Credit Information Review

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September 1999

BANKING POLICY

Contingency Planning for Y2K

Cash inventories

The Reserve Bank of India has advised all commercial banks and financial institutions to identify a range of Year 2000 scenarios, prioritise them in order of probability of occurrence and impact potential for business and lay down cost effective approaches to mitigate associated risks. Banks have been asked to maintain adequate cash inventory well in advance in order to obviate the bottlenecks arising from the logistics of indenting, movement and distribution of currency notes.

The issue offices of the Reserve Bank would also be ready to service the requirements of the banks to enable them to commence building currency stocks right from October 1999. For inventory planning to be effective, banks need to review vault capacity, as also address related internal control, insurance and security issues. Banks having currency chests are encouraged to get in touch with the nearest issue office of the Reserve Bank and ensure that their stocks are adequately replenished. The Reserve Bank, on its own has also assured that all its issue offices would have adequate stock of currency notes to meet any exceptional demand.

Core personnel

Banks have also been advised to identify core personnel at their head offices as also at each of their computerised operating locations. The personnel would need to be well versed in implementing the bank's contingency plans and reviving computer systems in the unlikely event of encountering problems on account of Y2K. As far as possible, banks should enlist vendor support and have standby arrangements in their premises during the Year 2000 transition so that problems of technical nature could be expeditiously attended to. The banks would also need to formulate and implement a personal policy in order to ensure that the services of the core personnel are available sufficiently well before the century date change till the end of February - the Leap Year date of Year 2000. The Reserve Bank also considers it necessary for banks to adopt an appropriate 'leave policy' as well as 'transfer policy' so that the identified core personnel would be available right from December15, 1999 through mid March 2000.

Information sharing and disclosure

Earlier, the Reserve Bank of India had advised all financial institutions, non-banking subsidiaries of commercial banks, primary (urban) cooperative banks and primary/ sattelite dealers in Government securities to disclose information on:

i) The extent of exposure to the Year 2000 problem;
ii) What has been done or is being done to address the problem;
iii) Progress in compliance efforts relative to plan drawn by the organisation;
iv) Financial costs incurred in implementing the organisation's Year 2000 programme;
v) Internal and external testing programmes and contingency planning efforts.

Banks have been further advised to place the information before their board of directors in the meetings to be held in June, September and December 1999 and publish it in leading dailies in the same months. Further the information being disclosed should be made under the authority of the Chief Executive Officer of the bank after due diligence verification. A copy of the disclosure statements is required to be sent to the Reserve Bank with a copy to their respective Regional Offices for information and record.

Statutory audit for the year 1998-99

All commercial banks/non-banking subsidiaries of commercial banks/financial institutions/primary (urban) cooperative banks/ primary/sattelite dealers in government securities are requested to forward the Reserve Bank a copy of the 'Management Representation Letter' along with the Management's Assessment of the Year 2000 Issue (part I &II) provided by the organisation to the Statutory Auditors and the auditor's opinion, if any, in this regard.

Hard copies as standby

As a precautionary measure, banks have also been advised to prepare hard copies of all their books and customer accounts as on December 31,1999.

The Reserve Bank monitors the progress on Y2K compliance by the financial sector on a monthly basis. Information on Y2K efforts of the Reserve Bank is available on the RBI website under a special URL: www.y2k.rbi.org.in

Delegation of Powers for Compromise

It has been decided with the approval of the Government of India to enhance the powers of Chairman and Managing Directors (CMDs) of public sector banks for waiver/write-off of loans from the existing limit of Rs.10 lakh to Rs.50 lakh. The board of directors of public sector banks may, therefore, delegate suitable powers to the CMD in respect of proposals involving write-off/ waiver, remission up to Rs.50 lakh. Consequently, the powers delegated to the CMDs in respect of proposals involving write-off/waiver, remission up to Rs.10 lakh will also stand amended.

After the board takes a view on the delegation of powers to CMD, Executive Director (ED) may be delegated powers to the extent of 75 per cent of those delegated to the Chairman and Managing Director. As a consequence of the revision in the delegation of powers to Chairman and Managing Director and Executive Director for loan compromise/write-off of proposals, the board may revise the powers of other functionaries of the bank as considered appropriate.

It may be recalled that while forwarding the guidelines for the constitution of Settlement Advisory Committees (Credit Information Review May 1999), the Reserve Bank had mentioned that the powers of CMDs for waiver/write-off were proposed to be raised to Rs.50 lakh.

Service Charges

The Reserve Bank of India has advised the Indian Banks' Association (IBA) and the Foreign Exchange Dealers Association of India (FEDAI) to totally dispense with the practice of fixing benchmark service charges on behalf of member banks including charges for forex transactions and to give complete freedom to banks in prescribing service charges.

Earlier specific service charges were being fixed by IBA and FEDAI for banking transactions/forex transactions, respectively. The Regulations Review Authority (RRA) set up by the Reserve Bank of India reviewed the issue of fixing charges for various transactions by bodies, such as IBA and FEDAI and observed that the existing practice was consistent with the past regime of administered interest rates but is no more consistent with the current accent on competition. It was, therefore, decided that the practice of fixing the benchmark service charges on behalf of member banks should be done away with and the decision to prescribe service charges should be left to the individual banks.

While advising banks to fix their own service charges the Reserve Bank has advised the banks to initiate immediate action in this regard. To avoid complaints the concern banks should ensure that the charges fixed by them, are reasonable and are not out of line with the average cost of providing these services. While fixing service charges for member banks they should also take care to ensure that customers with low volume of activities are not penalised.

BRANCH BANKING

Implementation of RKBY Scheme

The Reserve Bank of India has circulated among all the commercial banks the decision of the Government of India to introduce "Rashtriya Krishi Bima Yojna" (RKBY) from Rabi 1999-2000 season. Accordingly, the existing Comprehensive Crop Insurance Scheme (CCIS) stands withdrawn /discontinued with effect from Rabi 1999-2000 season.
The salient features of RKBY are :

Objectives

- To provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests and diseases;

- To encourage the farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture;
- To help stabilise farm incomes, particularly in disaster years.

Crops covered

The scheme envisages coverage of all crops including cereals, pulses and oilseeds, which are already being covered under the existing CCIS scheme. Three cash crops, i.e., sugarcane, potato and cotton, will be covered in the first year of the operation of the scheme.

All other annual commercial/annual horticultural crops will be placed under insurance cover in a period of three years subject to availability of past yield data.

For the loan disbursed through Kisan Credit Cards (KCC) which are also eligible for coverage, banks will have to maintain all backup records relating to compliance with RKBY and its seasonality discipline, cut-off date for submitting the declarations and end use, etc., as in the case of normal crop loans. The crop loans disbursed through KCC, but outside the purview of the provisions of the RKBY, will not be eligible for coverage.

Farmers to be covered

The new scheme will be available to all the farmers both, loanee and non-loanee, irrespective of the size of their holdings. The scheme covers :

<u>On a compulsory basis:</u> All farmers growing notified crops and availing seasonal agricultural operations (SAO) loans from financial institutions, i.e., loanee farmers.

<u>On a voluntary basis:</u> All other farmers growing notified crops (i.e., non-loanee farmers) who opt for the scheme.

Risks covered and exclusions:

Under the new scheme, comprehensive risk insurance will be provided to cover yield losses arising due to non-preventable risks, viz.,
i) Natural fire and lightning;
ii) Storm, hailstorm, cyclone, typhoon, tempest, hurricane, tornado etc;
iii) Flood, inundation and landslide;
iv) Drought, dry spells;
v) Pest/diseases etc.

Losses arising out of war and nuclear risks, malicious damage and other preventable risks will, however, be excluded.

Sum insured/limit of coverage:

The sum insured (SI) may extend to the value of the threshold yield of the insured crop, if the insured farmer desires. A farmer may, however, also insure his crop beyond the value of the threshold level up to 150 per cent of average yield of notified area on payment of premium at commercial rates.

In case of loanee farmers, the sum insured would be at least equal to the amount of crop loan advanced. Further, the insurance charges will be an addition to the scale of finance for the purpose of obtaining loan.

In case of crop loan disbursement procedures, guidelines of RBI/NABARD would be adopted.

Estimation of crop yield:

The State/UT Government will plan and conduct the requisite number of crop cutting experiments (CCEs) for all notified crops in the notified insurance units in order to assess the crop yield.

The State/UT Governments will maintain a single series of crop cutting experiments (CCEs) and resultant yield estimates, both for crop production estimates and crop insurance.

Corpus fund:

To meet catastrophic losses, a corpus fund would be created with contributions from the Government of India and State/UT on 50:50 basis. A portion of calamity relief fund (CRF) will be used for contribution to the corpus fund.

Area approach and unit of insurance:

The scheme will operate on the basis of 'Area Approach', i.e., defined area for each notified crop for widespread calamities and localised calamities. The 'defined area'/the unit of insurance may be a Gram Panchayat, mandal, hobli, circle, etc., and to be decided by the State/Union Territory (UT). Each participating State/UT will, however, be required to reach the level of Gram Panchayat as the unit in a maximum period of three years.

Implementing agency:

The Government of India has also decided to set up an exclusive organisation for implementation of RKBY in due course. Until that time, the General Insurance Corporation of India (GIC) would continue to function as the implementing agency (IA).

Each scheduled commercial bank, with concurrence of the implementing agency fixes nodal points, which would deal with the IA on behalf of branches in the division/district/state. The nodal points for commercial banks should be at least one level above the branch office. The nodal points for cooperative banks will be the District Central Co-operative (DCC) banks and those for Regional Rural Banks, their head offices.

The Reserve Bank has requested all commercial banks to issue suitable instruction to their branches/nodal offices/controlling offices immediately in regard to implementation of the scheme.

Delivery of Export Credit

The Reserve Bank of India has reiterated its earlier advice to all commercial banks that they should address the deficiencies, if any, in the mechanism of deployment of staff in their organisation to eliminate the bottlenecks in the flow of credit to the export sector. The Reserve Bank had, in May 1984, advised banks to tone up their administrative machinery in order to provide guidance to exporting community in all procedural matters concerning documentation, export finance, exchange rates and exchange control. The Reserve Bank had also advised banks to ensure that their staff was well-versed with the Reserve Bank directives, Foreign Exchange Dealers Association of India Rules and Exchange Control Manual. Further, the Reserve Bank had, in February 28, 1999 also advised all commercial banks that the staff working at operating level at the specialised branches of banks should be provided with adequate training.

The Reserve Bank's reiteration was made against the backdrop of the concern expressed by the exporters that while transferring officials from critical branches dealing in export credit, the banks do not at times ensure that the new incumbents possess adequate knowledge/exposure in the areas of forex as well as export credit. This led to delays in processing/sanctioning of export credit limits subjecting the exporters to the risk of cancellation of export orders.

Regional Rural Banks - Advances to Priority Sector

The Reserve Bank of India has enhanced the financing limits for retail traders, and for housing purposes from Rs.2 lakh to Rs.5 lakh. Loans for repairs to damaged houses similarly stands raised from Rs.25,000 to Rs.50,000 per borrower.

Earlier, Regional Rural Banks were permitted to provide loans up to Rs.2 lakh to retail traders, and for construction of houses (except to their own employees and advances up to Rs.25,000 for repairs to damaged houses.

Revised PMRY Targets for 1999-2000

The Reserve Bank of India has advised all scheduled commercial banks (excluding Regional Rural Banks) to instruct their regional controlling offices/branches for accepting the revised targets for the Prime Ministers Rozgar Yojna (PMRY) fixed by the Government of India to the four states namely, Goa, Manipur, Arunachal Pradesh and Meghalaya. The state-wise basic additional/total targets allotted are as follows :

Revised targets under PMRY-1999-2000

Sr. No.	State	Basic Target	Additional Target	Total
1	Goa	500	100	600
2	Manipur	1000	350	1350
3	Arunachal Pradesh	100	400	500
4	Meghalaya	300	250	550

The banks are further advised to instruct their regional controlling offices/branches to achieve the allocated targets by March 31, 2000.

EXCHANGE CONTROL

Indian Overseas Investment

Enhanced limits

The Government of India, Ministry of Commerce has further liberalised the guidelines for Indian Direct Investment in Joint Ventures (JV)/ Wholly Owned Subsidiaries (WOS) abroad under the Fast Track Route of the Reserve Bank. Accordingly, the existing ceiling of Rs. 60 crore on Indian rupee investment in Nepal and Bhutan in respect of which applications are considered by the Reserve Bank has been raised to Rs.120 crore. Further, the Reserve Bank would now consider applications for investment in SAARC countries and Myanmar up to U.S.$ 30 million against the existing ceiling of U.S.$15 million. The current ceiling of U.S.$15 million will continue to remain applicable for investment in other countries. Other terms and conditions for approval under the Fast Track Route remain unchanged.

Extension of time limit

It has now been decided that requests for extension in the validity period of two years in respect of approvals issued for setting up of JV/WOS abroad up to six months may be allowed by the regional offices of the Reserve Bank without reference to the Central Office.

Import of Drawings and Designs

Authorised dealers have now been permitted to allow remittance towards import of drawings and designs through e-mail or fax, subject to certain conditions. In such cases authorised dealers should advise importers to keep the custom authorities informed of such imports made by them. It has also been clarified that irrespective of mode of import of drawings and designs, research and development cess has to be paid if it is applicable under the Research and Development Cess Act, 1986.

Issue of Commercial Paper to OCBs

The Reserve Bank in an amendment to its earlier instructions, has extended the general permission to Indian companies to issue commercial paper to overseas corporate bodies also, on non-repatriation basis subject to certain terms and conditions.
Earlier, the Reserve Bank had granted general permission to Indian companies to issue commercial papers to non-resident Indians.

LEC (NRI) Statement

Non-resident Indians/Overseas corporate bodies are now permitted to buy or sell the equity shares/debentures through their own brokers who are authorised members of registered stock exchanges and report such purchases/sales of the bank with whom their portfolio account is maintained. Consequently, form LEC (NRI) has been suitably amended so as to include, the number of shares purchased/sold by NRIs/OCBs through their brokers. Earlier, the link offices of authorised dealers submitted a statement in form LEC(NRI) giving company-wise details of purchase/sales of shares/debentures made by all the designated branches on a daily basis.

The Credit Information Review is also available through a special URL (www.cir.rbi.org.in) on the RBI website (www.rbi.org.in)

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