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MONETARY AND CREDIT INFORMATION REVIEW

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POLICY

Additional Relief Guidelines for Areas affected by Natural Calamities

The Reserve Bank of India as announced Review of the Monetary' Policy Statement for[in the]2005-06,[Mid-Term] had constituted an internal working group to look into the guidelines/ instructions to banks and to suggest suitable revisions and additions to the existing guidelines in regard to relief measures to be provided in areas affected by natural calamities. Based on the recommendations of the Group, it has been decided that additional guidelines as given below should be followed by banks expeditiously especially in the context of the recent floods that have affected various parts of the country.

Access to Customers to their Bank Accounts

In areas where the bank branches are affected by natural calamities and are unable to function normally, banks may operate from temporary premises, under advice to the Reserve Bank. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the concerned regional office (RO) of the Reserve Bank. Banks may also ensure rendering of banking services to the affected areas by setting up satellite offices, extension counters or mobile banking facilities under intimation to the concerned regional office. To satisfy customers' immediate cash requirements, banks could consider waiving the penalties related to accessing accounts, such as, fixed deposits. Restoration of the functioning of ATMs at the earliest or making alternate arrangements for providing such facilities may be given due importance. Banks may consider putting in place arrangements for allowing their customers to access other ATM networks, Mobile ATMs, etc.

Currency Management

If the bank’s currency chest branch is affected, the bank may immediately contact the nearest functioning currency chest branch of any bank which shall supply currency notes to the affected currency chest, to enable them to supply cash to the bank branches linked to them under intimation to the concerned regional office of the Reserve Bank. In case of need, banks whose currency chests are affected may, under intimation to the concerned regional office of the Reserve Bank, open repositories for a temporary period, with a view to meeting their day to day cash requirements.

KYC Norms

To facilitate opening of new accounts by persons affected by natural calamities especially for availing various reliefs given by government/other agencies, banks may open new accounts by ensuring the following guidelines –

a. introduction from another account holder who has undergone full KYC procedure, or

b. documents of identity, such as, voter’s identity card or a driving license, identity card issued by an office, company, school, college, etc. along with a document indicating the address, such as, electricity bill, ration card, etc., or

c. introduction by two neighbours, who have the documents as indicated above, or

d. in the absence of the above, any other evidence to the satisfaction of the bank.

The above instructions will be applicable to cases where the balance in the account does not exceed Rs. 50,000 or the amount of relief granted (if higher) and the total credit in the account does not exceed Rs. 1,00,000 or the amount of relief granted, (if higher) in a year.

Clearing and Settlement Systems

To ensure continuity in clearing service, the Reserve Bank has advised the banks for ‘on-city back-up centres’ in 20 large cities and effective low-cost settlement solution for the remaining cities. The banks in a clearing area could meet with a view to providing flexible clearing services where normal clearing services are disrupted. However, notwithstanding these arrangements, banks may also consider discounting cheques for higher amounts to meet customers' requirement of funds. Banks could also consider waiver fees for Electronic Funds Transfer, Electronic Clearing System or mail services so as to facilitate inward transfer of funds to accounts of persons affected by a natural calamity.

Fresh Loans and Restructuring Existing Loans

The financial assistance required by borrowers in the event of natural calamity would include: (i) consumption loans (ii) fresh loans for resumption of normal business (iii) restructuring of the existing loans

(i) Consumption Loans

As per extant instructions, loans up to Rs. 250 could be sanctioned to existing borrowers for general consumption purposes and the limit could be enhanced to Rs. 1,000 in the states where the state governments have constituted risk funds for such lending. The present limits may be enhanced to Rs. 10,000 without any collateral and such loans may be provided even if no risk fund has been constituted. Further, the limit may be enhanced beyond Rs.10,000 at the discretion of the bank.

(ii) Fresh Loans

Timely fresh financial assistance to resume productive activities may be provided not only to the existing borrowers, but also to other eligible borrowers. Notwithstanding the status of the existing account, fresh loans granted to the borrowers will be treated as current dues.

(*iii) Restructuring of existing loans*

As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by natural calamity and hence, restructuring of the existing loans will be required. The principal amount outstanding in the crop loans and agriculture term loans as well as accrued interest thereon may be converted into term loans. The repayment period of restructured term loans may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused. Generally, the restructured period for repayment may be 3 to 5 years. However, where the damage arising out of the calamity is very severe, banks may, at their discretion, extend the period of repayment ranging up to 7 years and in extreme cases of hardship, the repayment period may be prolonged up to a maximum period of 10 years. In all cases of restructuring, moratorium period of at least one year should be considered. Further, the banks should not insist for additional collateral security for such restructured loans. The asset classification status of the restructured term loan and other dues will be as under:

a) The restructured crop loans may be treated as current dues and need not be classified as NPA. The asset classification of the restructured term loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and / or installment of principal remain overdue for two crop seasons for short duration crops and for one crop season for long duration crops. Depending upon the duration of crops raised by an agriculturist, the above norms would also be made applicable to the restructured agricultural term loans.

b) The above norms will be applicable to all direct agricultural advances as advised earlier on prudential norms on income recognition, asset classification and provisioning pertaining to advances.

c) Additional finance, if any, may be treated as "standard asset" and its future asset classification will be governed by the terms and conditions of its sanction.

Lending and other norms may be relaxed by banks, at their discretion, for the self help groups affected in a natural calamity. Similarly, in retail or consumer loans segment, the banks may restructure the loans in a manner suitable to the borrowers on a case-to-case basis.

Special SLBC Meeting

Immediately upon occurrence of a natural calamity, special State Level Bankers' Committee (SLBC) meeting may be convened to review the position in the affected areas and ensure speedy formulation and implementation of suitable relief measures by banks. The banks may also give adequate publicity to their disaster management arrangements, including the helpline numbers. The relief measures initiated and undertaken may be reviewed periodically in the weekly/fortnightly meetings of specially constituted task forces or sub-committees of the SLBC till such time as conditions are normalised.

Business Continuity Planning

In the backdrop of increased leveraging of technology in banking system, Business Continuity Planning (BCP) has become a key pre-requisite for minimising business disruption and system failures. As a BCP strategy, banks may identify alternate branches for branches located in areas prone to natural calamities. As per the extant instructions, the Boards of banks are required to approve a policy on BCP, allocate sufficient resources and provide clear guidance and direction in this regard to the Top Management. Banks may formulate full-fledged comprehensive BCP rather than having only Disaster-Recovery (DR) arrangements. The banks may also focus on keeping the DR site current, to test them comprehensively and synchronize the data between the primary and secondary sites.

Guidelines for Relief Measures by Banks in Areas affected by Natural Calamities

(continued from last issue)

It is likely that financial assistance will be required for reclamation of land covered by sand casting. Normally, sand/silt deposits up to 3 inches will either be ploughed back into the soil or removed by the farmers without any need for financial assistance. Loan applications will, however, be considered in cases where immediate cultivation is possible and reclamation (removal of sand) is necessary. Wherever reclamation finance for saline lands is warranted, the cost of reclamation not exceeding 25 per cent of the scale allowed for crop loan may be advanced along with the crop loan.

For other activities like agriculture, horticulture, floriculture, betel vine growing, etc., banks will advance loans for investment and working capital under their existing schemes and follow usual procedures laid down by them. The working capital finance may be provided until such period the income from the plantation is adequate to take care of such expenditure.

However, additional need based crop loans, if necessary, would be given for revitalisation/rejuvenation of standing crops/ orchards based on individual assessment.

The question relating to procurement and proper arrangement for supply of adequate quantity of seeds and various types of fertilizers will have to be discussed with the state government and district administration in each district. Similarly, for the purpose of ensuring adequate irrigation facilities, the state government will undertake repairs to government owned shallow and deep tube wells and River Lift Irrigation System damaged by floods and other natural calamities. As for fisheries, the fisheries department of the state government will make arrangement to obtain fingerlings and supply them to those who wish to revive tank fishing with bank finance.

The state government will have to consider preparation of schemes, which would enable commercial banks to obtain refinance at NABARD rates for amounts advanced by banks for the said purpose.

Artisans and Self-employed Persons

For all categories of rural artisans and self-employed persons including handloom weavers, loans will be needed for repairs of sheds, replacement of implements, and purchase of raw materials and stores. In sanctioning the loan, due allowance will be made for subsidy/ assistance available from the State Government concerned.

There may be many artisans, traders and self-employed persons who may not have any banking arrangement or facility with any bank, but will now need financial assistance for rehabilitation. Such categories will be eligible for assistance from banks' branches in whose command areas they reside or carry on their profession/ business. Where such a person/party falls under the command area of more than one bank, the banks concerned will meet together and sort out his problem.

Small Scale and Tiny Units

Rehabilitation of units under village and cottage industry sector, small-scale industrial units as also smaller of the medium industrial sector damaged, will also need attention. Term loans for repairs to and renovation of factory buildings/sheds and machinery as also for replacement of damaged parts and working capital for purchase of raw materials and stores will need to be provided urgently.

Where the raw materials or finished goods have been washed away or ruined or damaged, banks' security for working capital will naturally be eroded and the working capital account (Cash Credit or Loan) will be out of order. In such cases, banks will convert drawings in excess of the value of security into a term loan and also provide further working capital to the borrower.

Depending on the damage suffered and time needed for rehabilitation and restarting production and sales, term loan installments will have to be suitably rescheduled, keeping in view the income generating capacity of the unit. Shortfall in margins will have to be condoned or even waived and borrower should be allowed time to build up margin gradually from his future cash generation. Wherever State Government or any agency has formulated special scheme for providing grants/subsidy/seed money, suitable margin may be stipulated to the extent of such grants/subsidy/seed money.

The primary consideration before the banks in extending credit to a small/tiny unit for its rehabilitation should be the viability of the venture after the rehabilitation programme is implemented.

Terms and Conditions

The terms and conditions governing relief loans will be flexible as to security, margin, etc. In the case of small loans covered by guarantee of Deposit Insurance and Credit Guarantee Corporation, personal guarantees will not be insisted upon. In any case, credit should not be denied for want of personal guarantees.

Security

Where the bank's existing security has been eroded because of damage or destruction by floods, assistance will not be denied merely for want of additional fresh security. The fresh loan may be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount. For fresh loans, a sympathetic view will have to be taken.

Where the crop loan (which has been converted into term loan) was earlier given against personal security/hypothecation of crop and the borrower is not able to offer charge/mortgage of land as security for the converted loan, he should not be denied conversion facility merely on the ground of his inability to furnish land as security. If the borrower has already taken a term loan against mortgage/charge on land, the bank should be content with a second charge for the converted term loan. Banks should not insist on third party guarantees for providing conversion facilities.

In the case of term loans for replacement of equipments, repairs, etc. and for working capital finance to artisans and self-employed persons or for crop loans, usual security may be obtained. Where land is taken as security, in the absence of original title records, a certificate issued by the Revenue Department officials may be accepted for financing farmers who have lost proof of their titles i.e. in the form of deeds, as also the registration certificates issued to registered share-croppers.

As per the recommendations of the Reserve Bank's report on customer service, banks will finance the borrowers who require loans up to Rs.500 without insisting either on collateral security or guarantee for any type of economic activity.

Margin

Margin requirements may be waived or the grants/subsidy given by the concerned State Government may be considered as margin.

Rate of Interest

The rates of interest will be in accordance with the directives of the Reserve Bank. Within the areas of their discretion, however, banks are expected to take a sympathetic view of the difficulties of the borrowers and extend concessional treatment to calamity-affected people.

Those meeting the eligibility criteria under the Scheme of Differential Rate of Interest should be provided credit in accordance with the provision of the sheme.

In respect of current dues in default, no penal interest will be charged. The banks should also suitably defer the compounding of interest charges.

Banks may not levy any penal interest and consider waiving penal interest, if any, already charged in regard to the loans converted/rescheduled.

In order to avoid delay in taking relief measures on the occurrence of natural calamity, banks may evolve a suitable policy framework in this regard with the approval of the Board of Directors and forward a copy of the policy note for our record. It is advisable to provide an element of flexibility in the measures so as to synchronise the same with the measures which could be appropriate in a given situation in a particular State or District and parameters in this regard may be decided in consultation with SLBC/ DCC, as the case may be.

Riots and Disturbances

Whenever the Reserve Bank advises the banks to extend rehabilitation assistance to the riot/disturbance affected persons, the aforesaid guidelines may broadly be followed by banks for the purpose. It should, however, be ensured that only genuine persons, duly identified by the state administration as having been affected by the riots/disturbances, are provided assistance as per the guidelines.

The issuance of advice to the banks by the Reserve Bank of India on receipt of request/information from state government and thereafter issue of instructions by banks to their branches generally results in delay in extending the assistance to riot-affected people. With a view to ensuring quick relief to the affected persons, it has been decided that the District Collector, on occurrence of the riots/disturbances, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary and submit a report to the DCC on the extent of damage caused to life and property in the area affected by riots/disturbances. If the DCC is satisfied that there has been extensive loss to life and property on account of the riots/ disturbances, the relief as per the above guidelines may be extended to the people affected by the riots/ disturbances. In certain cases, where there are no District Consultative Committees, the District Collector may request the convener of the State Level Bankers' Committee of the State to convene a meeting of the bankers to consider extension of relief to the affected persons. The report submitted by the Collector and the decision thereon of DCC/ SLBC may be recorded and should form a part of the minutes of the meeting. A copy of the proceedings of the meeting may be forwarded to the concerned Regional Office of the Reserve Bank of India.
(Concluded)

BANKING

Penalties on Default in Maintenance of CRR

The Reserve Bank of India has advised all scheduled, state co-operative and regional rural banks that with effect from the fortnight beginning June 24, 2006 penal interest in cases of default in maintenance of cash reserve ratio (CRR) would be charged as under : (i) In cases of default in maintenance of CRR requirement on a daily basis, which is presently 70 per cent of the total Cash Reserve Ratio requirement, penal interest will be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day/s, penal interest will be recovered at a rate of five per cent per annum above the bank rate.

(ii) In cases of default in maintenance of CRR on average basis during a fortnight, penal interest will be recovered as envisaged in sub-section (3) of Section 42 of the Reserve Bank of India Act, 1934.

Guidelines for Banks undertaking PD Business

The Reserve Bank of India has re-examined the requirement of maintaining separate SGL account by banks for their primary dealer (PD) business and decided that it would not be necessary for banks to maintain a separate SGL account for PD business. Henceforth, banks undertaking PD business departmentally may maintain a single SGL account. The banks would, however, need to keep separate books of accounts internally for monitoring on an ongoing basis, maintenance of the minimum stipulated balance of Rs. 100 crore of Government Securities and for recording the transactions undertaken by the PD business.

Forex

Maintenance of Collateral by FIIs

The Reserve Bank of India in consultation with Government of India and Securities and Exchange Board of India (SEBI) has decided to permit foreign institutional investors (FIIs) to offer foreign sovereign securities with AAA rating as collateral to the recognised stock exchanges in India for their transactions in derivatives segment. The operational guidelines in this regard will be issued separately by SEBI. Thereafter, recognised stock exchanges in India may approach the Reserve Bank of India, Foreign Exchange Department, Central Office, Mumbai-400001 for specific approvals as may be necessary under the Foreign Exchange Management Act, 1999.

Investment by Mutual Funds in Overseas Securities

Overseas investments by Mutual Funds registered with the Securities and Exchange Board of India (SEBI) have been liberalised by enhancing the existing aggregate ceiling and expanding the avenues for investment. Presently, Mutual Funds, registered with SEBI, are permitted to invest in ADRs/GDRs of Indian companies, rated debt instruments and also in the equity of overseas companies listed on a recognised stock exchange overseas and having a shareholding of at least 10 per cent in a listed Indian company. To enable the Mutual Funds to tap a larger investible stock overseas, the requirement of 10 per cent reciprocal share holding in the listed Indian companies by such overseas companies has been dispensed with. The aggregate ceiling for overseas investment by Mutual Funds, registered with SEBI, is increased from USD 1 billion to USD 2 billion with immediate effect. It has also been decided to allow a limited number of qualified Indian Mutual Funds to invest cumulatively up to USD 1 billion in overseas Exchange Traded Funds as may be permitted by SEBI.

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