MONETARY AND CREDIT INFORMATION REVIEW

Volume II
Issue 8
February 2006

CONTENTS

BANKING POLICY

Extension of Banking Services through Business Facilitators/Correspondents

With the objective of extending savings and loan facilities to the underprivileged and unbanked population, the Reserve Bank has advised banks to use the services of non-governmental organistions (NGOs)/self help groups (SHGs), micro finance institutions (MFIs) and other civil society organisations (CSOs) as intermediaries in providing financial and banking services. These intermediaries could act as business facilitators/correspondents.

Business Facilitators

Under the "business facilitator" model, banks may use intermediaries, such as, NGOs/farmers' clubs, cooperatives, community based organisations, information technology enabled rural outlets of corporate entities, post offices, insurance agents, well functioning panchayats, village knowledge centres, agri-clinics/agri-business centres, krishi vigyan kendras and Khadi Village Industries Commission (KVIC)/Khadi & Village Industries Board (KVIB) units, depending on the comfort level of the bank, for providing facilitation services. Such services may include (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submitting applications to banks; (v) promoting and nurturing SHGs/joint liability groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of SHGs/joint liability groups/credit groups/others; and (viii) follow-up for recovery.

As these services do not involve conduct of banking business, the Reserve Bank's prior approval is not required for using these intermediaries as business facilitators.

Business Correspondents

Under the "business correspondent" model, NGOs/MFIs set up under societies/trust acts, societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative

Societies Acts of States, section 25 companies, registered non-banking financial companies (NBFCs) not accepting public deposits and post offices may act as business correspondents. Banks should

conduct thorough due diligence on such entities before engaging them as business correspondents and should ensure that they are well established, enjoy good reputation and have the confidence of the local people. Banks should give wide publicity in the locality about the intermediary engaged by them as business correspondent and take measures to avoid being misrepresented.

In addition to the activities listed under the business facilitator model, the business correspondents would also have to undertake activities, such as, (i) disbursal of small value credit, (ii) recovery of principal/collection of interest, (iii) collection of small value deposits, (iv) sale of micro insurance/mutual fund products/pension products/other third party products and (v) receipt and delivery of small value remittances/other payment instruments.

Commission/Fees

Banks may pay reasonable commission/fee to the business facilitators/correspondents. The rate and quantum of the commission/fee should be reviewed periodically. The agreement with the business facilitators/correspondents should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

Other Terms/Conditions

(i) As the engagement of intermediaries as business facilitators/correspondents involves significant reputational, legal and operational risks, banks should give due consideration to those risks. They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner.

(ii) The arrangements with the business correspondents should specify suitable limits on cash holding by them as also limits on individual customer payments and receipts.

(iii) All transactions conducted by the business correspondents should be accounted for and reflected in the bank's books by the end of the day or the next working day.

(iv) All agreements/contracts with customers should clearly specify that the bank is responsible to the customer for acts of omission and commission of the business facilitator/ correspondent.

Grievance Redressal

Banks should constitute an internal grievance redressal machinery for redressing complaints about services rendered by business correspondents and facilitators and give wide publicity to it through electronic and print media. The name and contact number of the bank's designated grievance redressal officer should be made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly. Banks should place their grievance redressal procedure and the time frame fixed for responding to complaints on their website.

If a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the complaint, he would have the option to approach the office of the Banking Ombudsman concerned for redressal of his grievance/s.

Compliance with KYC Norms

Compliance with know your customer (KYC) norms would continue to be the responsibility of banks. Banks may, however, adopt a flexible approach within the parameters of the KYC guidelines issued from time to time. In addition to introduction by any person on whom KYC has been done, banks may also rely on certificates of identification issued by the intermediary being used as banking correspondent, block development officer, head of village panchayat, post master of the post office concerned or any other public functionary known to the bank.

Branch Authorisation Policy

The Reserve Bank has advised that in terms of the new branch authorisation policy, banks now need not approach its regional offices for “licence”. The revised procedure to be followed by banks regarding opening of branches is indicated below -

- Banks should submit proposals for opening all types of branches, including satellite offices, accompanied by Form VI, to the Reserve Bank. For opening off-site automated teller machines (ATMs), administrative/controlling offices, credit card centres and back offices/processing centres, Form VI need not be submitted. The Reserve Bank’s Department of Banking Operations and Development (DBOD), Central Office will issue a consolidated letter of authorisation/permission containing names of all the centres/ locations etc., where branches are proposed to be opened.
- On receiving the consolidated letter of authorisation/ permission, banks may proceed with opening of a “branch” which includes all types of offices and off-site ATMs at centres for which permission has been granted. No separate permission is required for an on-site ATM that is opened within a branch. After opening a branch, banks should immediately report its complete address and the date of opening to the Reserve Bank’s regional office.
- Banks should submit details of branches opened/closed/ shifted etc., on a quarterly basis, in Proforma I & II to the Reserve Bank’s Department of Statistical Analysis and Computer Services (DESACS) at Mumbai and the regional office. Banks should also submit returns in Proforma I & II, in respect of authorised dealer branches to DESACS and the regional office on an on-going basis.
- The authorisation granted would be valid for one year from the date of issue of the consolidated letter of authorisation/ permission. Banks should take necessary steps to open the branches within the stipulated time. In case a bank is not able to open a particular branch due to any genuine reason, it may approach the Reserve Bank’s regional office for extension of time not exceeding three months. In such cases, however, banks would be required to furnish complete address of the proposed branch and reasons for delay. At centres where a bank fails to open a branch within the validity period of one year (or the extended time of three months, as the case may be), the permission granted would automatically lapse and no further extension would be granted. In case the bank is still interested in opening a branch at that centre, it should include the same in the next annual plan.
- All specific proposals relating to opening, closing and shifting of all categories of branches, including off-site ATMs, are required to be included in Annex II, while submitting the annual plan to the Reserve Bank. It is clarified that the consolidated authorisation/permission letter would be issued only for opening new branches.

For shifting of existing branches, conversion from one type to the other and mergers, banks may follow the procedure indicated below :

Shifting of Branch

- Banks have been given the freedom to shift a branch to any location within the centre without seeking the Reserve Bank’s prior approval. Banks should, however, ensure that the new address is communicated to the Reserve Bank’s regional office after the branch starts functioning from the new address/location. No amendment in licence would be required in such cases. The Reserve Bank’s regional office will confirm in writing having taken on record the new address/location.
- Banks have also been given the freedom to shift a branch to any other centre within that state, subject to certain conditions. Banks should, however, ensure that before shifting an existing branch from one centre to another or from a centre allotted in the annual plan to another centre, an amendment letter is obtained from DBOD, CO. In case the bank was issued a licence for that branch in terms of the earlier policy, it may be got amended from the Reserve Bank’s regional office before shifting.

Conversion

Specialised Branch

Banks may convert a specialised branch into another category of specialised branch or a general banking branch at their discretion. Banks should, however, ensure that the details are advised to the Reserve Bank's regional office promptly after the conversion. No amendment in "licence" would be required. The Reserve Bank's regional office will confirm having taken on record the new nomenclature of the branch.

Extension Counter into a Full-fledged Branch

Banks have been given the freedom to convert their existing extension counters into full-fledged branches and re-locate them within that centre. While no permission from the Reserve Bank would be required for such conversion, banks should ensure that the respective licences of extension counters are submitted to the Reserve Bank's regional office for suitable amendments. The Reserve Bank's regional office will return the amended licence to the bank for its record.

Rural Branch into Satellite Office

Conversion of a rural branch into a satellite office is generally not favoured. In exceptional cases, however, proposals for conversion of rural branches into satellite offices should be submitted along with the annual plan after obtaining the approval of the district consultative committee (DCC). After receiving approval from DBOD, CO, licence if any, should be surrendered to the Reserve Bank's regional office for suitable amendment.

Merger of Rural Branch

Proposals for merger of rural branches should be submitted along with the annual plan after obtaining the DCC's approval. If the proposal is approved by the Reserve Bank, the date of merger should be reported to the regional office and the licence of the branch should be surrendered for cancellation.

In addition to the approvals given under the annual plan, banks may approach the Reserve Bank for any urgent proposals regarding opening of branches, especially in rural/underbanked areas, anytime during the year.

Export Credit Scheme Reviewed

Pursuant to the recommendations of the Working Group to review Export Credit, which was constituted to review the various aspects of the functioning of the export credit scheme, the Reserve Bank has advised all scheduled commercial banks as under -

Review of existing procedure for Export Credit

(i) Banks may take suitable steps to bring about an attitudinal change in their officials' approach while dealing with small and medium exporters.

(ii) Banks should put in place a control and reporting mechanism to ensure that applications for export credit,
especially from small and medium exporters, are disposed off within the prescribed time frame. The internal/concurrent audit in banks should comment on whether or not the prescribed time frame for disposal of export credit applications is being adhered to by banks. The regional managers of banks should also look into this aspect during branch visits.

(iii) While processing applications for export credit, banks should raise all queries in one go and should avoid piecemeal queries in order to avoid delays in sanctioning credit.

(iv) Small and medium exporters, especially in upcountry centres, should be imparted training by small scale industries (SSIs)/export organisations with technical assistance from banks in areas, such as, correctly filling up forms, furnishing all required information to banks, etc., to avoid delay. Banks should take the lead in getting such training sessions organised by SSIs/export organisations in their areas of operation.

(v) The Indian Banks' Association (IBA) has been advised to devise a simplified loan application form in consultation with the Federation of Indian Export Organisations (FIEO) and other export promotion agencies. The application form devised by IBA should serve as a model for all banks.

(vi) Banks may evolve guidelines so that as far as possible collateral security is not insisted upon.

(vii) State level export promotion committees (SLEPCs) which have been reconstituted as sub-committees of the state level bankers' committees (SLBCs) should play a greater role in promoting coordination between banks and exporters, in the respective states. Export promotion organisations should take initiative in coordinating the meetings. Convenor banks of SLEPCs should take suitable action in this regard.

Gold Card Scheme

(i) Since the number of gold cards issued by banks is low, banks have been advised to speed up the process of issuing cards to all eligible exporters especially to SME exporters and ensure that the process is completed within a period of three months. Banks should confirm compliance of these directions to the Reserve Bank's DBOD, CO, specifying the total number of gold cards issued by them and the number of gold cards issued to small and medium exporters, export oriented units and units in special economic zones. This information may be furnished within 15 days from the date of expiry of the 3 months period.

(ii) The simplified procedure for issue of gold cards as envisaged under the scheme should be implemented by all banks. IBA has been requested to devise a simplified format of application, which should be adopted by banks. Information/particulars already available with banks may not be called for from the exporters.

(iii) Banks should consider implementing the instructions mentioned in the gold card scheme regarding exemption of all deserving gold card holder exporters from the packing credit guarantee - sectoral schemes of the Export Credit Guarantee Corporation of India Ltd. (ECGC) on the basis of their track record.

Export Credit for Non-Star Exporters

Banks should post nodal officers at regional/zonal offices and major branches having substantial export credit for attending to the credit related problems of SME exporters.

Other Issues

(i) The interest rates prescribed by the Reserve Bank are ceiling rates. Since banks are at liberty to charge lesser rates of interest, taking into account the cost of funds, margin requirements, risk perception etc., banks should consider extending export credit at rates lesser than the ceiling rates prescribed by the Reserve Bank.

(ii) Banks should give priority to foreign currency export credit requirements of exporters over foreign currency loans to non-exporter borrowers.

Banks provided Additional Options for raising Capital Funds

With a view to providing banks additional options for raising capital funds, to meet both the increasing business requirements as well as the Basel II requirements within the existing legal framework, it has been decided that banks may augment their capital funds by issuing additional instruments as indicated below:

(a) Innovative perpetual debt Instruments eligible for inclusion under Tier 1 capital;

(b) Debt capital instruments eligible for inclusion under Upper Tier 2 capital;

(c) Perpetual non-cumulative preference shares eligible for inclusion under Tier 1 capital - subject to laws in force from time to time; and

(d) Redeemable cumulative preference shares eligible for inclusion under Tier 2 capital - subject to laws in force from time to time.

The guidelines governing the innovative perpetual debt instruments and debt capital instruments indicating the minimum regulatory requirements are available on the Reserve Bank's website. *(www.rbi.org.in)* Detailed guidelines regarding perpetual non-cumulative preference shares and redeemable cumulative preference shares will be issued separately as appropriate in due course. Banks have been advised to ensure that the instruments issued by them are in strict conformity with these guidelines.

BRANCH BANKING

No a/c Payee Cheque in Third Party Account

The Reserve Bank has directed banks not to collect account payee cheques for any person other than the payee constituent. The Reserve Bank has also advised that where the drawer/payee instructs the bank to credit the proceeds of collection to any account other than that of the payee, the instruction being contrary to the intended inherent character of the 'account payee' cheque,

the bank should ask the drawer/payee to have the cheque or the account payee mandate thereon withdrawn by the drawer.

UCBs

SLR norm relaxed for Smaller UCBs

The Reserve Bank has decided to exempt non-scheduled primary (urban) co-operative banks (UCBs) having single branch-cum-head-office or having multiple branches within a single district, having a deposit base of Rs.100 crore or less from maintaining statutory liquidity ratio (SLR) in prescribed assets up to 15 per cent of their demand and time liabilities (DTL) provided, they keep the required amount in interest bearing deposits with State Bank of India and its subsidiary banks and the public sector banks including the Industrial Development Bank of India Ltd.

For the purpose of eligibility for exemption, the deposit base of UCBs would be determined on the basis of fortnightly average of the DTL in the immediate preceding financial year. The exemption would be applicable with immediate effect and would be in force up to March 31, 2008. During this period, these UCBs should build up adequate infrastructure, risk management practices including human resources and technological upgradation so as to reduce market related risk.

It may be recalled that in April 2001, UCBs were advised to maintain a certain percentage of their assets under section 24 of the Banking Regulation Act, 1949 (AACS) in the form of government and other approved securities. Pursuant to these directions, the Reserve Bank had received representations from UCBs and their federations that many UCBs were facing difficulties in making investments in government securities due to lack of access to the government securities market or necessary expertise in the matter.

FEMA

ECBs by Multi-State Co-operative Societies

Keeping in view recent developments and representations received from various organisations, it has been decided to allow multi-state co-operative societies engaged in manufacturing activity to raise external commercial borrowings (ECBs). The Reserve Bank would consider the proposal of a multi-state cooperative society engaged in manufacturing activity for ECB under the approval route, provided -

(i) the co-operative society is financially solvent;

(ii) the co-operative society submits its up-to-date audited balance sheet; and

(iii) the proposal complies with all the other parameters of ECB guidelines, such as, recognised lender, permitted end-use, average maturity period, all-in-cost ceiling etc., as mentioned in paragraph 1 (B) of the Reserve Bank's circular of August 1, 2005.

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**