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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Engagement of Recovery Agents by Banks

Based on the feedback received on the draft guidelines on recovery agents engaged by banks, placed by the Reserve Bank on its website for public comments, the draft guidelines have been suitably revised and final guidelines issued. These are :

Engagement of Recovery Agents

While engaging recovery agents, banks should take into account the following specific considerations :

- ‘Agent’ in these guidelines would include agencies engaged by the bank and the agents/employees of the concerned agencies.
- Banks should have a due diligence process in place for engagement of recovery agents. They should also ensure that the agents engaged by them carry out verification of the antecedents of their employees, which may include pre-employment police verification. Banks may decide the periodicity at which re-verification of antecedents should be resorted to.
- Banks should keep the borrowers informed of the details of the recovery agency firms/companies while forwarding default cases to the recovery agency. The recovery agents should carry a copy of the notice and the authorisation letter from the bank along with the identity card issued to him/her by the bank or the agency firm/company. Where the recovery agency is changed by the bank during the recovery process, in addition to the bank notifying the borrower of the change, the new agent should carry the notice and the authorisation letter along with him/her identity card. The notice and the authorisation letter should, among other details, also include the telephone numbers of the relevant recovery agency.
- The conversation between the recovery agent and the borrower should be tape recorded and the customer should be intimated that the conversation is being recorded.
- The up to date details of the recovery agency firms/ companies engaged by banks should be posted on the bank’s website.
- Where a grievance/complaint has been lodged, banks should not forward cases to recovery agencies till they have finally disposed off the grievance/complaint. Where the bank is, however, convinced with appropriate proof that the borrower is continuously making frivolous/vexatious complaints, it may continue with the recovery proceedings through the recovery agents even if a grievance/complaint is pending with them. In cases where the subject matter of the borrower’s dues might be *sub judice*, banks should exercise utmost caution in referring the matter to the recovery agencies.
- Each bank should have a grievance redressal mechanism to deal with borrowers’ grievances with regard to the recovery process. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency.

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Methods followed by Recovery Agents

Banks should ensure that the contracts with the recovery agents do not induce adoption of uncivilized, unlawful and questionable behaviour or recovery process.

Banks should strictly adhere to the various guidelines issued by the Reserve Bank, such as, the Fair Practices Code for Lenders, the Guidelines on Credit Card Operations and also the Code of Banks' Commitment to Customers formulated by the Banking Codes and Standards Board of India (BCSBI) during the loan recovery process.

Training for Recovery Agents

The Reserve Bank has requested the Indian Banks' Association to formulate, in consultation with the Indian Institute of Banking and Finance (IIBF), a certificate course for direct recovery agents with a minimum of 100 hours training. Once the course is introduced by IIBF, banks should ensure that over a period of one year all their recovery agents undergo the training and obtain the certificate from IIBF.

Taking possession of Mortgaged/Hypothecated Property

Banks should follow legal remedies available under relevant statutes like the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and the Security Interest (Enforcement) Rules, 2002 for enforcing security interest and for auctioning the movable and immovable property after enforcing the security interest without intervention of the Courts.

Where banks have incorporated a re-possession clause in the contract with the borrower and rely on such re-possession clause for enforcing their rights, they should ensure that the re-possession clause is legally valid, complies with the provisions of the Indian Contract Act in letter and spirit, and ensure that such repossession clause is clearly brought to the notice of the borrower at the time of execution of the contract. The terms and conditions of the contract should be strictly in terms of the Recovery Policy and should contain provisions regarding (a) notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) procedure for taking possession of the security; (d) provision regarding final chance to be given to the borrower for repayment of loan before the sale/auction of the property; (e) procedure for giving repossession to the borrower; and (f) procedure for sale/auction of the property.

Use of Lok Adalats

Banks should use the forum of Lok Adalats for recovery of personal loans, credit card loans or housing loans with less than Rs.10 lakh as suggested by the Honourable Supreme Court.

Utilisation of Credit Counsellors

Banks may utilise the services of credit counsellors for providing suitable counselling to borrowers where particular borrowers deserve sympathetic consideration.

Complaints against Banks/Recovery Agents

Complaints received by the Reserve Bank regarding violation of these guidelines and adoption of abusive practices followed by banks' recovery agents would be viewed seriously. The Reserve Bank may consider imposing a ban on a bank from engaging recovery agents in a particular area, either jurisdictional or functional, for a limited period. In case of persistent breach of these guidelines, the Reserve Bank may consider extending the period of ban or the area of ban. Similar supervisory action could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any bank or its directors/officers/agents with regard to policy, practice and procedure related to the recovery process.

Periodical Review

Banks engaging recovery agents have been advised to undertake periodical reviews of the mechanism and also give suggestions to the Reserve Bank for improving the guidelines.

Financial Inclusion – Business Facilitators/Business Correspondents

Pursuant to the announcement made in the Budget Speech 2008-2009 by the Hon'ble Finance Minister, banks have now been permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) in addition to the entities already permitted, subject to appropriate due diligence. While appointing such individuals as BCs, banks should ensure that these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as may be considered appropriate to minimise agency risk.

Further, with a view to ensuring adequate supervision over the operations and activities of BCs, it has been decided that every BC should be attached to and be under the oversight of a specific bank branch to be designated as the base branch. The distance between the place of business of a BC and the base branch should not exceed 15 kms in rural, semi-urban and urban areas. In metropolitan centres, the distance could be up to 5 kms. In case a need is felt to relax the distance criterion, the bank may refer the matter to the district consultative committee (DCC) of the district concerned for approval. Where such relaxations cover adjoining districts, banks may seek clearance from the state level bankers' committee (SLBC), which would also be the concerned forum for metropolitan areas. Such requests may be considered by the DCC/SLBC on merits in respect of under-banked areas or where the population is scattered over a large area and where the need to provide banking services is imperative but having a branch may not be viable.

CRR increased

On a review of the evolving liquidity situation, the Reserve Bank has increased the cash reserve ratio (CRR) to be maintained by banks from 8.00 per cent to 8.25 per cent of their net demand and time liabilities from the fortnight beginning May 24, 2008.

Valuation of Non-SLR Securities issued by GOI

The matter of valuation of special securities issued by the Government of India (GOI) has been examined by the Reserve Bank and it has been decided that, for the limited purpose of valuation, all special securities issued by GOI directly to the beneficiary entities, which do not carry SLR status, should be valued at a spread of 25 basis points above the corresponding yield on GOI securities. These instructions would come into force from the financial year 2008–09.

At present, such special securities comprise of oil bonds, fertiliser bonds, bonds issued to the State Bank of India (during the recent rights issue), Unit Trust of India, Industrial Financial Corporation of India Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.

GCCs/Overdrafts Against 'No-frills' Accounts

With a view to giving further impetus to financial inclusion, the Reserve Bank has advised all scheduled commercial banks (SCBs), including regional rural banks (RRBs), that they may classify 100 per cent of the credit outstanding under general purpose credit cards (GCCs) and overdrafts up to Rs. 25,000 (per account) granted against 'no-frills' accounts in rural and semi-urban areas, as indirect finance to agriculture sector under priority sector landing.

It may be recalled that with a view to providing credit card like facilities in rural areas, with limited point-of-sale and limited automated teller machine (ATM) facilities, all SCBs, including RRBs, were advised in December 2005 to introduce a general credit card scheme for their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit cards. Banks also provide a small overdraft facility against basic banking 'no-frills' accounts. Earlier, 50 per cent of the credit outstanding under GCC was allowed to be classified as indirect finance to agriculture under priority sector.

Rupee Export Credit Interest Rates

The Reserve Bank has advised all scheduled commercial banks that the provision of interest subvention on export credit will continue for one more year, from April 1, 2008 till March 31, 2009. While allowing this benefit, however, banks should ensure that the interest rate after subvention does not fall below 7 per cent which is the rate applicable to agriculture sector under priority sector lending.

UCBs

Undertaking Insurance Business

Primary urban co-operative banks (UCBs), other than those classified as Grade III and IV, and registered in states that have entered into MoU with the Reserve Bank or under the Multi-State Cooperative Societies Act, 2002, are not required to obtain the Reserve Bank's prior approval to undertake insurance business as corporate agent, without risk participation.

Individual Housing Loan Limits Enhanced

The Reserve Bank has permitted Tier II UCBs to extend individual housing loans up to a maximum of Rs.50 lakh per beneficiary of a dwelling unit subject to extant prudential exposure limits.

RRBs

Selling of Loan Assets in Excess of Prescribed Exposure

To enable greater flow of credit to the priority sectors, regional rural banks (RRBs) have been permitted to sell, to other banks, the loan assets held by them under priority sector categories in excess of the prescribed priority sector lending target of 60 per cent.

According to the revised guidelines on lending to priority sector, scheduled commercial banks can undertake outright purchase of any loan asset eligible to be categorised under the priority sector from other banks and financial institutions and classify it under the respective categories of priority sector lending (direct or indirect), provided the loan purchased is held at least for a period of six months.

CUSTOMER SERVICE

Grievance Redressal Mechanism

Reiterating its earlier instruction, the Reserve Bank has advised banks to ensure that they have an effective machinery for redressal of grievances. Banks should have a suitable mechanism for receiving and addressing complaints from/to their customers/constituents with specific emphasis on resolving such complaints fairly and expeditiously regardless of the source of the complaint.

Banks have also been advised to:

(i) ensure that the complaints register is kept at a prominent place in their branches to enable customers to enter their complaints;

(ii) have a system of acknowledging the complaints if received through letters/forms;

(iii) fix a time frame for resolving the complaints received at different levels;

(iv) ensure that complaints emanating from rural areas and those relating to financial assistance to priority sector and government's poverty alleviation programmes also form part of the redressal process; and

(v) prominently display at the branches the names of the complaints redressal officials together with their direct telephone number, fax number, complete address (not Post Box No.) and e-mail address etc.

Where the complaints are not redressed within one month, the concerned branch/controlling office should forward a copy of the complaint to the concerned nodal officer under the Banking Ombudsman Scheme and keep him updated regarding the status of the complaint. This would enable the nodal officer to deal with any reference received from the Banking Ombudsman regarding the complaint more effectively. Further, it is also necessary that the customer is made aware of his rights to approach the concerned Banking Ombudsman in case he is not satisfied with the bank's response. As such, in the final letter sent to the customer regarding redressal of the complaint, banks should indicate that the complainant can also approach the concerned Banking Ombudsman. The details of the concerned Banking Ombudsman should also be included in the letter.

Banks should also give wide publicity to the grievance redressal machinery through advertisements and should also place them on their websites.

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Annual Policy Statement for 2008-09

Dr. Y. Venugopal Reddy, Governor, in a meeting with chief executives of major commercial banks presented the Annual Policy Statement for 2008-09 on April 29, 2008. The highlights are:

Stance

- GDP growth for 2008-09 projected in the range of 8.0-8.5 per cent.
- Inflation to be brought down from the current high level of above 7.0 per cent to around 5.5 per cent in 2008-09.
- M3 expansion to be moderated in the range of 16.5-17.0 per cent during 2008-09.
- Deposits projected to increase by around 17.0 per cent or Rs.5,50,000 crore during 2008-09.
- Growth of non-food credit including investments in bonds/ debentures/shares of public sector undertakings and private corporate sector and commercial paper (CP) placed at around 20.0 per cent in 2008-09.
- The key factors governing the setting of the stance of monetary policy for 2008-09 are (i) the challenge of escalated and volatile food and energy prices; (ii) even as investment demand remains strong, supply elasticities are expected to improve further; (iii) recent initiatives in regard to supply-management by the Government of India and measures relating to the cash reserve ratio by the Reserve Bank of India; (iv) the importance of anchoring expectations relating to both global and domestic developments.
- The Reserve Bank to continue with its policy of active demand management of liquidity through appropriate use of CRR stipulations and open market operations (OMO) including the MSS and the LAF, using all the policy instruments at its disposal flexibly, as and when the situation warrants.
- Barring the emergence of any adverse and unexpected developments in various sectors of the economy, assuming that capital flows are effectively managed, and keeping in view the current assessment of the economy including the outlook for growth and inflation, the overall stance of monetary policy in 2008-09 will broadly be:
    - to ensure a monetary and interest rate environment that accords high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum.
    - to respond swiftly on a continuing basis to the evolving constellation of adverse international developments and to the domestic situation impinging on inflation expectations, financial stability and growth momentum, with both conventional and unconventional measures, as appropriate.
    - to emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

Monetary Measures

- Bank rate kept unchanged at 6.0 per cent.
- Reverse repo rate and repo rate kept unchanged at 6.00 per cent and 7.75 per cent, respectively.
- The Reserve Bank retains the option to conduct overnight repo or longer term repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank would continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.
- Cash reserve ratio (CRR) of scheduled banks increased to 8.25 per cent with effect from the fortnight beginning May 24, 2008.

Developmental and Regulatory Policies

- Indian companies to be allowed to invest overseas in energy and natural resources sectors.
- Reserve Bank can be approached for capitalisation of export proceeds beyond the prescribed period of realisation.
- Loans granted to RRBs for on-lending to agriculture and allied activities to be classified as indirect finance to agriculture.
- The shortfall in lending to weaker sections would be taken into account for contribution to RIDF from April 2009.
- RRBs allowed to sell loan assets to other banks in excess of their prescribed priority sector exposure.
- Reserve Bank to disseminate details of various charges levied by banks.
- Asset classification norms for credit to infrastructure projects relaxed.
- Prudential guidelines for specific off-balance sheet exposures of banks to be reviewed.
- Limit of bank loans to individuals for housing having lower risk weight of 50 per cent enhanced from Rs. 20 lakh to Rs. 30 lakh.
- All transactions of Rs. one crore and above made mandatory to be routed through the electronic payment mechanism.
- The extant eligibility norms for opening on-site ATMs for well-managed and financially sound UCBs dispensed with.
- Regulations in respect of capital adequacy, liquidity and disclosure norms for systemically important NBFCs to be reviewed.
- In collaboration with the Indian Banks' Association (IBA), the Banking Codes and Standards Board of India (BSCBI) to evolve a banking code for small and micro enterprises.
- Banks permitted to classify 100 per cent of the credit outstanding under general credit card (GCC) and overdrafts up to Rs.25,000 against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under the priority sector.
- The minimum net worth criteria for undertaking insurance business dispensed with provided, other criteria as prescribed from time to time are met.
- The limit on individual housing loans increased from Rs.25 lakh to a maximum of Rs.50 lakh in respect of Tier-II UCBs, subject to certain conditions.

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