

## MONETARY AND CREDIT INFORMATION REVIEW

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### BANKING

#### **Banks advised to activate Relief Measures in J & K**

The Reserve Bank of India has advised banks to liberally extend the relief package to the State of Jammu & Kashmir, which has been hit by an earthquake leading to destruction of life and property. Banks have also been advised to provide financial assistance for the purpose of repairs/reconstruction of dwelling units, etc., damaged on account of the earthquake.

In addition to these measures, banks have also been advised to increase the limit of consumption loan to be provided to the affected persons in the state up to Rs. 5,000 without any collateral. The limit may be enhanced to Rs. 10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower. Further, banks have been asked to expeditiously restore banking services in the affected areas.

The Reserve Bank has directed bank branches to initiate the package of measures immediately in terms of its standing guidelines on relief measures in areas affected by natural calamities and to provide financial assistance to the agriculturists, small scale industrial units, artisans, small businesses and trading establishments affected by the calamity. The measures include consumption loans to persons affected by calamities for sustenance, waiver of margin requirements or considering as margin the grants, subsidies provided by state governments, provision of credit not only to existing borrowers but also to other eligible persons as also conversion and rescheduling/ restructuring of existing loans. The package also includes providing term loans to affected persons for developmental purposes. Further, banks while using their discretion on charging of interest are required to view such cases sympathetically and consider waiving of penal interest to be charged for default of current dues and deferment of compounding of interest.

The Reserve Bank has asked the convenor bank for the State of Jammu & Kashmir to consider and recommend any special measures that may be required in the affected areas in addition to the Reserve Bank's relief package. The Reserve Bank has also advised the National Housing Bank (NHB) to consider provision of financial assistance for the purpose of construction/ repairs of dwelling units, etc., damaged by the earthquake.

#### **Banks advised to improve Performance under SGSY**

The Reserve Bank of India has advised all scheduled commercial banks to implement the recommendations of the central level coordination committee (CLCC) under the swarnjayanti gram swarozgar yojana (SGSY). As per the recommendations, banks should -

- i) Review the delegation of powers granted to branch managers so as to enable them to sanction all SGSY applications without making any reference to higher authorities.
- ii) Ensure that all pending applications at the end of the year are brought forward and disposed off in the first quarter of the succeeding year.
- iii) Explore the possibility of utilising micro-finance institutions for bridging the credit gap.
- iv) Take appropriate action to achieve the desired credit to subsidy ratio of 1:3.
- v) Furnish a status report to Ministry of Rural Development on the under-performance of their branches in lending under the scheme during the last two years.
- vi) Maintain separate record for recovery data in respect of SGSY distinct from Integrated Rural Development Programme (IRDP).

Banks have also been advised to utilise the non-public business working day to attend to the problems of swarozgaris under SGSY. Since SGSY is a major poverty alleviation and employment generation programme being implemented in rural areas of the country, banks have been advised to show keen interest in achieving the targets fixed under the scheme and to make earnest efforts to increase the credit flow under the scheme.

## **CUSTOMER SERVICE**

### **Electronic Clearing Service**

The Reserve Bank has advised all banks participating in electronic clearing services (ECS) to instruct their branches to provide details of ECS credits to the customers, in their pass book/account statement. In the ECS report (paper as well as electronic), a short abbreviation of the user name is provided to banks to facilitate provision of details in the account statements. Banks should appropriately capture and utilise this abbreviation. Banks have also been advised to adopt appropriate technology solutions in this regard.

Banks have also been advised to adopt a similar approach for capturing the sender/remittance details for other electronic payment products like electronic fund transfer (EFT), special electronic fund transfer (SEFT) and real time gross settlement (RTGS).

The Reserve Bank had been receiving complaints from bank customers that details provided by banks in the pass book/statement of accounts for ECS entries are not complete and in the absence of details, reconciliation of transactions becomes difficult. It may be recalled that the Tarapore Committee on Procedures and Performance Audit of Public Services (CPPAPS) had emphasised the need for providing full details of transactions in bank statements.

## **NBFCs**

### **Apply KYC Norms to Brokers/Agents**

The Reserve Bank has advised non-banking finance companies (NBFCs) that the 'know your customer' (KYC) guidelines are also applicable to persons authorised by them, including brokers/agents etc., to collect public deposits on their behalf. As such, it would be the sole responsibility of NBFCs to ensure that the brokers/agents appointed by them to collect deposits on their behalf also fully comply with the KYC guidelines while collecting deposits for them.

NBFCs should make available all information to the Reserve Bank for verifying compliance with the KYC guidelines and should also accept full consequences of any violation by the persons authorised by them, including brokers/agents etc, operating on their behalf.

NBFCs have been further advised to put in place a process of due diligence in respect of persons authorised by them, including brokers/agents etc., for collecting deposits on their behalf, through a uniform policy for appointment and detailed verification. NBFCs should keep on record for verification, details of due diligence conducted by them. Compliance in this regard should be reported to the Reserve Bank by December 31, 2005.

NBFCs should also have systems in place to ensure that the books of accounts of persons authorised by them, including brokers/agents etc, are available for audit and inspection whenever required.

The Reserve Bank has further advised that all deposit receipts should bear the name and registered office address of the NBFC and must invariably indicate the names and addresses of the persons authorised, including brokers/agents, etc., who mobilised the deposit. The deposit receipt should also have other details, such as, the link office with the telephone number of such officer and/or persons authorised by NBFCs including brokers/ agents, etc. In other words, deposit receipts should have a clear indication of the identifiable contact with the field persons so that matters, such as, unclaimed/lapsed deposits, discontinued deposits, interest payments and other customer grievances can be appropriately addressed. NBFCs should also evolve suitable review procedures to identify, for taking suitable action, persons authorised by them, including brokers/agents, etc., in whose case the incidence of discontinued deposits is high.

## KNOW YOUR BANKNOTES

The Reserve Bank of India has introduced new banknotes with additional and new security features. The banknotes bearing the signature of Dr. Y.V. Reddy, Governor, are in the denominations of Rs 50, Rs 100, Rs 500 and Rs 1000.

### SECURITY FEATURES

#### Observe (Front) Side

**See through Register :** The floral design printed both on the front (hollow) and back (filled up) in the middle of the vertical band next to the watermark window has the denominational numeral. Half the numeral is printed on the obverse and half on the reverse. Both the printed portions have an accurate back to back registration so that the numeral appears as one when viewed against light.

**Identification Mark :** Each note has a different mark with intaglio print that helps the visually impaired to identify the denomination.

**Watermark :** The portrait of Mahatma Gandhi, the multi-directional lines with an electrolyte mark showing the denominational numeral appear in this section. These can be viewed better when the banknote is held against light.

**Omron Anti-photocopying Feature :** A banknote with this feature, when copied by a colour photocopier, gives an output with a different colour shade. The feature appears on either side of the legend Reserve Bank of India on the obverse and in the right margin on the reverse.

**Latent Image :** The vertical band contains a latent image showing the numeral denomination of the banknote when the banknote is held horizontally at eye level.

**Microlettering :** The letters, "RBI" and the numeral denomination of the banknote can be viewed with the help of a magnifying glass in the zone between the Mahatma Gandhi portrait and the vertical band.

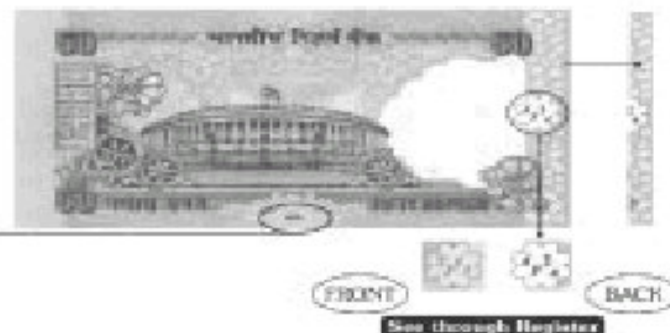
**Security Thread :** The security thread with inscriptions "भारत" and "RBI" is provided in all the four banknotes. The thread is visible as a continuous line from behind when held up against light.



**Intaglio Printing :** The portrait of Mahatma Gandhi, the Reserve Bank seal, guarantee and promise clause, Ashoka Pillar emblem on the left, RBI Governor's signature on the banknote and the identification mark for the visually impaired persons are printed in intaglio, i.e., in raised prints, which can be felt by touch.

#### Reverse (Back) Side

Year of printing appears on the reverse of the banknote



#### Other Security Features :

**Fluorescence :** Number panels of the banknotes are printed in fluorescent ink. The banknotes have optical fibres. Both can be seen when the banknotes are viewed under ultraviolet light.

**Paper :** Banknotes are printed on a special watermarked paper with substrate cotton and cotton rag. This gives the banknotes a unique "feel" and "crackling sound". The new series of banknotes have paper with increased grammage and caliper thickness.

## **FEMA**

### **Import of Aircraft on Operating Lease**

The Reserve Bank has advised authorised dealers (ADs) that they may permit airline companies (other than a public sector company or a department/undertaking of the Government of India/state government/s) to remit up to USD one million per aircraft towards security deposit (for payment of lease rentals) with lessor for import of aircraft/aircraft engine/helicopter on operating lease. Such remittance may be allowed without a standby letter of credit or a guarantee from a reputed international bank abroad or a guarantee of an AD in India against the counter-guarantee of a reputed international bank abroad, provided-

- (i) The AD is satisfied about the bona fides of the transaction.
- (ii) The airline company has obtained necessary approval from the appropriate authority like Ministry of Civil Aviation/ Director General of Civil Aviation, Government of India for importing the aircraft/helicopter on operating lease.
- (iii) The remittance is permitted as per the policy on advance remittances approved by the bank's board of directors or with their specific approval.
- (iv) The final maturity of the security deposit should not be beyond the date of the last instalment towards lease rental or date of return of the aircraft/helicopter to the lessor, whichever is later. If required, the deposit amount may be adjusted towards lease rentals. The balance security deposit, if any, should, however, be repatriated before expiry of the lease period.

In case an airline company in the public sector or a department/undertaking of the Government of India/state government/s, ADs may permit remittance of amount exceeding USD one hundred thousand per aircraft towards security deposit (for payment of lease rentals) with lessor, subject to the conditions indicated above and a specific waiver of bank guarantee from the Ministry of Finance, Government of India.

### **Right to Information Act, 2005**

The Government of India has enacted the Right to Information Act, 2005 (<http://www.persmin.nic.in>) which has come into effect from October 13, 2005. The Right to Information under this Act is meant to give to the citizens of India access to information under control of public authorities to promote transparency and accountability in these organisations. The Act, under Sections 8 and 9, provides for certain categories of information to be exempt from disclosure. The Act also provides for appointment of a Chief Public Information Officer to deal with requests for information.

### **RBI's Obligation under the Act**

The Reserve Bank of India is a public authority as defined in the Right to Information Act, 2005. As such, the Reserve Bank of India is obliged to provide information to members of public.

### **Seeking Information from RBI**

The Reserve Bank of India has an established communication policy. Under this, the Reserve Bank of India regularly releases information and data on Indian economy, banking and finance. It releases the information and data at regular periodicity – daily, weekly, monthly, quarterly, six monthly and annually. In addition, it also releases information, as and when required, through occasional publications, such as, studies and reports.

The Reserve Bank also places in public domain its instructions relating to banking, finance, foreign exchange and other related subjects. Further, the Reserve Bank also disseminates information, especially of general interest, through daily press releases. The information and data routinely released by the Reserve Bank are available on its website ([www.rbi.org.in](http://www.rbi.org.in))

The Reserve Bank of India has designated Shri V.S.Das as Chief Public Information Officer under the Right to Information Act, 2005. He can be contacted at –

The Chief Public Information Officer Right to Information Act Division,

Department of Administration and Personnel Management Reserve Bank of India, Central Office Building (19<sup>th</sup> Floor)  
Shahid Bhagat Singh Marg Mumbai – 400 001.

Other contact particulars are:

**Email :** cpiorbi@rbi.org.in or apiorbi@rbi.org.in

**Tel :** 022 - 2269 1550 (or) 022 - 2269 1490

**Fax :** 022 – 2265 8934 (or) 022 - 2226 0358

## **POLICY**

### **Guidance Note on Management of Operational Risk**

The Reserve Bank has issued the revised Guidance Note on Management of Operational Risk. Banks may use this Guidance Note for upgrading their risk management systems. The systems, procedures and tools prescribed in the Guidance Note for effective management of operational risk are indicative. The design of risk management framework should be oriented towards banks' own requirements dictated by the size and complexity of business, risk philosophy, market perception and the expected level of capital.

The exact approach for operational risk management chosen by banks will depend on a range of factors. Clear strategies and oversight by the board of directors and senior management, a strong operational risk management culture, effective internal control and reporting, contingency planning are crucial elements for an effective operational risk management framework. The Guidance Note is summarised below :

### **Definition**

Operational risk has been defined by the Basel Committee on Banking Supervision as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. The Basel Committee has identified the types of operational risk events which have the potential to result in substantial losses. These are internal fraud, external fraud, employment practices and workplace safety, clients/products/business practices, damage to physical assets, business disruption/system failures and execution/delivery/ process management.

### **Responsibility of Board of Directors/Senior Management**

The board of directors of a bank is primarily responsible for ensuring effective management of operational risks. The board would include committee of the board to which the board may delegate specific operational risk management responsibilities. The board of directors should be aware of the major aspects of the bank's operational risks as a distinct risk category that should be managed and it should approve an appropriate operational risk management framework for the bank and review it periodically. The board of directors should provide senior management with clear guidance and direction. The senior management should have the responsibility for implementing the operational risk management framework approved by the board of directors. The framework should be consistently implemented throughout the whole banking organisation and all levels of staff should understand their responsibilities with respect to operational risk management.

### **Policy Requirements and Strategic Approach**

Each bank must have policies and procedures that clearly describe the major elements of the operational risk management framework including identifying, assessing, monitoring and controlling/ mitigating operational risk. The operational risk management policies, processes, and procedures should be documented and communicated to the appropriate staff, i.e., the personnel at all levels in units that incur material operational risks.

### **Identification and Assessment**

Banks should identify and assess the operational risk inherent in all material products, activities, processes and systems. Banks should also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is identified clearly and subjected to adequate assessment procedures.

### **Organisational Set Up and Culture**

The board and senior management should create an enabling organisational culture placing high priority on effective operational risk management and adherence to sound operating procedures.

Both the board of directors and senior management are responsible for establishing a strong internal control culture in which control activities are an integral part of the regular activities of a bank, since such integration enables quick responses to changing conditions and avoids unnecessary costs.

### **Monitoring**

Banks should have policies, processes and procedures to control and/or mitigate material operational risks. Banks should periodically review their risk limitation and control strategies and should adjust their operational risk profile accordingly using appropriate strategies, in light of their overall risk appetite and profile.

### **Internal Audit**

Banks should have in place adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively. The board (either directly or indirectly through its audit committee) should ensure that the scope and frequency of the audit programme is appropriate to the risk exposures.

### **Capital Allocation**

The Basel Committee has put forward a framework consisting of three options for calculating operational risk capital charges in a 'continuum' of increasing sophistication and risk sensitivity. Despite the fact that banks may adopt any one of these options for computing capital charge, it is intended that they will benchmark their operational risk management systems with the guidance provided in this Note and aim to move towards more sophisticated approaches. *(For full text please visit [www.notifics.rbi.org.in](http://www.notifics.rbi.org.in))*

Edited and published by **Alpana Killawala** for the **Reserve Bank of India**, Press Relations Division, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001 and printed by her at **Onlooker Press Ltd.**, 16, Sassoon Dock, Colaba, Mumbai - 400 005. **For renewal and change of address please write to the Chief General Manager, Press Relations Division, Reserve Bank of India, Central Office Building, 12th floor, Fort, Mumbai - 400 001 without enclosing DD/cheque. MCIR is also available on Internet at [www.cir.rbi.org.in](http://www.cir.rbi.org.in)**