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CREDIT INFORMATION REVIEW

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SEPTEMBER
2004

POLICY

CRR increased

The cash reserve ratio (CRR) to be maintained by scheduled commercial banks (SCBs) has been increased by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages, effective from fortnights as indicated below :

Fortnight beginning	Effective CRR
September 18, 2004	4.75 per cent
October 2, 2004	5.00 per cent

The effective CRR maintained by SCBs on total NDTL should, however, be not less than 3.00 per cent, as stipulated under the Reserve Bank of India Act, 1934.

SCBs would be paid interest at the rate of 3.5 per cent per annum with effect from the fortnight beginning September 18, 2004, on eligible cash balances maintained with the Reserve Bank under the CRR requirement.

Earlier, all SCBs were paid interest at the Bank Rate on eligible cash balances maintained with the Reserve Bank under proviso to Section 42 (1) and 42 (1A) of the Reserve Bank of India Act, 1934.

Banks allowed to open CPCs/Back Offices

Taking into account the changes brought in due to the introduction of technology and the need to cut down operational costs while enhancing customer service, it has been decided to allow banks to open Central Processing Centres (CPCs)/back offices. These would be branches which would attend exclusively to data processing, verification and processing of documents, issuance of cheque books, demand drafts, etc., and other functions incidental to banking business having no interface with customers.

The Reserve Bank would issue licence for such branches under the 'Service Branch' category. A 'Service Branch' can attend to clearing and allied banking activity which may include processing centres, back office functions and other functions incidental to banking business. No interface with the customers, however, would be permitted.

Banks may, therefore, apply and obtain licence for opening a service branch for either taking care of data processing/core banking solution and/or document processing, issuance of demand drafts, cheque books, fixed deposit receipts, etc., in respect of requests received from other branches.

It is, however, clarified that a 'Service Branch' should not include a call centre or a phone banking facility or any other facility that involves customer interface. It is also clarified that conversion of a service branch into any other category of banking branch would not be permitted.

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Sub-Committee under SLBC set up for Exporters

Exporters' problems relating to export finance and other bank related issues at the state level would, in future, be taken up by a Sub-Committee of the State Level Bankers' Committee (SLBC). This Sub-Committee, which would be known as "Sub-Committee of SLBC for Export Promotion", would include local exporters' associations, the State Bank of India, two/three leading banks handling sizeable export business, Directorate General of Foreign Trade, Customs, State Government (Department of Commerce and Industry and Department of Finance), the Export-Import Bank, Export Credit and Guarantee Corporation, Foreign Exchange Dealers' Association of India besides the Reserve Bank (Foreign Exchange Department and Department of Banking Supervision) at the regional level, as members of the Committee.

The Sub-Committee would meet at half-yearly intervals, or earlier, if considered necessary. The convenor bank of the SLBC would be the convenor of the Sub-Committee in the respective state and the meetings would be chaired by the Executive Director of the convenor bank. The secretarial assistance to the Sub-Committee would be provided by the International Banking Division/Foreign Exchange Department at the head office of the bank acting as convenor of the SLBC. Convenors have been advised to arrange for the first meeting latest by October 31, 2004.

Considering that several avenues are available to exporters at the state level to voice their grievances, the Reserve Bank has decided, in consultation with the Government of India, to wind up the State Level Export Promotion Committees (SLEPCs) functioning in the states.

Classification and Valuation of Investments

Banks have been advised that they may exceed the present limit of 25 per cent of their total investments under held to maturity (HTM) category provided -

(i) the excess comprises only of SLR securities, and

(ii) the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

Accordingly, as a one-time measure, banks have been permitted to shift their SLR securities to the HTM category any time, once more, during the current accounting year. Such shifting should be done at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and depreciation, if any, on such transfer, should be fully provided for.

Non-SLR investments in bonds of public sector undertakings (PSUs) and shares (as permitted by the Reserve Bank) classified under HTM category may remain in that category. No fresh non-SLR securities would be permitted to be included in the HTM category.

All other prudential norms applicable to securities included under HTM category would continue to apply.

The Reserve Bank had received representations from banks that the guidelines for classification of investments should be reviewed with a view to bringing them in alignment with international practices and current state of risk management practices in India, taking into account the unique requirement of maintenance of statutory reserve requirement of 25 per cent NDTL under Section 24 of Banking Regulations Act 1949.

BANKING

Computation of DTL/NDTL for CRR/SLR

All scheduled commercial banks have been advised to ensure that their demand and time liabilities (DTL)/net demand and time liabilities (NDTL) for the purpose of maintaining cash reserve ratio (CRR)/statutory liquidity requirement (SLR) is computed strictly in accordance with the Reserve Bank's instructions in this regard. Banks have been further advised to immediately arrange for a special review/scrutiny of the computation of their DTL/NDTL as well verification of the integrity of the software used by them for this purpose by internal or external auditors.

Based on the outcome of the scrutiny, wherever deficiencies are observed in the computation of DTL/NDTL, the concerned banks should advise the Reserve Bank of the details therof. Where no deficiencies are observed in the computation of DTL/NDTL, banks should forward to the Reserve Bank, a certificate signed by the internal/external auditors and their Chief Executive Officer stating that the DTL/NDTL is being worked out strictly in accordance with the instructions issued by the Reserve Bank from time to time. The certificate should be forwarded to the Reserve Bank within a period of one month from the date of these instructions.

During the course of inspection of some banks conducted recently by the Reserve Bank, certain deficiencies in the computation of DTL/NDTL for the purpose of maintaining CRR/SLR were observed as detailed below :

- Foreign lines of credit availed for funding pre-shipment credit in foreign currency (PCFC) were reckoned as "Liabilities to banking system in India" instead of as "Liabilities to Others" as indicated in the Reserve Bank's circular of October 1997.
- Items which are in the nature of outside liabilities were not properly segregated from the inter-branch account, thereby, understating outside liabilities.
- Call borrowings were not properly segregated into "Liabilities to Banking System" and "Liabilities to Others".
- Liabilities under drafts/interest/dividend warrants payable at correspondent banks were incorrectly reckoned in head office account resulting in understatement of outside liabilities.

Further,during the course of the Reserve Bank's inspection, the in-house software being used by some of the banks for arriving at NDTL was found to be deficient, inasmuch, as it was not ensured that all the items which are in the nature of outside liabilities are reckoned for the purpose of DTL/NDTL.

Personal Accident Insurance for KCC holders

With a view to providing personal accident insurance coverage to Kisan Credit Card (KCC) holders, on an ongoing basis, General Insurers' (Public Sector) Association of India (GIPSA) has, as an interim measure, agreed to renew the Master Policy for a period of one year on the existing terms/rates and conditions.

Banks have, therefore, been advised to initiate action to get the Master Policy under the Personal Accident Insurance Scheme (PAIS) renewed for a period of one year, on the existing terms and conditions. The Scheme would continue to be serviced by the designated General Insurance Company on a zonal basis, as per the existing arrangements. Banks have also been advised to make all possible efforts to cover all the KCC holders under the Scheme. For this purpose, banks may give wide publicity to PAIS during their KCC campaign.

Clarifications given by GIPSA on certain operational problems/ issues concerning PAIS are indicated below -

Delay in settlement of claims

In case claims are not settled within 30 days, interest at the rate of 2 per cent per annum over and above the Bank Rate would be paid to the beneficiaries/nominees.

Denial of claims

The Scheme covers KCC holders against death or permanent disability resulting from accidents caused by external, violent and visible means and occurring within the geographical jurisdiction of India. Accidental death/ permanent disability (provided it does not occur on account of the insured committing any breach of law), including death arising due to snake bite, murder (except murder on account of provocation by the deceased based on circumstantial evidence) are covered. In case of non-settlement of claims in such cases or on the grounds that the accident did not occur in the rural area, GIPSA would reopen/reconsider genuine/deserving cases, depending on facts of each case.

Age criteria/age proof

If there are specific instances of insurance companies having prescribed different age criteria for coverage under PAIS (as against 70 years under the Scheme), the anomalies would be corrected by GIPSA. The prescribed outer age limit is applicable only at the time of entry to the Scheme and not at the time of accident.

As age proof is an essential document for claim settlement, banks should collect the age proof at the time of issuance of KCC. Ration card is an acceptable age proof.

It may be recalled that in July 2001 the PAIS was introduced for KCC holders and all scheduled commercial banks were advised to adopt it. The Master Policy under the Scheme which was valid for a period of three years has now fallen due for renewal.

Frauds in Non-Resident Accounts

The Reserve Bank has advised banks that in order to facilitate legitimate transactions and to reduce the possibility of frauds while sanctioning loans against non-resident Indian (NRI) deposits, they may follow the following procedure :

The application for loan against NRI deposits should be forwarded through a bank branch situated in the country where the NRI deposit holder resides. It would be preferable if such requests are routed through the bank branch at which the concerned NRI is maintaining the accounts since this would presuppose due diligence/compliance with Know Your Customer norms by that branch. A copy of the NRI's passport should also be called for along with the application.

Repayment of Rural Housing Loans

The Reserve Bank has advised banks that while fixing the repayment schedule of rural housing advances granted to agriculturists under the Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, they may ensure that the interest/ instalment payable on such advances are linked to crop cycles.

FOREX

Exports to Latin American Countries

It has been decided to discontinue the facility for realisation and repatriation of full value of goods/software exported to Latin American countries within a period of 360 days from the date of shipment. The facility has been discontinued from September 1, 2004.

Accordingly, exporters exporting to the Latin American countries or after September 1, 2004, would be under obligation to realise full export proceeds within the prescribed period of six months from the date of export.

The facility of 360 days for export realisation would, however, continue to be available for exports made to Latin American countries by status holder exporters and manufacturer exporters/ merchant exporters/traders of certain products and having export contracts of Rs.100 crore (Rs.1000 million) and above.

Sri Lankan Citizens Permitted to Invest in Indian Companies

The Government of India has lifted the restriction imposed on Sri Lankan citizens of investing in Indian companies. Accordingly, citizens of Sri Lanka would henceforth be eligible to purchase shares or convertible debentures of an Indian company under Foreign Direct Investment scheme subject to specified terms and conditions.

UCBs

RBI relaxes Loan Impairment Norms for UCBs

The Reserve Bank had advised urban co-operative banks (UCBs) to apply the 90 day impairment norm to gold loans and small loans up to Rupees one lakh with effect from the financial year ending March 31, 2005 for the purpose of asset classification, income recognition and provisioning.

Taking into consideration representations received from UCBs, it has been decided that these loans would be governed by the 90 day impairment norm from the financial year ending March 31, 2007. Till then, these loans would be governed by the 180 day norm as hitherto.

AGRICULTURE INFRASTRUCTURE AND CREDIT FUNDS DISCONTINUED

The setting up of the Agriculture Infrastructure and Credit Funds (AICFs) was announced by the Government in January 2004 and the fund was operationalised by the National Bank for Agriculture and Rural Development (NABARD) on February 17, 2004. With the operationalisation of AICF, the Rural Infrastructure Development Funds (RIDF) was closed. The objective of setting up of the funds was to increase investment in agriculture and allied activities. Many of the activities originally covered under RIDF retained in the new funds and additional activities were also added. However, in the light of representations received from Chief Ministers of various states, government reviewed the matter and revived RIDF with some modifications in the activities to be covered and AICF was discontinued on July 8, 2004. RIDF-X has since been operationalised for the year 2004-05 with the corpus of Rs. 8000 crore. Funds from RIDF will continue to be provided for projects relating to Rural Infrastructure Development in various states.

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INFORMATION

90-Day Norm for Identification of NPAs

With a view to moving towards international best practices and to ensure greater transparency, the Reserve Bank has introduced 90 days overdue norm for identification of non-performing assets (NPAs) from March 31, 2004. Accordingly, with effect from March 31, 2004, NPAs would be a loan or an advance where -

(a) Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.

(b) The account remains out of order in respect of an overdraft/ cash credit.

(c) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

(d) Interest and/or instalment of principal remain overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.

(e) Any amount to be received remains overdue for a period of more than 90 days inrespect of other accounts.

Source : Parliament Questions

One Time Settlement Scheme

On January 29, 2003 the Reserve Bank issued revised guidelines for compromise settlement of chronic non-performing assets (NPAs) of public sector banks. These guidelines cover all NPAs in all sectors irrespective of the nature of business which have become doubtful or loss assets on March 31, 2000 with outstanding balance of Rs. 10 crore and below. This one time settlement scheme (OTS) was later extended up to July 31, 2004 for submission of applications and up to October 31, 2004 for processing of applications. The main features of the OTS are indicated below.

- The Scheme covers NPA accounts classified as doubtful asset as on March 31, 2000 and or NPA accounts classified as sub-standard as on March 31, 2000, which became doubtful or loss subsequently.
- The time period for receipt of applications under the scheme was extended up to July 31, 2004. The date of processing the applications was also extended up to October 31, 2004.
- The guidelines of the Scheme cover all sectors irrespective of the nature of business.
- The guidelines of the Scheme are non-discriminatory and non-discretionary.
- The Scheme covers cases on which banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before courts/debt recovery tribunals/ Board for Financial Reconstruction, subject to consent decree being obtained from them.
- The settlement formula for doubtful assets as on March 31, 2000 is 100 per cent of the outstanding balance as on date when the account was categorised as protested advances or classified as doubtful asset, whichever is earlier.
- The settlement formula for sub-standard assets as on March 31, 2000 is 100 per cent of the outstanding balance as on date when the account was categorised as protested advance or classifies as doubtful asset, whichever is earlier plus interest at the rate prime lending rate from April 1, 2000 till the date of final payment.
- Any deviation from the scheme would require the Board of Directors approval.

Source : Parliament Questions

NPAs of Private SectorBanks (Indian) as on March 31, 2004

(Rupees in crore)

BANK'S NAME	GROSS NPA
Old Private Banks	
Bank of Rajasthan Ltd.	237.32
Bharat Overseas Bank Ltd.	71.00
Catholic Syrian Bank Ltd.	175.24
City Union Bank Ltd.	167.42
Development Credit Bank Ltd.	211.61
Dhanalakshmi Bank Ltd.	136.55
Federal Bank Ltd.	600.75
Ganesh Bank of Kurundwad	30.29
Jammu & Kashmir Bank Ltd.	286.51
Karnataka Bank Ltd.	598.47
Karur Vysya Bank Ltd.	239.23
Lakshmi Vilas Bank Ltd.	216.83
Lord Krishna Bank Ltd.	95.29
Nainital Bank Ltd.	9.65
Ratnakar Bank Ltd.	38.84
Sangli Bank Ltd.	80.66
SBI Commercial & International Bank Ltd.	69.25
South Indian Bank Ltd.	328.25
Tamilnad Mercantile Bank Ltd.	319.38
United Western Bank Ltd.	516.34
ING Vysya Bank Ltd.	186.60
Total	**4615.48**
New Private Banks	
Bank of Punjab Ltd.	148.30
Centurion Bank Ltd.	221.41
Global Trust Bank*	1021.02
HDFC Bank	324.00
ICICI Bank	3047.59
IDBI Bank Ltd.	127.53
IndusInd Bank Ltd.	259.36
Kotak Mahindra Bank Ltd.	19.96
UTI Bank Ltd.	274.72
Total	5443.89
Total Private Sector Banks	**10059.37**

* Since amalgamated with the Oriental Bank of Commerce.

Source : Parliament Questions.

For NPAs for Public Sector Banks, please see August 2004 issue of the Credit Information Review.

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