

## MONETARY AND CREDIT INFORMATION REVIEW

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### POLICY

#### Donations

The Reserve Bank has advised all scheduled commercial banks that henceforth, the policy relating to donations given by them to various entities should be formulated by their board of directors, keeping in view the general principles as indicated below :

(i) Profit making banks may make donations during a financial year aggregating up to one per cent of their published profit for the previous year. Contributions made in a financial year towards encouraging research and development in fields related to banking would be reckoned for computation of the one per cent ceiling.

(ii) Donations out of research and development funds should normally be made for setting up professional chairs, granting fellowships/scholarships for studies and research at universities and approved institutions and for commissioning special projects for investigation, analysis and research for areas pertaining to banking, finance, statistics, management and economics, etc.

(iii) Donations to Prime Minister 's National Relief Fund (procedure to be followed for remitting contributions/ donations to the fund is indicated in the box on page 2) and subscriptions/contributions to professional bodies/institutions related to the banking industry like Indian Banks' Association, National Institute of Bank Management, Indian Institute of Banking and Finance, Institute of Banking Personnel Selection and Foreign Exchange Dealers' Association of India should be excluded from the limit of up to one per cent of published profits.

(iv) Loss-making banks may make donations totalling Rs.5 lakh in a financial year including donations to exempted entities/ funds.

(v) Unutilised portion of the limit of one per cent should not be carried forward to the next year.

(vi) Banks should continue to submit annual review of donations to their board of directors.

## **OTS for Small Borrowal Accounts**

In order to offer small borrowers an opportunity to settle their non-performing asset (NPA) accounts with banks and become eligible for fresh finance, the Reserve Bank has advised all scheduled commercial banks (including regional rural banks and local area banks) to provide a simplified mechanism for onetime settlement (OTS) of loans where the principal amount is equal to or less than Rs.25,000 and which have become doubtful and loss assets as on September 30, 2005. Accordingly, banks should devise an appropriate scheme and initiate measures to implement it.

The Reserve Bank has further advised that -

- Borrowers whose accounts are settled under this mechanism will be fully eligible for fresh loans.
- The OTS would not, however, cover cases of fraud and malfeasance.
- For loans granted under government sponsored schemes, banks should frame separate guidelines following a state-specific approach to be evolved by the state level bankers' committee (SLBC).

## **GCC Scheme announced for Rural/Semi-Urban Areas**

The Reserve Bank has advised all scheduled commercial banks (including RRBs) to introduce a General Credit Card (GCC) Scheme to cover the general credit needs of their constituents in rural and semi-urban areas. Banks have been advised to issue GCCs based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card. The GCC may be issued in the form of a card or in the form of a pass book.

With a view to targeting women as beneficiaries of bank credit, they may be given preferential treatment under the GCC Scheme. For sourcing borrowers under the GCC scheme, banks may utilise the services of local post offices, schools, primary health centres, local government functionaries, farmers' associations/clubs, well-established community-based agencies and civil society organizations. The salient features of the GCC scheme are :

### **Objectives**

The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit. It would be in the nature of overdraft or cash-credit with no end-use stipulations.

### **Financial accommodation**

The credit facility extended under the scheme would be in the nature of revolving credit. The GCC holder would be entitled to draw cash from the specified branch of a bank up to the limit sanctioned.

### **Quantum**

Banks would have flexibility in fixing the limit based on the assessment of income and cash flow of the entire household. The total credit facility under GCC for an individual should, however, not exceed Rs.25,000. The limit may be periodically reviewed and revised/cancelled depending on the track record of the account holder.

### **Interest**

Interest rate on the facility should be charged, as considered appropriate and reasonable.

### **Flexibility in credit use**

Borrowers would be eligible to avail the credit facilities provided under GCC, as per their requirement, without any insistence on security and the purpose or end-use of the credit. It is not necessary that GCC should be linked to purchase.

### **Priority sector status**

Fifty per cent of the credit outstanding under GCC up to Rs.25,000 would be eligible for being treated as indirect agricultural finance. The eligibility criteria would be subject to review.

## **Procedure to be followed for remitting Contributions/Donations to the Prime Minister's National Relief Fund**

In consultation with the Prime Minister's Office (PMO) and the Indian Banks' Association, it has been decided that all the branches of commercial banks should receive donations/ contributions and nominate a nodal branch in New Delhi for collecting and remitting contributions to the Prime Minister's National Relief Fund (PMNRF). Twelve branches (please see

MCIR of January 2005 for the list) have been identified as designated branches, which maintain PMNRF account, to receive funds remitted by the nodal branches. Further instructions in this regard are -

(i) Each collecting branch should send the collection to its bank's nodal branch in New Delhi each day along with details of the donor, cheque/draft number, address and amount of contribution.

(ii) The nodal branches should in turn remit the funds to any of the 12 designated branches, which maintain the PMNRF account.

(iii) Banks which do not have any branch in New Delhi should collect the donations and remit through a single demand draft/electronic funds transfer to any of the 12 designated branches along with details of the donor, cheque/draft number, address and amount of contribution.

(iv) Banks offering such services may accept on-line remittance of donations. Banks should display acceptance of on-line donations prominently on their website.

(v) Banks should provide all these services free of charge.

(vi) Contribution to the PMNRF has been notified for 100 per cent deduction from taxable income under Section 80(G) of the Income-tax Act.

(vii) The official receipt would be issued to the donor by the PMO as per the current practice.

(viii) In order to facilitate smooth transmission of funds to the PMNRF Account, the Reserve Bank has nominated Regional Director, Reserve Bank of India, New Delhi as the coordinating officer who would be available for any clarification.

## **RRBs**

### **Special Package for RRBs**

In order to extend support to regional rural banks (RRBs) for accelerating flow of credit to their clientele, the Reserve Bank has decided to take measures as follows :

#### **Enhancing resource base**

In order to enlarge resources available for a variety of purposes, especially in the context of programme of financial inclusion, general credit card etc., it has been decided to provide additional sources of funds as under :

*Line of credit* : Sponsor banks should effectively use RRBs sponsored by them to increase flow of credit to rural areas. To supplement the resources of RRBs, sponsor banks should provide them lines of credit at a reasonable rate of interest.

*Access to inter-RRB term money/borrowings* : As there are no restrictions on RRBs' access to term money markets, it is clarified that within this framework, RRBs may borrow from/or place funds with other RRBs, including those sponsored by other banks, subject to counter-party credit risk policy and limits.

*Access to repo/CBLO markets* : RRBs may enter into ready forward transactions in government securities with subsidiary general ledger (SGL)/constituent subsidiary general ledger (CSGL) account holders, subject to the conditions specified by the Reserve Bank on May 11, 2005. Further, they may participate in collateralised borrowing and lending obligation (CBLO) market with the settlement undertaken through their gilt account. RRBs desirous of participating in repos/CBLO market may approach their sponsor banks for guidance. Sponsor banks, in turn, may actively facilitate such access and provide necessary training to RRB staff.

With a view to equipping RRBs' staff with necessary skill, the Reserve Bank and the National Bank for Agriculture and Rural Development (NABARD) would help in organising training programme/s for them in regulatory and operational aspects of the repo/CBLO market. Sponsor banks/RRBs interested in such training should get in touch with the Reserve Bank's respective regional office.

#### **Credit/debit cards and ATMs**

In collaboration with their sponsor banks or other banks, RRBs may issue credit cards/debit cards to their constituents.

In case any RRB wishes to set up an off-site automated teller machine (ATM) in its area of operation, it may do so after assessing the cost and benefit. Though the Reserve Bank's prior approval is not needed for opening such ATMs, RRBs should inform the Reserve Bank's respective regional office immediately after opening the ATM, in order to get a formal authorisation for the place of business.

## **Opening of currency chests**

Requests from RRBs for opening of currency chests would be considered by the Reserve Bank, on a case-by-case basis, taking into account their financial position, compliance with statutory liquidity ratio (SLR)/cash reserve ratio (CRR)/inspection findings, general position of management, grading, etc.

## **Forex business**

The Reserve Bank is in the process of reviewing the existing norms for conduct of various types of foreign exchange transactions by RRBs, with a view to allowing them to undertake non-trade related current account transactions pertaining to release of foreign exchange for certain specified purposes, such as, private visits, business travel, medical treatment, overseas education, visa fees, etc.

## **Pension/government business**

Banks authorised to handle government business are permitted to appoint sub-agents in terms of the agency agreements. Accordingly, RRBs desirous of handling pension and other government business as sub-agents may contact the concerned banks.

## **FOREX**

### **Anti-Money Laundering Guidelines for AMCs**

In view of the increased concerns regarding money laundering activities and to prevent authorised money changers (AMCs) from being misused for such activities, the Reserve Bank has advised all AMCs to formulate suitable policies and procedures in this regard. The Reserve Bank has issued detailed anti-money laundering guidelines for prevention of money laundering while undertaking money changing transactions. All AMCs have been advised to ensure that a proper policy framework on "know your customer" and anti money laundering measures, in accordance with these guidelines, is formulated with the approval of their board of directors and put in place before March 31, 2006.

The Reserve Bank has further advised that the AML guidelines would be applicable *mutatis mutandis* to all franchisees of AMCs and it would be the sole responsibility of the AMC concerned to ensure that their franchisees also adhere to the AML guidelines. The AML guidelines issued by the Reserve Bank are detailed below -

#### **Identification of customers**

All transactions should be undertaken only after proper identification of the customer. Photocopies of proof of identification should invariably be retained by the AMC after verifying the document in original. Full details of name and address as well as the details of the identity document provided should also be kept on record. If a transaction is being undertaken on behalf of another person, identification evidence of all the persons concerned should be obtained and kept on record.

#### **Purchase of foreign exchange**

- For encashment of foreign currency notes and/or travelers cheques up to USD 500 or its equivalent, production of passport need not be insisted upon and any other suitable document of identification like ration card, driving licence etc., may also be accepted.
- For verification of the identity of customer for encashment in excess of USD 500 or its equivalent, a photo identity document such as passport, driving licence, PAN card, voter identity card issued by the Election Commission, etc., should be obtained
- Requests for payment of sale proceeds in cash may be acceded to the extent of USD 1000 or its equivalent per transaction. All encashments within one month may be treated as single transaction for the purpose. In all other cases, AMCs should make payment by way of "account payee" cheque/demand draft only.
- Where the amount of forex tendered for encashment by a non-resident or a person returning from abroad exceeds the limits prescribed for currency declaration form (CDF), the AMC should invariably insist for production of declaration in CDF.

#### **Sale of foreign exchange**

In all cases of sale of foreign exchange, irrespective of the amount involved, the passport of the customer should be insisted upon for identification purpose. The sale of forex should be made only on personal application and identification.

Payment in excess of Rs. 50,000 towards sale of foreign exchange should be received only by account payee cheque/demand draft. All purchases by a person within one month should be treated as single transaction for the purpose. Encashment certificate, wherever required, should also be insisted upon.

### **Establishment of business relationship**

Relationship with a business entity like a company/firm should be established only after obtaining and verifying suitable documents in support of name, address and business activity, such as, certificate of incorporation under the Companies Act, 1956, MOA and AOA, registration certificate of a firm (if registered), partnership deed, etc. A list of employees who would be authorised to transact on behalf of the company/firm and documents of their identification together with their signatures, should also be called for.

### **Suspicious transactions**

The AMC must ensure that its staff is vigilant against money laundering transactions at all times. An important part of the AML measures is determining whether a transaction is suspicious or not. A transaction may be of suspicious nature irrespective of the amount involved. Some possible suspicious activity indicators are:

- Customer is reluctant to provide details/documents on frivolous grounds.
- The transaction is undertaken by one or more intermediaries to protect the identity of the beneficiary or hide their involvement.
- Large cash transactions.
- Size and frequency of transactions is high considering the normal business of the customer.
- Change in the pattern of business transacted.

### **Appointment of MLRO**

(a) Every AMC should appoint a MLRO for monitoring transactions and ensuring compliance with the AML guidelines issued by the Reserve Bank from time to time.

The MLRO would also be responsible for reporting suspicious transaction/s to the Financial Intelligence Unit (FIU). Any suspicious transaction/s, if undertaken, should have the MLRO's prior approval.

(b) The MLRO should have reasonable access to all the necessary information/documents which would help him in discharging his responsibilities effectively.

(c) The responsibility of the MLRO would include :

- Putting in place necessary controls for detection of suspicious transactions.
- Receiving disclosures related to suspicious transactions from the staff or otherwise.
- Deciding whether a transaction should be reported to the appropriate authorities.
- Training of staff and preparing detailed guidelines/ handbook for detection of suspicious transactions.
- Preparing annual reports on the adequacy or otherwise of systems and procedures in place to prevent money laundering and submit it to the top management within 3 months of the end of the financial year.

### **Reporting**

- To the extent possible, all suspicious transactions should be reported to the MLRO before they are undertaken.
- Full details of all suspicious transactions, whether put through or not, should be reported in writing to the MLRO.
- Any transaction which seems suspicious should be undertaken only with the MLRO's prior approval..
- If the MLRO is reasonably satisfied that the suspicious transaction has/may have resulted in money laundering, he should make a report to the appropriate authority viz., the FIU.

### **Staff Training**

All the managers and staff of the AMC should be trained to be aware of the policies and procedures relating to prevention of money laundering, provisions of the PMLA and the need to monitor all transactions to ensure that no suspicious activity is being undertaken under the guise of money changing. The steps to be taken when the staff come across any suspicious transactions (such as asking questions about the source of funds, checking the identification documents carefully, reporting immediately to the MLRO, etc.) should be carefully formulated by the AMC and suitable

procedure laid down. The AMCs should have an ongoing training programme for consistent implementation of the AML measures.

#### **Audit**

The concurrent auditor should check all transactions to verify that they have been done in compliance with the AML guidelines and have been reported as required. Compliance on the lapses, if any, recorded by the concurrent auditor should be put up to the board. A certificate from the statutory auditor on the compliance with AML guidelines should be obtained at the time of preparation of the annual report and kept on record.

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