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MONETARY AND CREDIT
INFORMATION REVIEW

POLICY

Service Charges for use of ATMs

The Reserve Bank has advised all scheduled commercial banks including regional rural banks (RRBs) and urban co-operative banks (UCBs) to implement a revised framework of service charges for use of automated teller machines (ATM) as under :

Sr No	Service	Charges
1.	For use of own ATMs for any purpose	Free (with immediate effect)
2.	For use of other bank ATMs for balance enquiries	Free (with immediate effect)
3.	For use of other bank ATMs for cash withdrawals	<ul style="list-style-type: none">● No bank shall increase the charges prevailing as on December 23, 2007 (i.e. the date of release of the Approach Paper on the RBI website)● Banks which are charging more than Rs.20 per transaction should reduce the charges to a maximum of Rs.20 per transaction by March 31, 2008● Free with effect from April 1, 2009.

For the services at 1 and 2 above, the customer should not be levied any charge under any other head and the service should be totally free.

For the service at 3 above, the charge of Rs.20 indicated would be all inclusive and no other charges should be levied to the customers under any other head irrespective of the amount of withdrawal.

Banks are free to determine the service charges for the following types of cash withdrawal transactions :

- Cash withdrawal with the use of credit cards.
- Cash withdrawal from an ATM located abroad.

The Reserve Bank had examined the issue of usage and pricing of ATMs of banks and placed an approach paper on its website on December 24, 2007 seeking public comments. The comments received have been analysed. Based on the feedback, the Reserve Bank has indicated to banks a framework of service charges to be levied by them for offering ATM service. The gist of the comments received from the members of the public, banks and the Indian Banks' Association (IBA) is given below :

Comments from Public: Comments received from the public were overwhelmingly in favour of making the service free and ensuring enhanced access. A few have suggested making the service free immediately instead of April 2009. On the other hand, some respondents apprehend that such a move of making service charges free may decelerate the deployment of ATMs by the acquiring banks.

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Comments from Banks: All the major banks who own a substantially large number of ATMs have welcomed the regulatory move for enhanced access to ATM facility by bank customers. Some of them have, however, suggested that instead of making the service totally free, number of free withdrawals in a quarter/month can either be prescribed or left to individual banks. Two banks suggested that certain nominal charges should be prescribed.

IBA in its comments has indicated that banks are in favour of greater financial inclusion and fairness and transparency in levy of charges. Banks, however, fear that availability of free ATM services at convenient locations could lead to an increase in the number of transactions and a reduction in the amount withdrawn per transaction. IBA has suggested that the number of free transactions at ATMs of other banks be restricted to two per month. Also in metro centres, the minimum cash withdrawal may be stipulated at Rs.500 for accounts other than no-frill accounts. Also a cap should be fixed for balance enquiry as such transactions also attract interchange.

The other suggestions made by banks/IBA are –

- (i) Third party advertisement on the ATMs may be permitted as a revenue stream for banks.
- (ii) White label ATMs may be permitted.
- (iii) Cash withdrawal at the point of sale may be permitted so that the load on the ATMs would be reduced.

Thus, it is observed that the approach has been found to be generally acceptable. The suggestions on third party advertisement, white label ATMs and cash withdrawal at the point of sale had been examined in depth earlier and it had been decided not to implement the same. Circumstances have not changed significantly warranting a review. As regards a cap on the number of free cash withdrawals in a month, it is neither desirable nor practical.

Electronic Mode of Payment for Large Value Transactions

The Reserve Bank has advised all commercial/co-operative banks to mandatorily route large value payments of Rs.1 crore and above through the electronic payment mechanism. The time frame within which this has to be done is indicated below :

Type of Transaction	Time Frame
All payment transactions of Rs. 1 crore and above between RBI regulated entities, such as, banks, primary dealers and NBFCs	April 1, 2008
All payments of Rs. 1 crore and above in RBI regulated markets, such as, money market, government securities market and foreign exchange market	April 1, 2008

It may be recalled that an internal Working Group set up by the Reserve Bank had examined various issues relating to migration from paper-based systems to electronic systems and had recommended a phased approach of encouraging, monitoring and mandating. Based on the recommendations of

the Group, an approach paper was placed on the Reserve Bank's website inviting comments from the members of public on the need for making payment transactions of Rs. 1 crore and above between RBI regulated entities to be mandatorily routed through the electronic payment systems.

Issuance of Letters of Comfort

Examining the matter of issuance of letters of comfort (LoCs) by banks, the Reserve Bank has decided to lay down prudential norms in this regard. The revised instructions are –

- (i) Every LoC issued should be subject to prior approval by the bank's board of directors. The bank should lay down a well defined policy for issuance of LoCs, including the indicative cumulative ceilings up to which LoCs could be issued by the bank for various purposes. The policy must, *inter alia*, provide that the bank will obtain and keep on record a legal opinion regarding the legally binding nature of the LoC issued. An appropriate system for keeping record of all the LoCs issued should also be put in place.
- (ii) Banks should make an assessment, at least once a year, of the likely financial impact that might arise from the LoCs issued by it and outstanding, in case it is called upon to support its subsidiary in India or abroad, as per the obligations assumed under the LoCs issued. Such an assessment should be made qualitatively on judgmental basis and the amount so assessed should be reported to the Board, at least once a year. As a first time exercise, such an assessment should be undertaken for all the outstanding LoCs issued and outstanding as on March 31, 2008 and the results placed before the Board in the ensuing meeting. Such an assessment should form a part of the bank's liquidity planning exercise as well.
- (iii) Any LoC that is assessed to be a contingent liability of the bank by a rating agency/internal or external auditors/internal inspectors or the Reserve Bank's inspection team, should be treated, for all prudential regulatory purposes, on the same footing as a financial guarantee issued by the bank.
- (iv) Banks should disclose full particulars of all the LoCs issued by them during the year, including their assessed financial impact, as also their assessed cumulative financial obligations under the LoCs issued by them in the past and outstanding, in their published financial statements, as part of the 'Notes to Accounts'.

It had been observed that banks in India have been issuing LoCs to meet the requirements of overseas regulators while seeking their approval for establishing subsidiaries/opening branches in their countries as also to support certain activities of their subsidiaries in India. Such LoCs are intended to provide comfort to: (i) the overseas and domestic regulators that the parent bank would support its foreign/domestic subsidiaries in case they face any financial problems in future; and (ii) the rating agencies in India, which might be rating the issuances/products of the bank's Indian subsidiaries, regarding the availability of parental support to the subsidiary.

BRANCH BANKING

Repayment of 6.5% Savings Bonds, 2003 (Non Taxable)

The 6.5 per cent Savings Bonds, 2003 (non-taxable) will mature for repayment from March 24, 2008 onwards according to the date of individual investments. Agency banks have been advised to strictly adhere to the general procedures given below regarding repayment of the bonds held under bond ledger account (BLA) :

Advices to Investors

The attention of the holders should be drawn to the ensuing maturity of their bonds one month before the date on which the investment in the BLA is due for repayment. Advices should be sent to the holders by registered/speed post. Agency banks should ensure that the advices are sent only in respect of BLAs which are free from stoppage.

Post Maturity Interest

No interest would accrue after the maturity of the bond. Agency banks should, therefore, intimate the investors, prominently in the advices that the investment does not carry post maturity interest.

Discharge of Certificates

- As per Regulation 24 (2)(b) of the Government Securities Regulations, 2007, payment of maturity proceeds to the registered holder of a government security, held in the form of a BLA should be made by pay order or by credit to the account of the holder in any bank having facility of receipt of funds through electronic means. This regulation obviates the necessity of the investor submitting a discharge receipt for seeking repayment of the bonds and enables agency banks to automatically redeem the matured bonds on the due date and despatch the payment advice. To facilitate automatic redemption on due dates, agency banks may ask holders of BLAs whose bank account details are not available with them to furnish the relevant particulars and a mandate for crediting the proceeds electronically to their account. In the absence of a mandate, repayment should be made on receipt of discharge certificate, as hitherto.
- As per extant instructions, if the repayment amount exceeds Rs. 1 lakh, the investor is required to furnish the particulars of his PAN/GIR number or a declaration in Form No 60, in case the investor does not have PAN/GIR number.

Payment

- Although the discharge receipt is submitted well in advance for repayment, it should be ensured that the actual payment of discharge value is made only on the due date, and if the payment is made through electronic mode, the investor's account is credited on the due date only and not before that. In the event of a holiday being declared by the state government under the Negotiable Instruments Act, 1881 on the maturity date or the maturity date falling on a Sunday, the maturity proceeds should be paid on the previous working day.

- The repayment should be made only by the bank branch maintaining the BLA. Details of closure of the investment(s) i.e., date(s) and amount(s) etc., should be maintained and invariably indicated in the BLA, duly authenticated by the supervising official.
- If multiple investments are made against the same BLA, the redemption of individual investment should be reflected therein and a fresh statement of holding duly indicating the BLA number, date of maturity and amounts in respect of individual investments should be generated and given to the investor. It should be ensured that the outstanding balance appearing in the BLA and the statement of holding are the same.

Delivery of Payment Order

In case of repayment by 'payment order' agency banks should ensure that the payment orders bearing the dates of redemption are prepared and kept ready/despached (in case of request to send by post) so as to reach the holder at least one day in advance and for senior citizens, three days in advance. The payment order may be despatched by speed/registered post.

Interest Payments

As regards BLAs held under the non-cumulative scheme, the interest for last broken period should be paid along with the principal. The interest warrants pertaining to such investments should be despatched on the due date of maturity irrespective of whether the investor has furnished discharge receipt for repayment or not. While despatching such interest warrants of matured BLAs, the covering letter addressed to the investor should indicate that the investment has matured on the specific date. Advices to the investors should invariably contain the legend "Interest will not accrue on the investment after----/ ----/ ---- (date of maturity)".

Accounting

The principal and the interest should be separately accounted for and the scrolls drawn separately and kept on record for audit/verification.

Reporting

To GOI : The designated branches should submit a statement showing the payments and outstanding in respect of the BLAs under the scheme on a monthly basis to the Controller of Accounts, Department of Economic Affairs, Ministry of Finance, Government of India, New Delhi through their Link Office. The repayment scrolls pertaining to the principal and the interest should be drawn separately.

To PDO of jurisdiction: The monthly report sent to the PDO of jurisdiction should invariably contain the details of repayments. The repayment scrolls pertaining to the principal and the interest drawn separately should also be submitted alongside.

Reimbursement

Agency banks may prefer claims for reimbursement only in respect of the repayments effected by them. Such claims may be submitted in the usual manner to the Reserve Bank's

Central Accounts Section (CAS), at Nagpur through the respective link cells along with the consolidated scrolls separately for principal and interest. The claims should be duly supported by a certificate from the internal/concurrent auditors stating that the repayment figures have been checked 100 per cent and that the amount has already been paid to the investors.

UCBs

Advances to Builders/Contractors

The Reserve Bank has clarified that urban co-operative banks (UCBs) should not extend fund based/non-fund based facilities to builders/contractors for acquisition of land even as a part of a housing project. Further, wherever land is accepted as collateral, valuation of such land should be at the current market price only.

It had been observed that while financing builders/contractors, certain banks were valuing the land for the purpose of security, on the basis of the discounted value of the property after it is developed, less the cost of development. This is not in conformity with established norms.

It may be recalled that in November 1987, UCBs were advised to refrain from sanctioning loans and advances to builders/contractors. Where contractors undertake comparatively small construction work on their own (i.e. when no advance payment are received by them for the purpose), UCBs could consider extending financial assistance to them against hypothecation of construction materials provided, such loans and advances are in accordance with their bye-laws and instructions/directives issued by the Reserve Bank from time to time.

Classification of UCBs for Regulatory Purposes Revised

Based on the representations received from the UCB sector, the definition of Tier I banks has been amended. Accordingly, for regulatory purposes, UCBs would now be classified as under:

Tier I UCBs

Tier I UCBs would comprise of –

- i) Unit banks i.e. banks having a single branch/head office and banks with deposits below Rs.100 crore, whose branches are located in a single district.
- ii) Banks with deposits below Rs.100 crore having branches in more than one district, provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively of the bank.

- iii) Banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district.

Tier II UCBs

Tier II UCBs would comprise of 'all other banks'.

As hitherto, the deposit base of Rs. 100 crore would be determined on the basis of average of the fortnightly net demand and time liabilities in the financial year concerned. Similarly, advances would be determined on the basis of fortnightly average in the financial year concerned.

These revised instructions are applicable with immediate effect.

Earlier, UCBs were categorised for regulatory purposes as under:

Tier I Banks: Unit banks i.e. banks having a single branch/head office with deposits up to Rs. 100 crore and banks having multiple branches within a single district with deposits up to Rs. 100 crore.

Tier II Banks: All other banks.

CUSTOMER SERVICE

In August 2007, the Reserve Bank has advised banks to issue suitable instructions to all their pension disbursing branches not to deduct income tax from the disability pension paid to pensioners of the armed forces as per the provisions of the Defence Pension Payment Instructions, 2005.

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Sd/-

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