (NEDFI) for the loans extended by them to SSI/tiny units/SSSBEs.

The salient features of the credit guarantee scheme are -

- CGTSI guarantees collateral free loans up to Rs.25 lakh given by MLIs to SSI units and SSSBEs.
- New or existing SSI units and SSSBEs are eligible for coverage of eligible credit facilities (term loan and working capital) upto Rs.25 lakh per borrower availed from MLIs.
- MLIs are eligible to apply for credit guarantee facility for loans up to Rs.25 lakh sanctioned by them to eligible SSI units/SSSBEs for their viable projects without collateral security and/or third party guarantee.

Fees payable by MLIs to CGTSI for the guarantee cover for eligible credit facilities are -

- A one time guarantee fee at specified rate (currently 2.5 per cent) on the amount of the credit facility sanctioned by the MLI to the borrower.
- Annual service fee at specified rate (currently 1 per cent per annum) on the loan amount outstanding in the account of the borrower as on March 31 each year.

A list of MLIs is given on CGTSI's website www.cgtsi.org.in or www.creditguarantee.org.in prevent occurrence of such frauds. RRBs have also been advised to carry out field level inspections of branches having exposures in these areas. RRBs may also keep their board of directors apprised, on a periodical basis, of the irregularities revealed and the likely loss on this account.

On the basis of frauds reported to the Reserve Bank, it was noticed that the most common modus operandi adopted for availing of credit facilities was by submitting forged/fake documents in respect of properties offered to banks as securities. Other types of irregularities which came to notice were :

- The same property was offered as security to different banks by submitting fake title deeds.
- The properties which were mortgaged to banks, were found to be non-existent.
- Loans were granted to persons without verifying their antecedents/details. As a result, subsequently they were found to be non-existent.
- Documents submitted, such as, deeds, income tax returns, salary certificates etc., were found to be fake/fictitious.
- The chartered accountants who had purportedly issued/ verified the documents were found to be non-existent.
- Builders/developers had defrauded banks by pocketing the housing loans which they managed to obtain in the names of fictitious persons by submitting forged documents.
- Builders/developers in connivance with the employees of public sector undertakings had arranged housing loans from banks by submitting fake/forged/manipulated salary certificates. Such loans were subsequently misappropriated.
- Vehicle/consumer loans were obtained by submitting fake/ forged invoices/quotations and were misappropriated without creating charge on the security.

UCBs

Computation of Capital Funds

The Reserve Bank has clarified to primary urban co-operative banks (UCBs) that for a fund to be included in the capital fund, the fund/reserve should satisfy two criteria, which are -

(i) The reserve/fund should be created as an appropriation of profit and

(ii) It is a free reserve i.e., not a specific reserve.

For example, if the contingency fund has been created out of the appropriation of profit and not a earmarked/specific fund, it would be eligible for inclusion in capital fund. If the fund, however, has been created not by appropriation of profit, but by a charge on the profit, then this fund is in effect a provision. Hence, it would be eligible for being reckoned only as Tier II capital subject to a limit of 1.25 per cent of risk weighted assets, provided it is not attributed to any identified potential loss or diminution in value of an asset or a known liability.

It is also clarified that funds like centenary celebration fund, dividend equalisation fund and members uplift fund, etc., may not be included in the capital fund as they are earmarked for specific purposes.

NBFCs

NBFCs can take up Insurance Agency Business without RBI's prior Approval

Non-banking finance companies (NBFCs) registered with the Reserve Bank are now permitted to take up insurance agency business on fee basis and without risk participation, without the Reserve Bank's prior approval. Such permission is, however, subject to the following conditions :

(i) NBFCs should obtain requisite permission from the Insurance Regulatory and Development Authority (IRDA) and comply with IRDA regulations for acting as 'composite corporate agent' with insurance companies.

(ii) NBFCs should not adopt any restrictive practice of forcing their customers to go in only for a particular insurance company in respect of assets financed by them. Customers should be allowed to exercise their own choice.

(iii) In all publicity material distributed by NBFCs, it should be prominently stated that participation by their customers in insurance products is purely on a voluntary basis. There should be no 'linkage' either direct or indirect between the provision of financial services by NBFCs to their customers and use of insurance products.

(iv) The insured should pay the premium directly to the insurance company without routing it through the NBFC.

(v) Risks, if any, involved in insurance agency should not get transferred to the NBFC's business.

NBFCs intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in insurance companies should, however, continue to obtain the Reserve Bank's prior approval.

In June 2000, NBFCs were permitted to enter into insurance business, with the Reserve Bank's prior approval.

FOREX

Remittance Scheme for Resident Individuals liberalised

As a step towards further simplification and liberalisation of foreign exchange facilities available to residents, it has been decided that resident individuals may freely remit upto USD 25,000 per calendar year for any purpose. A scheme formulated in this regard is detailed below :

Eligibility

All resident individuals are eligible to avail of the facility under the scheme. The facility will not be available to corporates, partnership firms, HUF, trusts, etc.

Purpose

This facility is available for making remittance up to USD 25,000 per calendar year for any current or capital account transactions or a combination of both.

Under this facility, resident individuals are free to acquire and hold immovable property or shares or any other asset outside India without the Reserve Bank's prior approval. Individuals may also open, maintain and hold foreign currency accounts with a bank outside India for making remittances under the scheme, without the Reserve Bank's prior approval. The foreign currency account may be used for putting through all transactions connected with or arising from remittances eligible under this scheme.

The facility under the scheme is in addition to those already available for private travel, business travel, gift remittances, donations, studies, medical treatment, etc.

The remittance facility under the scheme is not available for -

(i) Remittance for any purpose specifically prohibited (see box below) or any restricted item (see box on page 4) under the Foreign Exchange Management Act (FEMA) Rules, 2000.

Remittances Specifically Prohibited under FEMA, 2000
• Remittance out of lottery winnings.
• Remittance of income from racing/riding etc., or any other hobby.
• Remittance for purchase of lottery tickets, banned/proscribed magazines, football pools, sweepstakes, etc.
• Payment of commission on exports made towards equity investment in joint ventures/wholly owned subsidiaries abroad of Indian companies.
• Remittance of dividend by any company to which the requirement of dividend balancing is applicable.
• Payment of commission on exports under rupee state credit route.
• Payment related to "call back services" of telephones.
• Remittance of interest income on funds held in non-resident special rupee (account) scheme.

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(ii) Remittances made directly or indirectly to Bhutan, Nepal, Mauritius or Pakistan.

(iii) Remittances made directly or indirectly to countries identified by the Financial Action Task Force (FATF) as “non co-operative countries and territories” viz., Cook Islands, Egypt, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, Philippines and Ukraine.

(iv) Remittances directly or indirectly to those individuals and entities identified as posing significant risk of committing acts of terrorism as advised separately by the Reserve Bank.

Remittance Procedure

For Remitter

To avail of this facility, an individual has to designate a branch of an AD through which all the remittances under the scheme would be made.

Resident individual seeking to make the remittance should furnish an application letter cum declaration regarding the purpose of the remittance and declaration that the funds belong to him/her and will not be used for the purposes specifically prohibited/restricted.

For ADs

While allowing the facility to resident individuals, ADs should ensure that the “Know Your Customer” guidelines. have been implemented in respect of these accounts. They should also comply with the anti-money laundering rules in force while allowing the facility.

Applicants should have maintained the bank account with the bank for a minimum period of one year prior to the remittance. If the applicant seeking to make the remittance is a new customer of the bank, ADs should observe due diligence on the opening, operation and maintenance of the account. Further ADs should obtain bank statement for the previous year from the applicant to satisfy themselves regarding the source of funds. If such a bank statement is not available, ADs may obtain copies of the latest income tax assessment order or return filed by the applicant.

ADs should ensure that the payment is received out of funds belonging to the remitter by a cheque drawn on the applicant’s bank account or by debit to his account or by demand draft/pay order.

ADs should certify that the remittance is not being made directly or indirectly by/or to ineligible entities and that the remittances are made in accordance with the Reserve Bank’s instructions.

Reporting

Remittances made under this scheme should be reported in the R-Return in the normal course. ADs should also prepare and keep on record dummy Form A2, in respect of remittances exceeding USD 5000. ADs may arrange to furnish on a quarterly basis, information on the number of applicants and total amount remitted to the Chief General Manager, External Payment Division, Foreign Exchange Department, Reserve Bank of India, Central Office, Mumbai-400001.

Remittances which need Approval under FEMA, 2000

Purpose of Remittance	Ministry/Department of Government of India whose approval is required
• Cultural tours	Ministry of Human Resources (Department Of Education and Culture)
• Advertisement in foreign print media for purposes other than promotion of tourism, foreign investments and international bidding (excee-ding USD 10,000) by a state government and its public sector undertakings (PSUs)	Ministry of Finance (Department of Economic Affairs)
Remittance of freight of vessel chartered by a PSU	Ministry of Surface Transport (Chartering Wing)

Payment of import by a government department or a PSU on c.i.f. basis (i.e., other than f.o.b. and f.a.s. basis)	Ministry of Surface Transport, (Chartering Wing)
Multi-modal transport operators making remittance to their agents abroad	Registration certificate from the Director General of Shipping
Remittance of container detention charges exceeding the rate prescribed by Director General of Shipping	Ministry of Surface Transport (Director General of Shipping)
Remittances under technical collaboration agreements where payment of royalty exceeds 5 per cent on local sales and 8 per cent on exports and lump-sum payment exceeds USD 2 million	Ministry of Industry and Commerce
Remittance of prize money/sponsorship of sports activity abroad by a person other than international/ national/state level sports bodies, if the amount involved exceeds USD 100,000	Ministry of Human Resources Development (Department of Youth Affairs and Sports)
Payment for securing Insurance for health from a company abroad	Ministry of Finance (Insurance Division)
Remittance for membership of P& I Club	Ministry of Finance (Insurance Division)

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