

MONETARY AND CREDIT INFORMATION REVIEW

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POLICY

Guidelines For Relief Measures By Banks In Areas Affected By Natural Calamities – Extracts Part 1

Highlights of First Quarter Review of Annual Policy 2006-2007

RBI Governor presented the First Quarter Review of Annual Statement on Monetary Policy for the Year 2006-07 on July 25, 2006.

Highlights

Reverse Repo Rate increased to 6.0 per cent and Repo Rate to 7.0 per cent. Bank Rate and Cash Reserve Ratio kept unchanged. GDP growth projection for 2006-07 retained at 7.5-8.0 per cent. Containing inflation within 5.0-5.5 per cent for 2006-07 warrants appropriate priority in policy responses. Money supply, deposit and credit growth above the indicative projections, warranting caution. Appropriate liquidity to be maintained to meet legitimate credit requirements, consistent with price and financial stability. Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the current assessment of the economy including the outlook for inflation, the overall stance of monetary policy in the period ahead will be: t To ensure a monetary and interest rate environment that enables continuation of the growth momentum while emphasising price stability with a view to anchoring inflation expectations. t To reinforce the focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic and, in particular, financial stability. t To consider measures as appropriate to the evolving global and domestic circumstances impinging on inflation expectations and the growth momentum.

Periodical occurrence of natural calamities takes a heavy toll of life and causes damage to economic pursuits. The State and local authorities draw programmes for economic rehabilitation of the affected people. It is imperative that the banks have a blueprint of action required on relief and assistance provided with utmost speed immediately after the requisite declaration by the district/state authorities. These instructions should also be available with the State Government authorities and all the District Collectors so that all concerned are clear as to the action that would be taken by the banks' branches in the affected areas.

The following guidelines are commended to enable banks to provide financial assistance to agriculturists, small scale industrial units, artisans, small business and trading establishments affected by natural calamities.

Meeting of District Consultative Committee

To facilitate coordinated action, the conveners of the District Consultative Committees and/or the State Level Bankers' Committee should convene a meeting immediately after the occurrence of natural calamities. While determining the quantum of assistance required by a person affected, the banks may take into consideration the assistance/subsidy given by the state Government and/or other agencies.

Discretionary Powers to Divisional / Zonal Manager of banks

Divisional/ Zonal Managers of commercial banks should be vested with certain discretionary powers so that they do not have to seek fresh approvals from their Central Offices to the line of action agreed to.

Identification of the beneficiaries

The bank branches should obtain from the Government authorities concerned, lists of affected villages within their area of operation. In the case of fresh borrowers, however, discreet enquiries should be made in this regard and assistance of the Government authorities should be sought wherever available for ascertaining genuineness.

Coverage

Credit requirements of the borrowing members within its command area, provided they are not covered by any other financial agency of the cooperatives, will be met by the Primary Agricultural Co-operative Societies (PACS)/Large-Sized Multipurpose Society (LAMPS)/Farmers Service Societies (FSS), etc. Branches of commercial banks may, however, finance the non-borrowing members of the co-operative societies, for which the latter will issue the usual 'No objection' certificates speedily.

Priorities

Finances would be needed for protecting and rejuvenating standing crops/ orchards/ plantation, etc. Equally important will be repairs to and protection of live stock sheds, grains and fodder storage structures, drainage, pumping, and other measures and operations to repair pump sets, motors, engines and other necessary implements.

Agricultural loans

Banks may, of their own, decide the quantum of fresh loans in relation to agriculture would be needed in the form of short term loans for the purpose of raising crops and term loans for purchase of milch/ draught animals, repairs to existing tube wells and pump sets, digging of new tube wells and installation of new pump sets, land reclamation, silt/sand removal, protection and rejuvenation of standing crops/ orchards/ plantation, etc., repairs and protection of livestock sheds, grain and fodder storage structures, etc.

Crop loans

The Government authorities would have declared *annewari* to indicate the extent to which the crops are damaged. The District Collector's Certificate that crop yield is below 50% of the normal yield, supported by the views of the DCC in the matter, should be sufficient. The certificate of the Collector should be issued crop-wise covering all crops. The District Collector, may ask the Lead Bank Officer to convene a meeting, and submit a report on the extent of crop loss in the area affected. If the DCC is satisfied that there has been extensive crop loss, the relief facilities of agricultural loans may be extended to the farmers affected without declaring *annewari*.

Guidelines for providing conversion facilities

Amount of principal as well as interest on short-term loans due in the year of occurrence of natural calamity may be converted into term loans or the repayment period may be rescheduled suitably. Amounts not collected should be converted, in

consultation with Task Force/ SLBC, into term loans for 3, 5,7 or 9 years depending on the severity and succession of crop failures.

Facilities such as common due dates for installments of converted/extended loans (other than overdue loans) grant of fresh loans while conversion is pending, conversion of short-term production loans at the time of sanction of fresh loans, reschedule of period for 3 years or longer, applying some rate of interest charged on short-term loans, etc., should be extended.

Converted/rescheduled loans should be treated as current dues and banks should not compound interest. The lead bank and the district authorities concerned should evolve a procedure whereby identification of borrowers, issuance of certificates regarding Government/ co-operative/ bank dues, title of the applicant to land etc. is secured simultaneously so as to avoid delay.

Organising Credit Camps could be explored in consultation with the authorities of the district. The State Government will arrange to issue an executive order enabling the following officers or their authorised representatives to assume respective duties of credit camps programme:

a. Block Development Officer b. Co-operative Inspector c. Revenue Authority/ Village Revenue Assistant d. Bank official operating in the area e. PACS/ LAMPS/ FSS f. Gram Panchayat Pradhan

Sufficient number of forms of certificates may be got printed by the District Magistrates for Credit Camps to avoid delay.

The current dues of the applicants to the State Government may be ignored, provided the State Government declare a moratorium for a sufficiently long period on all amounts due to the government as on the date of occurrence of the natural calamity.

Scale of Finance

The scales of finance in respect of different crops will be uniform in a district, and will be fixed taking into account the prevailing conditions and norms. The concerned District Magistrates and Managers of branches of banks would be advised to adopt the scales so laid down.

Development Loans - Investment costs

The existing term loan installments will have to be rescheduled/ postponed keeping in view the repaying capacity of the borrowers and the nature of natural calamity viz.,

- i. Droughts, floods or cyclones, etc. where only crop for that year is damaged and productive assets are not damaged.
- ii. Floods or cyclones where the productive assets are partially or totally damaged and borrowers are in need of a new loan.

In regard to natural calamity under category (i) the banks may postpone the payment of installment during the year of natural calamity and extend the loan period by one year, subject to the following exceptions:

- a. Those cultivators who had not effected the development or investment for which the loan was obtained or had disposed of the equipments or machinery purchased out of the loan;
- b. Those who are income tax payers;
- c. In the case of drought, those who are having perennial sources of irrigation except where water supply was not released from canals or irrigation facility was not available from other perennial sources; and
- d. Tractor owners, except in genuine cases where there is loss of income and consequential impairment of their repaying capacity.

Under this arrangement the installments defaulted willfully in earlier years will not be eligible for rescheduling. While fixing extension of period the commitment towards postponed payment of interest may also be taken into account.

In regard to category (ii) i.e. where the borrower's assets are totally damaged, the rescheduling by way of extension of loan period maybe determined on the basis of overall repaying capacity of the borrower including his repayment commitment on the old term loans and towards the conversion loan (medium term loan) on account of postponing of repayment of short term loans and the fresh crop loan. In such cases, the repayment period of total loan (including interest liability) less the subsidies received from the Government agencies, compensation available under the insurance schemes, etc. may be fixed having regard to the repaying capacity of the borrower subject to a maximum of 15 years, depending upon the type of investment as well as the economic (useful) life of the new asset financed, except in cases where loan relates to land shaping, silt removal, soil conservation, etc. Thus in the case of loans for agricultural machineries, viz., pump sets and tractors, it should be ensured that the total loan period does not generally exceed 9 years from the date of advance.

Apart from rescheduling existing term loans, banks will provide to affected farmers diverse type of term loans for developmental purposes, such as:

- a. Minor Irrigation: Term loans for repairs to wells, pump sets, etc. which are to be quantified after assessing the extent of damage and estimated cost of repairs.
- b. Bullocks: Where the draught animals have been washed away, requests for fresh loans for a new pair of bullocks/he-buffaloes may be considered.
- c. Milch Cattle: Term loan for milch cattle will be considered depending upon breed, milk yield, etc; the loan amount will include repairs to shelters, purchase of equipment and feed.
- d. Insurance: Considering the proneness of areas to cyclones and other natural calamities, the cattle should be insured.
- e. Poultry and Piggery : For poultry, piggery and goatery, loans will be considered as per the norms of different banks.
- f. Fisheries: In the case of borrowers who have lost their boats, nets and other equipment, re-phasing of payment of existing dues may be allowed on merits. Fresh loans may be granted to them with loan maturity of 3 - 4 years. Loans for repairs to boats of the existing borrowers may also be considered. In cases where subsidy is available the quantum of loan should be reduced to that extent. In States where substantial subsidy towards the cost of boats, nets,

etc. is likely to be available, proper coordination with the concerned State Government Department in this regard must be ensured. Apart from complying with other norms and conditions for grant of advances, assistance may be sought from the

Department of Fisheries, which may be expected to take measures, which would enable banks to proceed with financing for this purpose. The boats should be comprehensively insured against all risks including natural calamities as far as possible. *(To be concluded)*

Relief Measures to the Vidarbha Region in Maharashtra

The Hon'ble Prime Minister has announced the following rehabilitation package in respect of agricultural credit to six debt ridden districts of Vidarbha viz.: Amravati, Wardha, Yavatmal, Akola, Washim and Buldhana.

The entire interest on overdue loans as on July 1, 2006 will be waived in the above mentioned six districts and all farmers will have no past interest burden as on that date, so that they will be immediately eligible for fresh loan from the banking system.

The overdue loans of the farmers as on July 1, 2006 will be rescheduled over a period of 3-5 years with a one-year moratorium.

The burden of waiver of overdue interest will be shared equally by the State and Central Governments in such manner as the Central Government may specify in respect of its share of 50% of the waived amount. While apportioning the overdue interest as above, due care will be taken to offset releases if any, already made by the State Government on this count.

The Reserve Bank of India has therefore, advised the banks functioning in these areas to ensure that all the farmers' loan-accounts, which are overdue as on July 01, 2006, are rescheduled on the lines of the package and the interest thereon (as on July 01, 2006) is fully waived. Fresh finance may be ensured to such farmers. The total amount of additional credit of Rs. 1275 crore envisaged to be released by banks will be allocated by Bank of Maharashtra (as State Level Banker's Committee Convenor) among the banks functioning in the districts.

The amount of interest waived may be advised to the SLBC Convenor.

Priority Sector Lending – Investment in Bonds Issued NHB/ HUDCO

With a view to rationalising the banks' investments under priority sector lending and encouraging banks to increasingly lend directly to priority sector borrowers, it has been decided that investments that may be made by banks on or after April 1, 2007 in the bonds issued by National Housing Bank (NHB)/Housing and Urban Development Corporation Limited (HUDCO) shall not be eligible for classification under priority sector lending.

In terms of circular issued in Dec. 1999, in investments made by UCBs in bonds issued by NHB/HUDCO exclusively for financing of housing, irrespective of the loan size, per dwelling unit, are reckoned for inclusion under Priority Sector advances.

ELECTRONIC PURSE SCHEMES

Providing Clearing and Settlement Services for Internet Based Electronic Purse Schemes

Some companies have launched Internet based electronic purse schemes stating that: (i) Any individual can register himself by going to the website and filing up a simple form which contains only his / her personal details. (ii) The registered person will thereafter own an account with the service provider. (iii) Accounts are funded by transferring the money from bank accounts or credit card accounts. (iv) The money is credited into electronic purse account of the account holder and the actual money is credited into the current account of the service provider with the clearing and settlement bank. (v) The electronic purse account holder can use the funds in his account either to transfer the funds to another electronic purse account or transfer to any other account anywhere (which is done through RTGS/DD) or through on line purchases.

The above mentioned activities are in the nature of acceptance of deposits which can be withdrawn on demand. The act of accepting deposits repayable on demand is in violation of the provisions of Reserve Bank of India Act, 1934, governing registration of NBFCs and acceptance of deposits.

Reserve Bank has asked a company providing such services to desist from doing so. Banks are advised not to associate themselves with such schemes as described.

RAJBHASHA

RBI's Rajbhasha Shield Awards Ceremony

Hindi, being the official language and a commonly understood language in most of the states, is being used by banks in India, in their day-to-day operations helping immensely in providing better customer service. Even in marketing their services and products banks and companies are using Hindi effectively. Dr. Y.V.Reddy, Governor, Reserve Bank of India while awarding the shields for the year 2004-2005, said that we should think seriously about that greater section of customers that does not know

English. It is not possible to start working in Hindi only but we can certainly work in local language and Hindi with a plan chalked out in advance. The awards for the best "House Journal" and the winners of the "Inter Bank Essay Competitions" were presented.

The annual Reserve Bank Rajbhasha Shield was instituted in 1980 to encourage public sector banks to use Hindi in their day-to-day working. Along with the scheme, the Reserve Bank also conducts a competition for the house journals of banks and financial institutions. The Reserve Bank has also initiated an Inter Bank Hindi Essay Competition from 2002-03.

Shri V.Leeladhar, Deputy Governor of Reserve Bank, while complimenting the winning banks and financial institutions noted

that in democracy the language of public and government should be one and the day-to-day affairs must be conducted in the same language which the public understands. He also added that taking into account the multilingual character of the nation, use of Hindi should be propelled with inspiration and encouragement, we have to bring a change in our attitude and ourselves work in Hindi so as to encourage others.

Earlier, Shri V.K.Sharma, Executive Director welcomed the Chief Executives of banks and financial institutions, Shri H.N.Prasad, Principal Chief General Manager, Department of Administration and Personnel Management, Reserve Bank of India, proposed a vote of thanks. Shri Ramakant Sharma, Deputy General Manager, Rajbhasha Department of the Reserve Bank of India conducted the programme.

PAYMENT SYSTEMS

Electronic Clearing Service (ECS) - Debit Clearing –Customer Mandates

The pace of growth of Electronic Debit Clearing transactions is much higher than Credit Clearing and many utility companies/banks have been utilising the system for collection of bills relating to utility payments, EMI, etc.

ECS (Debit) works on the strength of the mandates given by the destination account holders to the user institutions for raising a debit in their accounts. A copy of the mandate is sent either by the account holder or the user institution to the bank for the bank to check the validity of the debit instruction raised through ECS (Debit Clearing).

A recent informal survey conducted by the Reserve Bank revealed that several of the bank branches do not maintain the requisite mandate forms in proper order. They raise debits purely on the basis of the ECS (Debit) file received from the clearing house as a matter of routine. The bank branches also indicate that the software being used by them do not have the provision to record any ECS (Debit) mandate. If available, it may be for only one or two mandates whereas certain account holders have given mandate to several utility organizations for raising debit through ECS.

It may be mentioned that debit mandate management system would have to be a part of the house keeping function. The mandate should contain the validity period and upper limit for individual transaction. The upper limit may vary from mandate to mandate. It was advised that withdrawal instructions of a customer has to be treated equivalent to a stop payment instruction in cheque clearing system. It has to be ensured that adequate care is taken on recording of mandates and withdrawal, if any.

Banks may initiate steps for incorporating an appropriate mandate management routine for handling ECS(Debit) transactions as early as possible.

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.mcir.rbi.org.in**