R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2009-11

Monthly Subscription : ₹ 1.

Volume VIII ◆ Issue 4
October 2011

MONETARY AND CREDIT INFORMATION REVIEW

PAYMENT SYSTEM

Domestic Money Transfer Facilities Relaxed

Pursuant to the Reserve Bank having received frequent representations to open up the formal banking channel to facilitate fund transfers of small value, to give impetus to the process of financial inclusion, the guidelines in this regard and related issues were reviewed. Certain relaxations have been made which are expected to provide money transfer facilities in a safe, secure and efficient manner.

The relaxations are:

(a) The cash pay-out arrangements for amounts being transferred out of bank accounts to beneficiaries not having a bank account have been liberalised and the transaction cap has been enhanced from the earlier limit of Rs. 5,000 to Rs. 10,000 subject to an overall monthly cap of Rs. 25,000 per beneficiary.

(b) Walk in customers not having a bank account (for instance migrant workers) can now transfer funds to bank accounts (of family members or others) subject to a transaction limit of Rs. 5,000 and a monthly cap of Rs. 25,000 per remitter.

(c) Transfer of funds are permitted among domestic debit/credit/pre-paid cards subject to a transaction limit of Rs. 5,000 and a monthly cap of Rs. 25,000 per remitter.

While enabling the above indicated domestic fund transfers, banks/non-banks should adhere to the following :

- Banks/non-banks should put in place a robust system of safeguards including velocity checks and alerts to customers about credit into accounts using this facility. Any unusual spurt in volume of credits in a particular account/group of accounts should be immediately investigated. Appropriate authorities should be alerted regarding suspicious transactions.
- Such fund transfers are expected to be effected on a real/near real time basis.
- The total outstanding amount on a prepaid payment instrument should not at any point of time exceed the limits prescribed in the Reserve Bank's guidelines on issuance and operation of prepaid payment instruments.
- Inter-bank settlement of funds should be effected using the Reserve Bank's approved payment systems only.
- Banks/non-banks may fix reasonable charges to popularise the scheme.
- Banks/non-banks should put in place appropriate systems for redressal of customer grievances.
- Customer grievances under this scheme would fall under the purview of the Reserve Bank's Banking Ombudsman Scheme.

The detailed operational instructions are indicated below:

Payment of Amounts Transferred from a Bank Account

In terms of the Reserve Bank's circular of December 24, 2009 on mobile banking, banks are permitted to provide services which facilitate transfer of funds from the accounts of their customers for delivery in cash to the recipients not having bank accounts at an ATM or through an agent appointed as business correspondent (BC). The ceiling on the value of such transfers has been raised from Rs. 5,000 to Rs. 10,000 per transaction subject to a cap of Rs. 25,000 per month. It has been further decided to permit banks to facilitate such fund transfers through any other authorised payment channels as well. The remitting bank should, however, obtain full details of the name and address of the beneficiary.

Payment of Amounts to be Credited to Bank Accounts

Presently, a walk-in customer (person who does not have an account in that bank) at a bank branch can remit funds up to Rs. 50,000 to the bank account of a beneficiary through national electronic funds transfer (NEFT). Besides, banks are also permitted to allow such customers to transfer funds to a bank account of a beneficiary through BCs, ATMs, etc., up to a maximum amount of Rs.5,000 per transaction with a monthly cap of Rs. 25,000. Such a walk-in customer has to provide minimum details like his name and complete address to the remitting bank.

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Card to Card Transfers

It has been decided to permit card-to-card fund transfers in a manner which ensures that the underlying characteristics of the card from which the transfer is initiated are retained. Henceforth, person-to-person fund transfers, in a limited way, from semi-closed prepaid cards would be permitted up to Rs 5,000 per transaction subject to a cap of Rs 25,000 per month.

Penalties for Dishonour of EFT Instructions

The Reserve Bank has exhorted banks to popularise the electronic fund transfer modes amongst their customers by allaying any apprehensions on the rights and remedies available to the payees against dishonour of electronic funds transfer instructions.

Section 25 of the Payment and Settlement Systems Act, 2007 accords the same rights and remedies to the payee (beneficiary) against dishonour of electronic funds transfer instructions for insufficiency of funds in the account of the payer (remitter), as are available to the payee under section 138 of the Negotiable Instruments Act, 1881.

Sub-section (5) of section 25 of the Payment and Settlement Systems Act, 2007 provides for punishment of two years and twice the amount of electronic funds transfer, or both, for dishonour of such electronic funds transfer on par with the penalties stipulated for dishonour of cheques under the Negotiable Instruments Act, 1881.

POLICY

Rupee Export Credit Interest Rates

The Government of India has extended interest subvention of 2 per cent on rupee export credit from April 1, 2011 to March 31, 2012 on the same terms and conditions as earlier, to the following sectors: (i) handicrafts; (ii) handlooms; (iii) carpets; and (iv) small and medium enterprises (SMEs).

Accordingly, banks have been advised to reduce the interest rate chargeable to the exporters as per Base Rate system in the above indicated sectors, by the amount of subvention available subject to a floor rate of 7 per cent. Banks should ensure to pass on the benefit of 2 per cent interest subvention completely to the eligible exporters.

The procedure for claiming subvention would be as follows:

(i) The amount of subvention would be reimbursed on the basis of claim submitted as at the end of respective quarters in the prescribed format.

(ii) The amount of subvention would be calculated on the amount of export credit from the date of disbursement –

 (a) up to the date of repayment; or

 (b) up to the date beyond which the outstanding export credit becomes overdue.

(iii) The claims should be accompanied by an external auditor's certificate certifying that the claims for subvention for the respective quarter are true and correct. Settlement of the claim would be done only on receipt of this certificate.

(iv) Claims should be submitted in the prescribed format to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Mumbai.

KCC Credit included under Direct Agro Finance

The Reserve Bank has clarified to banks that as credit under kisan credit card (KCC) is primarily for agricultural purposes, such credit would be treated as direct finance for agriculture under priority sector lending.

Advances to State Co-operative Banks at Repo Rate

The Reserve Bank has advised that henceforth, the interest on loans and advances granted by it to state co-operative banks under Section 17 (4) (a) of the RBI Act, 1934 for the purpose of general banking business, such as, clearing adjustments, liquidity etc., would be provided at the repo rate. Earlier, such accommodation was provided at the Bank Rate.

FEMA

External Commercial Borrowings

In consultation with the Government of India, the external commercial borrowings (ECB) policy has been further rationalised and liberalised as under -

Limit under Automatic Route Enhanced

(a) Eligible borrowers in real sector-industrial sector-infrastructure sector can avail of ECB up to USD 750 million or equivalent per financial year under the automatic route as against the earlier limit of USD 500 million or equivalent per financial year.

(b) Corporates in specified service sectors viz., hotel, hospital and software can avail of ECB up to USD 200 million or equivalent during a financial year as against the earlier limit of USD 100 million or equivalent per financial year provided the proceeds of the ECBs are not used for acquisition of land.

ECBs designated in INR

(a) All eligible borrowers can avail of ECBs designated in Indian Rupee (INR) from foreign equity holders under the automatic/approval route, as the case may be, as per the extant ECB guidelines.

(b) NGOs engaged in micro finance activities will, however, be permitted to avail of ECBs designated in INR, as hitherto, under the automatic route from overseas organisations and individuals as per the extant guidelines.

Interest During Construction

It has been decided to consider 'Interest During Construction' (IDC) as a permissible end-use for Indian companies which are in the infrastructure sector where "infrastructure" is defined in terms of the extant guidelines on ECBs under the automatic/ approval route, as the case may be, provided (i) the IDC is capitalised; and (ii) is part of the project cost.

The above amendments have come into force from September 23, 2011 and are subject to review at any point of time.

Bridge Finance for Infrastructure Sector

Considering the specific needs of the infrastructure sector, it has been decided to allow Indian companies which are in the infrastructure sector, where "infrastructure" is as defined under the extant guidelines on ECB, to import capital goods by availing of short term credit (including buyers'/suppliers' credit) in the nature of 'bridge finance', under the approval route, subject to the following conditions:

(i) the bridge finance should be replaced with a long term ECB;

(ii) the long term ECB should comply with all the extant ECB norms; and

(iii) Reserve Bank's prior approval should be sought for replacing the bridge finance with a long term ECB.

The designated AD - category I bank should monitor the end-use of funds. Banks in India will not be permitted to provide any form of guarantees. The designated AD - category I bank should evidence the import of capital goods by verifying the bill of entry. All other conditions of ECB, such as, eligible borrower, recognised lender, all-in-cost, average maturity, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged and should be complied with.

The amended ECB policy is effective from September 23, 2011 and is subject to review.

Structured Obligations for Infrastructure Sector

It has been decided to further liberalise the policy relating to structured obligations and to permit direct foreign equity holder(s) as per extant ECB guidelines (minimum holding of 25 per cent of the paid up capital) and indirect foreign equity holders, holding at least 51per cent of the paid-up capital, to provide credit enhancement to Indian companies engaged exclusively in the development of infrastructure and by infrastructure finance companies (IFCs), which have been classified as such by the Reserve Bank.

Credit enhancement by all eligible non-resident entities will henceforth be permitted under the automatic route and the Reserve Bank's prior approval will not be required.

The amended policy has come into force from September 26, 2011 and is subject to review.

Borrowings in Renminbi

Indian companies which are in the infrastructure sector, can now avail of ECBs in Renminbi (RMB), under the approval route, subject to an annual cap of USD one billion pending further review.

Once approved, the Reserve Bank's approval will be valid for a period of three months from the date of issue of the approval letter and the loan agreement should be executed within the validity period. The company may thereafter submit the completed Form 83 to the Reserve Bank's Department of Statistics and Information Management for allotment of loan registration number (LRN) within seven days (from the date the borrower and the lender sign the loan agreement). In case the borrower fails to obtain the LRN within the above period, the Reserve Bank's approval will stand cancelled.

AD Category- I banks will be permitted to open Nostro accounts in Renminbi. The designated AD - Category I bank shall monitor the end-use of funds. Bank(s) in India will not be permitted to provide any form of guarantee(s). All other conditions of ECB, such as, eligible borrower, recognised lender, all-in-cost, average maturity, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged and should be complied with.

The amended ECB policy has come into force from September 27, 2011 and is subject to review.

Opening FCNR(B) A/c in any Freely Convertible Currency

On a review, it has been decided to permit authorised dealer (AD) banks in India to accept Foreign Currency (Non-Resident) Account (Banks) {FCNR (B)} deposits in any permitted currency. 'Permitted currency' for this purpose would mean a foreign currency which is freely convertible as defined in Regulation 2(v) of FEMA 14/2000-RB dated May 3, 2000, and as amended from time to time.

The Committee to Review the Facilities for Individuals under FEMA, 1999 in its Report had recommended that FCNR(B) accounts may be permitted to be opened in any freely convertible currency.

Earlier, deposit of funds in FCNR(B) accounts were accepted in Pound Sterling, US Dollar, Japanese Yen, Euro, Canadian Dollar and Australian Dollar.

UCBs

Internet Banking for Customers

Scheduled urban co-operative banks (UCBs) satisfying certain criteria have been permitted to provide internet banking facility to their customers. Accordingly, scheduled UCBs having a minimum networth of Rs. 100 crore, capital to risk-weighted assets ratio (CRAR) of at least 10 per cent, net non-performing asset (NPA) of less than 5 per cent and having earned net profit continuously in the last three financial years are eligible to offer internet banking facility to their customers. Eligible UCBs desirous of offering internet banking facility, may, with their Board's approval, frame a policy on internet banking in accordance with the Reserve Bank's guidelines of September 26, 2011 and approach the Reserve Bank's Regional Office for permission before offering such facility to their customers.

The application for permission to undertake internet banking should be accompanied by the internet banking policy approved by the Board of Directors. The policy should fit into the bank's overall information technology (IT) and information system (IS) policy. The application should also be accompanied by a cost benefit analysis, details of operational arrangements like the technology adopted, business partners, if any, and systems and controls the bank proposes to adopt for managing risks. The bank should also submit a certificate from a certified information system auditor stating that the IT and IS policy requirements prescribed in the Reserve Bank's guidelines dated September 26, 2011 have been adhered by the bank.

INFORMATION

IBA Model Educational Loan Scheme Modified

Taking into account the operational difficulties in implementing the existing IBA Model Educational Loan Scheme, it was decided to modify and simplify the existing scheme to ensure that ground level disputes arising out of differing interpretations about the scope of the scheme, student eligibility etc., are minimised. The revised scheme has attempted to address the concerns expressed by the bankers and the operational difficulties faced by the branches. The salient aspects of the revised scheme are :

(a) Merit as the sole criteria for eligibility.

(b) Admission under management quota kept outside the scope of the scheme.

(c) The quantum of loan to be justified by the employment potential.

(d) Extension of repayment period to reduce burden on the beneficiaries.

The modified scheme has been approved by the Government of India and the Managing Committee of the Indian Banks' Association (IBA). The modified scheme, together with the guidance notes and frequently asked questions, has been circulated to all the member banks of the IBA on August 30, 2011. The member banks have been advised to adopt and implement the modified Scheme. The details of the revised Scheme are also hosted on IBA's website www.iba.org.in for wider dissemination.

Source: IBA Newsletter

Posted at MUMBAI PATRIKA CHANNEL SORTING OFFICE - GPO on last two working days of every month. **Regd. No. MH/MR/South-30/2009-11**

Banking Ombudsman Conference :

Ten Action Points to improve Customer Service of Banks

The Annual Conference of Banking Ombudsmen was held in the Reserve Bank of India, Mumbai on September 5, 2011. The Conference was inaugurated by Dr. D Subbarao, Governor, Reserve Bank of India. In his inaugural remarks, he stated that, often, prevention was better than cure. In the customer service area too, rendering good customer service was like 'prevention' and was better than the 'cure' which was the various grievances redressal mechanisms. He flagged various issues relating to banks' customer service for the consideration of the participants. He asked whether customer service was a criterion in evaluating the performance of a branch level official or did levying of penalty on a bank reflected in any manner on the staff which caused the levy of penalty; do all banks have customer grievances redressal officer and at what level; were the most important terms and conditions (MITC) explained to the bank customers before they signed the documents; and whether the deviation from most important terms and conditions of a banking product were transparent. He urged bankers to identify ten action points to further improve their customer service.

The decisions which were taken at the Conference were-

1. Indian Banks' Association (IBA) will standardise most important terms and conditions (MITC) for at least ten important banking transactions and circulate among banks for adaptation.
2. Banks would initiate the process of providing one view of all bank accounts of a customer including deposits, loans, etc., with the help of available technology, such as, core banking solution. Banks would complete the process within one year.
3. Banks would convey to the Reserve Bank, a consensus view on the recommendations of the Damodaran Committee Report on Customer Service in Banks that could be immediately implemented.
4. To create awareness about the Banking Ombudsman Scheme, the Banking Ombudsmen will annually share with the local media, information regarding complaints received and resolved, including important cases and awards given.
5. A series of town-hall events will be organised by banks to generate awareness about customer service in banks. Bank customers, bank officials and Banking Ombudsmen will participate in these events.
6. The Reserve Bank/IBA would examine the issues pertaining to monetary compensation for mental harassment suffered by bank customers. Issues that may receive attention in the analysis would be:
   - Whether only actual loss should be considered for compensation.
   - Whether mental harassment issues can be codified for compensation and whether compensation should be capped.
   - Whether the policies of the banks' boards on compensation should inlude mental harassment as a ground for compensation.
7. Banks should issue tax deduction at source (TDS) certificates duly completed in all respects to the account holders and despatch it to their mailing address.
8. In case of ATM/internet based banking transactions, in the event of any monetary dispute involving the customer and the bank, the onus should be on the bank to prove the customer's negligence or mistake. Customer must be compensated for the losses arising out of customers' non-authorised transactions.
9. Banks should initiate steps to incorporate in their 'Code of Fair Practices to the Customers' the following items -
   - Insurance of some reasonable amount on their customers' credit and debit card transactions.
   - Providing periodical loan statements to small borrowers.
   - Borrowers should be conveyed information on the annualised all-in cost (annual effective rate) on their loan accounts.
10. Banks must not recover pre-payment charges in floating rate loans. Banks may also offer long-term fixed rate housing loans to their customers and address their asset liability mismatch (ALM) issues by recourse to the Interest Rate Swaps (IRS) market. Floating rate loans pass on the interest rate risk from banks which are much better placed to manage it, to borrowers and, thus, banks only substitute interest rate risk with potential credit risk. The bank will, however, be free to recover/charge appropriate pre-payment penalties in the case of fixed rate loans.

Background

The Reserve Bank notified the Banking Ombudsman Scheme in 1995. The Scheme provides for a system of quick and inexpensive redressal of customer grievances against banks. The Banking Ombudsman Scheme covers a wide range of complaints concerning deficiency in banking service. The Scheme also allows appeals from complainants and banks in respect of decisions made by the Banking Ombudsman. The Scheme was revised twice - in 2002 and 2006 to expand its scope and coverage. The Scheme, as last amended in 2009, includes complaints for deficiencies arising out of internet banking, non-adherence to the provisions of the Fair Practices Code for lenders or the Code of Bank's Commitment to Customers issued by the Banking Codes and Standards Board of India (BCSBI) and non-observance of the Reserve Bank guidelines on engagement of recovery agents by banks. In addition, the Reserve Bank has also simplified the format for lodging complaint to the Banking Ombudsman.

The Reserve Bank organises a conference of all the Banking Ombudsmen every year. Senior officials from the Banking Codes and Standards Board of India, Indian Banks' Association, Credit Information Bureau of India Limited (CIBIL) and some leading banks are also invited to the Conference for meaningful interaction. Various issues relating to customer service and regulatory measures for improving customer service in the banking sector are discussed in the conference.

Edited and published by **Alpana Killawala** for the **Reserve Bank of India,** Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001 and printed by her at **Onlooker Press,** 16, Sassoon Dock, Colaba, Mumbai - 400 005.
For renewal and change of address please write to the Chief General Manager, Department of Communication, Reserve Bank of India, Central Office Building, 12th floor, Fort, Mumbai - 400 001 without enclosing DD/cheque. MCIR is also available on Internet at www.mcir.rbi.org.in