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MONETARY AND CREDIT INFORMATION REVIEW

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POLICY

KCC Scheme Revised

The National Bank for Agriculture and Rural Development (NABARD) has revised the Model Kisan Credit Card (KCC) Scheme to include investment credit requirements of farmers, viz., allied and non-farm activities. The Scheme would be referred to as the 'Scheme to cover term loans for agriculture and allied activities under Kisan Credit Card Scheme'. The Scheme aims at providing adequate and timely credit for the comprehensive credit requirements of farmers under single window, with flexible and simplified procedure, adopting whole farm approach, including the short-term credit needs and a reasonable component for consumption needs, through KCC.

Implementing Banks

The Scheme would be implemented by all commercial banks, regional rural banks (RRBs), state co-operative banks/district central co-operative banks (DCCBs)/primary agricultural credit societies (PACS) and scheduled primary co-operative banks.

Nature of Financial Accommodation

The credit facility extended under the Scheme would be in the nature of term loan and revolving cash credit for agriculture and allied activities.

Quantum

- The Scheme would cover term credit as also working capital for agriculture and allied activities, in addition to short term credit limit presently available for crops. Banks may fix the quantum of credit for term and working capital limit for agricultural and allied activities etc., based on the unit cost of the asset/s proposed to be acquired by the farmer, the allied activities already being undertaken on the farm, the bank's judgement on his repayment capacity *vis-a-vis* total loan burden devolving on the farmer, including his existing loan obligations.

- The initial investment in fixed assets and/or working capital requirement/recurring expenditure of the borrower may be taken as the basis for fixing the limit. The working capital/recurring expenditure limit may be in the form of a revolving cash credit. Banks may, at their discretion, build in a component of consumption credit, keeping in view family labour, while fixing the overall ceiling amount that could be drawn under the KCC. The total limit would have a relationship with the projected net earning and the repayment capacity of the borrower.

"Over the years, the coverage of the Credit Information Review (CIR) has expanded from credit alone to regulations on banking, supervision, finance and foreign exchange matters. It was, therefore, felt appropriate to change the title of the publication. From this issue the title of the CIR has been changed to "Monetary and Credit Information Review".

Facilities through single KCC

Both the term as well as short term/working capital credit facilities should be provided through a single KCC. The passbook currently provided to KCC holders should be divided into three separate portions for maintaining the records of -

(i) short term credit/crop loans,
(ii) working capital credit for activities allied to agriculture, and
(iii) term credit.

Banks should, however, ensure that transaction records of different loan facilities are kept distinct.

Credit Flexibility

Borrowers would be eligible to avail of any or all credit facilities given under KCC, as per their requirement. Banks may allow the card holder to utilise the term credit limit for acquiring one or more assets at his convenience. Similarly, KCC holder should also be given flexibility to utilise the term credit limit in one or more instalments as per asset acquirement plan/phasing of the scheme. Banks should monitor proper end-use of credit.

Security/Margin/Rate of Interest/Prudential Norms

Security, margin, rate of interest and prudential norms would be applicable as per the Reserve Bank's/NABARD's stipulations. Banks should further ensure that -

(i) impairment of any loan facility is automatically detected;

(ii) withdrawal under different loan facilities is automatically stopped even if any one of the loan facilities is impaired; and

(iii) proper system is in place to avoid misuse/mix-up of any one/different facilities to take advantage in terms of security, margin, rate of interest and applicable prudential norms.

Repayment

Short term credit/crop loans as well as working capital for agriculture and allied activities would continue to be provided as revolving cash credit limit, repayable in 12 months. The term loan component would be repayable within a maximum period of 5 years, depending on the type of activity/investment.

Renewal of Limits

On satisfactory operations of the working capital credit limit for agriculture and allied activities, banks may enhance the limit, if necessary, at the time of renewal, keeping in view the increase in costs and additional activities, if any, undertaken by the borrower. Similarly, banks may also sanction additional term credit limit to the borrower, at the time of annual review/renewal of credit limits under the card. Present guidelines for the crop loan component remain unchanged.

Validity of KCC

Coinciding with the introduction of term loan facility under KCC, the validity of the KCC should be extended from 3 years as at present to 5 years.

Refinance

- NABARD refinance for short term credit would be made available to cooperative banks and RRBs covering the working capital component included in KCC.

- NABARD refinance for term loan component would be available to cooperative banks, RRBs, commercial banks and scheduled primary cooperative banks, as per the terms and conditions applicable to investment credit window under automatic refinance (ARF) scheme.
- NABARD refinance would, however, not be available for consumption credit component.

Guidelines on Issue of Subordinated Debt Instruments

The Reserve Bank has finalised the guidelines relating to issue of subordinated debt Instruments under Tier II and Tier III capital for primary dealers (PDs). The guidelines which have come into force with immediate effect, are -

(i) The PD's board of directors may decide the amount of subordinated debt to be raised.

(ii) The interest rate spread of the instrument over the yield of equal residual maturity of the Government of India dated security at the time of issue should not exceed 200 bps. (iii) The instruments should be 'plain vanilla' with no special features like options, etc.

(iv) The debt securities should carry a credit rating from a credit rating agency registered with the Securities and Exchange Board of India (SEBI).

(v) The issue of subordinated debt instruments should comply with SEBI's guidelines of September, 2003 as amended from time to time, wherever applicable.

(vi) In case of issue of unlisted issues of subordinated debt, the disclosure requirements as prescribed by SEBI for listed companies should be complied with.

(vii) Necessary permission from the Reserve Bank's Foreign Exchange Department should be obtained for issuing the instruments to non-resident Indians (NRIs)/foreign institutional investors (FIIs). PDs should comply with the terms and conditions, if any, prescribed by SEBI/other regulatory authorities in this regard.

(viii) Investments by PDs in subordinated debt of other PDs/ banks would be assigned 100 per cent risk weight for capital adequacy purpose. PD's aggregate investments in Tier II and III bonds issued by other PDs, banks and financial institutions should be restricted up to 5 per cent of the investing PD's total capital. The capital for this purpose would be the same as that reckoned for the purpose of capital adequacy.

(ix) PDs should submit a report to the Reserve Bank's Internal Debt Management Department giving details of the capital raised, such as, amount raised, maturity of the instrument, rate of interest.

CIR on CD

All the 300 issues of the Credit Information Review are now available in the form of a compact disk. Those, who wish to obtain a copy free of cost, may kindly write to the Editor, Monetary and Credit Information Review, Reserve Bank of India, Press Relations Division, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001. Please note that the CD will be delivered within a period of 3-4 weeks.

NBFCs

Premature Repayment of Deposits by NBFCs

The Reserve Bank has reviewd the provisions regarding premature repayment of public deposits/deposits accepted by non-banking financial companies (NBFCs), miscellaneous non-banking companies (MNBCs) and residuary non-banking companies (RNBCs). The revised provisions are -

Prepayment of Deposits

For the purpose of permission to prepay deposits, it has been decided, in consultation with the Informal Advisory Group on NBFCs, to stratify NBFCs, MNBCs and RNBCs into two categories viz., (i) problem NBFCs, MNBCs and RNBCs and (ii) normally run companies.

Problem Companies

Problem companies are prohibited from making premature repayment of any deposits (public deposits in case of NBFCs) or granting any loan against public deposits/deposits. Existing contracts conferring the right for premature withdrawal on the depositor would, however, remain unchanged. Where the depositor does not have such a right or where the problem company has reserved the right to agree to the depositor's request for prepayment, such company should not effect any premature repayment. This prohibition shall not, however, apply in the following cases :

(i) Death of the depositor - In the event of death of the depositor, the public deposit or deposit may be repaid prematurely, even within the lock- in period, to the surviving depositor/s in the case of joint holding with survivor clause, or to the nominee or the legal heir/s of the deceased depositor. This facility should be allowed on the request of the joint holders with survivor clause/nominee/legal heir only against submission of relevant proof, to the satisfaction of the company.

(ii) Tiny and other deposits - The problem company may, after the minimum lock-in period, pay, in entirety, at the request of the depositor, the principal sum of deposits or grant loan against tiny deposits up to Rs.10,000. In order to avoid any discrimination in allowing premature payment of other deposits, the deposits above Rs.10,000 may also be prepaid (or loan to that extent granted thereagainst) at the request of the sole/first named depositor for meeting expenses of an emergent nature, subject to the satisfaction of the circumstances. The amount of prepayment should, however, not exceed Rs.10,000 in any case. In the case of deposits above Rs.10,000, the remaining amount and interest on the deposit should be paid only after maturity.

Normally run Companies

The facility of premature repayment, after the lock-in period, of public deposits by NBFCs (deposits in case of RNBCs/MNBCs) would, henceforth, be at the sole discretion of the company and cannot be claimed as a matter of right by the depositors. The existing contracts conferring the right for premature withdrawal on the depositor, would, however, remain unchanged. In the event of death of a depositor, the company may, even within the lock-in period, repay the deposit at the request of the joint holders with survivor clause/nominee/legal heir only against submission of relevant proof.

Clubbing of Deposit Accounts

All deposit accounts standing to the credit of sole/first named depositor in the same capacity should be clubbed and treated as one deposit account for the purpose of premature repayment.

Rate of Interest for Premature Withdrawal

Where a company, at the request of the depositor or at its sole discretion repays a deposit/public deposit before its maturity (including in the case of death of the depositor), it should pay interest at the rates indicated in the box below.

Maturity Notice

The companies should intimate their depositors at least two months before maturity of their deposits/public deposits, so as to ensure that matured deposits do not remain unclaimed.

Rate of Interest payable by NBFCs/ MNBCs for Premature Withdrawal of Deposits

Time Period	**Rate of Interest**
Up to 3 months (lock-in period)	No repayment (not applicable in case of repayment in the event of death of the depositor)
After 3 months but before 6 months	No interest
After 6 months but before the date of maturity	The interest payable shall be 2 per cent lower than the interest

	rate applicable to a public deposit/deposit for the period for which the public deposit/deposit has run. If no rate has been specified for that period, then 3 per cent lower than the minimum rate at which public deposits/ deposits are accepted by the NBFCs/RNBCs

Rate of Interest payable by RNBCs for Premature Withdrawal of Deposits

Time Period	Rate of Interest
Up to 12 months from the date of deposit (lock-in-period)	No repayment (not applicable in case of repayment in the event of death of the depositor)
After the expiry of 12 months but before the date of maturity	The interest payable shall be 2 per cent lower than the interest rate applicable to a deposit for the period for which the deposit has run. If no rate has been specified for that period, then 3 per cent lower than the minimum rate at which deposits are accepted by the RNBC.

INFORMATION

Anywhere Anytime Banking

The Centralised Core Banking Solution (CBS) is an Inter-branch networking and data sharing platform which makes 'Anytime' and 'Anywhere' banking a reality. With the implementation of CBS, the customers' status changes from 'branch customers' to 'bank customers". It is immaterial with which branch of the bank the customer deals with, when he is a CBS branch customer, all the banking facilities are extended through multiple braches connected under CBS. The customer can walk into any of the CBS branches (need not necessarily be his own branch) for his banking needs such as cash deposit, cash withdrawal, cheque deposit, transfer of funds, etc.

With the implementation of CBS, customers can put through the following transactions from any of the CBS branches -

- Cash can be deposited in any of the CBS branches and the same will be instantly credited to the customer's account with any of the CBS branches.
- Clearing cheques can be deposited at any of the CBS branches and the amount will be collected and credited to the customer's account maintained with any of the CBS branches.
- Customers can present the cheque at any of the CBS branches and can make cash withdrawal from their account with any of the CBS branches.
- Cheques drawn on any of the CBS branches will be treated as the cheques drawn on the same branch. Thus even outstation cheques drawn on any of the CBS branches can be instantly cleared and credited to the customer's account maintained with any of the CBS branches.

- A customer need not remit funds by demand draft/telegraphic transfer if the other party is also having account with any of the CBS branches – located anywhere in India. In other words, the customer can transfer funds from his account to any account (own account or third party) with another CBS branch.

Core banking solution also enables banks to launch electronic delivery channels like automated teller machines (ATMs) and telephone banking. A customer's banking needs can be sourced without him having to physically visit any of the branches – some times right at his business place, residence, market or even while traveling. This is an extended feature of "Anywhere Banking". This facility is available on 24X7 basis i.e., on all the days throughout the year.

The ATM and telephone banking channels can offer the following facilities -

- Balance inquiry
- Cheque status enquiry
- Request for a cheque book
- Request for an electronic statement
- Stop payment instructions
- Online cash withdrawal (through ATMs only)
- Online transfer of funds

Core banking solution has not only changed the way people used to bank in the past but has also opened avenues for delivery of variety of services and channels which are going to lead to customer delight. The internet banking facility with both retail and corporate modules provide a huge data store and transaction facilities to the customers of core banking branches of a bank. Internet banking product of a bank is capable of offering the below mentioned facilities to its customers in addition to those mentioned above -

- Bill payment both online and scheduled
- Third party fund transfers
- Trade finance information
- Limit related information
- Bulk upload of transactions
- Mails and requests

Next Issue: Details on Delivery Channels.

Senior Citizens' Savings Scheme, 2004

The Government of India has decided to operate the Senior Citizens' Savings Scheme through the branches of public sector banks which are operating Public Provident Fund Scheme, 1968. Banks have been advised to operate the scheme not later than November 1, 2004.

Tenure	5 years, which can be extended by 3 more years
Interest rate	9 per cent per annum
Frequency of computing interest	Quarterly
Tax	Interest is fully taxable
Investment to be in multiples of	Rs.1,000
Maximum investment limit	Rs.15 lakh
Minimum eligible age	60 years (55 years for those who have retired under a voluntary or a special voluntary scheme)
Premature withdrawals	Available after 1 year of holding but with penalty
Transferability	Not available

Tradability	Not available
Nomination facility	Available
Mode of holding	Generally single. Joint mode is permitted but only spouses will be allowed to open accounts jointly with beneficiaries.
Applications forms	Available at post offices and designated branches of public sector banks

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