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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Operations of Indian Banks' Foreign Branches/Subsidiaries

The Reserve Bank has clarified the position regarding the applicability of various statutory and regulatory prohibitions/ restrictions to the operations of foreign branches and subsidiaries of Indian banks as indicated below :

Section 5 (b) of the Banking Regulation Act (B R Act), 1949 defines the business of banking and Section 6 (1) lays down the various forms of business which banking companies can engage in. These Sections are also applicable to public sector banks by virtue of a specific mention thereof in their respective statutes. Further, in terms of Section 19 (1) of the B R Act, a bank can form a subsidiary company only for (i) undertaking an activity which is permitted to the parent bank itself under Section 6 (1), ibid; (ii) carrying out the business of banking, exclusively outside India; and (iii) undertaking such other business, considered conducive to the spread of banking in India, that the Reserve Bank may permit in public interest. This Section too is applicable to public sector banks by virtue of the provisions of Section 51 of the B R Act.

In the course of operations of Indian banks' branches and subsidiaries abroad, it is possible that while complying with the host-country regulatory requirements in certain jurisdictions, they might be required to undertake an activity which is not permitted under the B R Act/the respective statute of the public sector bank. In such circumstances, banks should ensure to obtain necessary permission under Section 6 (1) (m) or 19 (1) (c), as the case may be, from the Reserve Bank/Government of India for undertaking such activities.

Foreign branches/foreign subsidiaries need not obtain the Reserve Bank's prior approval for transacting in financial products which are not available in the Indian market and on which no specific prohibition has been currently placed by the Reserve Bank, provided these are merely plain-vanilla financial products. Banks should, however, ensure that their foreign branches/subsidiaries, dealing with such products in foreign jurisdictions, have adequate knowledge, understanding and risk management capability for handling such products. Such products should also be appropriately captured and reported in the off-site returns furnished to the Reserve Bank. These products would also attract prudential norms, such as, capital adequacy, credit exposure, periodical valuation, and all other applicable norms. In case the current Reserve Bank norms do not specify prudential treatment of such financial products, it would be incumbent upon banks to seek specific guidance from the Reserve Bank in the matter.

If, however, foreign branches/foreign subsidiaries of Indian banks propose to handle structured financial products, banks should obtain the Reserve Bank's prior approval for the purpose by furnishing full particulars of these products including their regulatory treatment prescribed by the host-country regulators (for capital adequacy, valuation, pricing, exposure norms, etc), as also the risk management systems in place in the branch/subsidiary to deal with such products.

Unhedged Forex Exposure

Reiterating its earlier instructions of December 2003, the Reserve Bank has advised banks that their Board policy should cover unhedged foreign exchange exposure of all their clients including small and medium enterprises (SMEs). Further, for arriving at the aggregate unhedged foreign exchange exposure of clients, their exposure from all sources, including foreign

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currency borrowings and external commercial borrowings (ECBs) should be taken into account.

Banks which have large exposures to clients should monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those clients, whose total foreign currency exposure is relatively large (about USD 25 million or its equivalent). The review of unhedged exposure for SMEs should also be done on a monthly basis. In all other cases, banks are required to put in place a system to monitor and review such position on a quarterly basis.

In the case of consortium/multiple banking arrangements, the lead role in monitoring the unhedged foreign exchange exposure of clients, would have to be assumed by the consortium leader/bank having the largest exposure.

Financial Inclusion

In order to sustain the momentum for financial inclusion, banks have been advised to :

(i) ensure that steps are taken to provide banking services nearer to the location of the no-frills account holders through a variety of channels including satellite offices, mobile offices, business correspondents, etc.;

(ii) consider providing general credit card (GCC)/small overdrafts along with no-frills accounts to encourage the account holders to actively operate the accounts;

(iii) conduct awareness drives so that the no-frills account holders are made aware of the facilities offered;

(iv) review the extent of coverage in districts declared as 100 per cent financially included so as to meet the gaps in banking facilities to those desirous of obtaining such facilities; and

(v) efficiently leverage on the technology enabled financial inclusion initiatives, such as, smart cards with bio-metric access involving hand held devices/mobile phones being implemented in various states with the Reserve Bank's support.

An evaluation of the progress made in the districts that had reported 100 per cent financial inclusion was taken up by independent external agencies. Accordingly, studies were conducted in 26 districts in the states of Andhra Pradesh, Gujarat, Himachal Pradesh, Karnataka, Orissa, Punjab, Rajasthan and West Bengal. The findings of the study reveal that although the state level bankers' committees (SLBCs) have declared several districts as 100 per cent financially included, actual financial inclusion has not been to that extent in all the districts. Further, most of the accounts that have been opened as a part of the financial inclusion drive have remained inoperative due to various reasons. There is a need for SLBC/ district consultative committees (DCCs) to actively step up the awareness with regard to 'no frills' accounts as this continues to be poor in many districts.

Internal Assignments by Statutory Auditors

The Reserve Bank has advised banks that audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the bank during the same year. In case the audit firms are associated with internal assignment it should be ensured that they relinquish the internal assignment before accepting the statutory audit assignment during the year.

Banks to disclose Loan processing Fees/Charges

Reiterating its earlier instructions, the Reserve Bank has advised banks/financial institutions (FIs) to ensure that all information relating to charges/fees for processing are invariably disclosed in the loan application forms. Further, banks must inform the 'all-in-cost' to the customer to enable him to compare the rates charged with other sources of finance.

It may be recalled that in March 2007, banks/FIs were advised that loan application forms in respect of all categories of loans, irrespective of the amount of loan sought by the borrower, should be comprehensive. Further, the form should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower.

CRR/Repo Rate/Reverse Repo Rate reduced

CRR

Cash reserve ratio (CRR) to be maintained by scheduled banks has been reduced by 50 basis points from 5.50 per cent to 5.00 per cent of their net demand and time liabilities (NDTL), effective from the fortnight beginning January 17, 2009.

Repo Rate

The fixed repo rate under the liquidity adjustment facility (LAF) has been reduced by 100 basis points from 6.5 per cent to 5.5 per cent from January 2, 2009

Reverse Repo Rate

The reverse repo rate under the LAF has been reduced by 100 basis points from 5 per cent to 4 per cent from January 2, 2009.

UCBs

Delay in Cheque Collection

While disposing off a case filed before the National Consumer Dispute Redressal Commission, New Delhi under the Consumer Protection Act, 1986, wherein the complainant had invited attention to delays in cheque clearing and specifically, to the issue of float in local and inter-city clearing, the Commission observed that the Reserve Bank with its wide range of powers under the Payment and Settlement Act, 2007 would try to control the float, if any, arising due to delay in collection of cheques.

In compliance with the orders of the Commission, all primary (urban) co-operative banks (UCBs) have been advised to conform to the timeframe for collection of cheques prescribed by the Commission as indicated below :

- For local cheques, credit and debit should be given on the same day or at the most, on the next day.
- The timeframe for collection of outstation cheques drawn on state capitals/major cities/other locations should be 7/10/14

days, respectively. If there is any delay in collection of cheques beyond this period, interest at the fixed deposit rate, or at a specified rate as per the bank's policy, should be paid to the payee of the cheques. In case the rate is not specified in the bank's cheque collection policy, the applicable rate would be the interest rate on fixed deposits for the corresponding maturity. The timeframe for collection specified by the Commission should be treated as the outer limit and credit should be afforded if the process gets completed earlier. UCBs should not decline to accept outstation cheques deposited by their customers for collection.

- The collection period for outstation cheques and the interest payable in case of delay, should be published on the notice board in a precise manner in bold/visible letters at a conspicuous place in every branch.

Collection of USD Denominated Cheques

Authorised dealer (AD) UCBs have been advised to initiate steps to provide customer friendly collection arrangements for USD denominated cheques. Accordingly, UCBs should -

i) make the US Dollar currency cheque collection scheme transparent and a part of their regular cheque collection policy. Various modes of collection along with the time period and charges for each mode should be appropriately covered in the policy;

ii) widely disseminate the cheque collection policy and also display it on the notice board of their branches and also on their web site;

iii) educate/inform customers suitably of the collection mode based on need, convenience and cost, including the advantages of using electronic modes of payment;

iv) review their cheque collection policies on an on-going basis and explore using faster methods of realization, such as, leveraging on Check-21 facility in the US for saving transit time, direct deposit mechanism with correspondent bank etc., for early collection of USD cheques;

v) reduce the transit period by 2 to 3 days by sending cheques on the same day from branches to the centralised pooling branch and from the centralised pooling branch to the correspondent bank. Use of efficient and reliable courier/postal service may help in reducing the transit time;

vi) explore the possibility of forming/pooling to a service bureau to avail the benefit of imaging the cheques, reduced infrastructure costs, etc., with the intent of saving transit/collection time;

vii) decide the service charges for collection of USD cheques and make them a part of their USD cheque collection policy;

viii) Pay interest on the amount of the cheques from the date of sighting credit in their nostro account till such time the customer account is credited. Interest should be paid at savings bank rate calculated on the amount of proceeds credited to the customer's account;

ix) Pay compensation by way of additional interest to the customer for delay in collection beyond the declared collection period as per the bank's policy, without the customer having to request for the same. The additional interest should be on a 'step-up basis' for the period of delay;

x) Formulate a policy on 'instant' credit for small value cheques as a part of their USD cheque collection policy;

xi) Properly examine and redress customer complaints alleging delay in collection/receipt of proceeds or otherwise; and

xii) Continuously evaluate the industry best practices and adopt such practices wherever feasible.

Provisioning for Standard Assets/Risk Weights

Reviewing its prudential norms on provisioning for standard assets and risk weights for exposures to commercial real estate and non-banking finance companies (NBFCs), the Reserve Bank has advised UCBs that -

Provisioning

The provisioning requirements in case of Tier II UCBs for all types of standard assets have been reduced to a uniform level of 0.40 per cent except in the case of direct advances to the agricultural and SME sectors, which would continue to attract a provisioning of 0.25 per cent, as hitherto. Tier I UCBs should continue to make a general provision of 0.25 per cent on all their standard assets.

The revised norms would be effective prospectively but the provisions held at present should not be reversed. In future, however, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category assets, these should be duly provided for.

Risk Weights

The risk weights for advances to corporates secured by commercial real estate and to NBFCs have been revised as follows:

Commercial Real Estate

Loans and advances secured by commercial real estate would attract a risk weight of 100 per cent as against the earlier risk weight of 150 per cent.

NBFCs

As per extant guidelines, UCBs shall not finance NBFCs other than those engaged in hire-purchase/leasing. Such companies were re-classified as asset finance companies by the Reserve Bank in September 2008. The risk weight on exposure to such companies would remain unchanged at 100 per cent.

SLR Holdings in Government/other approved Securities

The proportion of UCB's statutory liquidity ratio (SLR) holdings in the form of government and other approved securities as a percentage of their net demand and time liabilities (NDTL) have been increased as follows:

(i) Non-scheduled UCBs in Tier I shall maintain SLR in the form of government and other approved securities not less than 7.5 per cent of their NDTL by September 30, 2009 and 15 per cent of their NDTL by March 31, 2010.

(ii) For non-scheduled UCBs in Tier-II, the current prescription of holding SLR in government and other approved securities not less than 15 per cent of their NDTL shall continue up to March 31, 2010.

All non-scheduled UCBs shall be required to maintain SLR in government and other approved securities up to 25 per cent of their NDTL from March 31, 2011 onwards.

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FEMA

ECB Policy - Liberalised

Some aspects of the ECB policy have been modified as indicated below :

(i) As per the extant ECB policy, the all-in-cost ceilings for ECBs, in respect of both automatic as well as approval routes are as under:

Average Maturity Period	All-in-Cost Ceilings over 6 Months LIBOR*
Three years and up to five years	300 bps
More than five years	500 bps

* for the respective currency of borrowing or applicable benchmark.

The all-in-cost Ceilings on ECB have been dispensed with until June 30, 2009. Accordingly, eligible borrowers proposing to avail of ECB beyond the permissible all-in-cost ceilings specified above, may approach the Reserve Bank under the approval route. This relaxation in all-in-cost ceiling would be reviewed in June 2009.

(ii) Corporates engaged in the development of integrated township, have now been permitted to avail of ECB under the approval route. Integrated township includes housing, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities, such as, roads and bridges, mass rapid transit systems and manufacture of building materials. Development of land and providing allied infrastructure form an integrated part of a township's development. The minimum area to be developed should be 100 acres for which norms and standards are to be followed as per the local bye-laws/rules. In the absence of such bye-laws/rules, a minimum of two thousand dwelling units for about ten thousand population will need to be developed. The policy would be reviewed in June 2009.

(iii) NBFCs which are exclusively involved in financing the infrastructure sector are now allowed to avail of ECBs from multilateral/regional financial institutions and government owned development financial institutions for on-lending to borrowers in the infrastructure sector, under the approval route. While considering applications, the Reserve Bank will take into account the aggregate commitment of these lenders directly to infrastructure projects in India. The direct lending portfolio of these lenders vis-à-vis their total ECB lending to NBFCs, at any point of time, should not be less than 3:1. AD Category - I banks should obtain a certificate from the eligible lenders to this effect. This facility would be reviewed in June 2009.

(iv) Entities in the services sector viz., hotels, hospitals and the software sector have now been permitted to avail of ECB up to USD 100 million per financial year under the automatic route, for foreign currency and or rupee capital expenditure for permissible end-use. The proceeds of the ECBs should not, however, be used for acquisition of land.

The modifications to the ECB guidelines have come into force from January 2, 2009. All other aspects of the ECB policy, such as, USD 500 million limit per company per financial year under the automatic route, eligible borrower, recognised lender, end-use, all-in-cost ceiling, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

Payment for Foreign Travel

ADs Category I & II and full-fledged money changers (FFMCs) have been permitted to accept payments made by travellers through debit/credit/pre-paid cards for travel abroad (for private visit or for any other purpose) provided -

(i) Know your customer (KYC)/anti-money laundering (AML) guidelines are complied with;

(ii) sale of foreign currency/issue of foreign currency travellers' cheques is within the limits (credit/pre-paid cards) prescribed by the bank; and

(iii) the purchaser of foreign currency/foreign currency travellers' cheque and the credit/debit/pre-paid card holder is one and the same person.

It may be recalled that in October 2000, ADs were permitted to accept payment in cash up to Rs. 50,000 against sale of foreign exchange for travel abroad (for private visit or for any other purpose). Wherever the sale of foreign exchange exceeds the amount equivalent to Rs.50,000, the payment must be received only by (i) a crossed cheque drawn on the applicant's bank account, or (ii) a crossed cheque drawn on the bank account of the firm/company sponsoring the visit of the applicant, or (iii) a banker's cheque/pay order/demand draft.

NBFCs

Regulation of Excessive Interest charged

The Reserve Bank has issued directions on interest rates to NBFCs as follows:

a) The Board of each NBFC should adopt an interest rate model taking into account relevant factors, such as, cost of funds, margin and risk premium, etc., and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers should be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

b) The rates of interest and the approach for gradation of risks should also be made available on the web-site of the companies or published in the relevant newspapers. The information published in the website/newspapers should be updated whenever there is a change in the interest rates.

c) The rate of interest should be the annualised rate so that the borrower is aware of the exact rate that would be charged to the account.

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