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# MONETARY AND CREDIT INFORMATION REVIEW

POLICY

## Issuance/Operation of Pre-Paid Payment Instruments - Additional Guidelines

The Reserve Bank has recently issued additional guidelines for the issuance and operation of pre-paid payment instruments in India. The additional guidelines pertain to (i) gift cards issued by banks, non-banking financial companies (NBFCs) and other persons; (ii) prepaid instruments issued to government organisations and other financial institutions (FIs) for onward issuance to beneficiaries/customers; and (iii) prepaid instruments issued to beneficiaries under the money transfer service scheme (MTSS) for loading of cross border inward remittances received by them. The detailed guidelines in this regard are -

### Prepaid Gift Instruments Issued by Banks/NBFCs/Other Persons

Banks/NBFCs/other persons are permitted to issue prepaid gift instruments subject to the conditions that –

- The maximum validity of the pre-paid gift instruments should be one year.
- The maximum value of each such payment instrument should not exceed ₹ 50,000.
- The instruments should not be reloadable.
- Cash withdrawal should not be permitted on such instruments.
- Full 'know your customer' (KYC) of the purchasers of such instruments should be maintained. (Separate KYC would not be required in cases of customers who are issued such instruments against debit to their bank accounts in India which are fully KYC compliant).
- The issuer should maintain the details of the persons to whom such instruments have been issued and make available the details on demand. The issuer should also ensure that full details of the ultimate beneficiary are obtained for furnishing to the regulator or government, as and when requested.
- Entities should adopt a risk based approach, duly approved by their Board, in deciding the number of such instruments which can be issued to a customer, transaction limits, etc.

### Prepaid Instruments Issued to Government Organisations/FIs

Banks are permitted to issue prepaid instruments to government organisations for onward issuance to the beneficiaries of government sponsored schemes. Banks are also permitted to issue prepaid instruments to other FIs for crediting one-time/periodic payments by these organisations to their customers. Such permission is, however, subject to conditions as indicated below –

- The payment instruments are loaded only by debit to a bank account, maintained by the government organisations with the same bank. Reloading of these instruments should also be carried out only by debit to this account.
- The maximum value of each such payment instrument should not exceed ₹ 50,000.
- Banks should facilitate transfer of funds from such payment instruments to a regular bank account of the beneficiary, if requested for.
- Banks would be responsible for all customer service aspects related to these instruments.

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### Prepaid Instruments Issued for Cross Border Inward Remittance

Banks are permitted to issue prepaid instruments to principal agents approved under the Reserve Bank's money transfer service scheme (MTSS) or directly to the beneficiary under the scheme for loading of funds from inward remittances, subject to the conditions that –

- Banks should ensure proper identity of the beneficiaries while directly issuing such prepaid payment instruments.
- Banks should satisfy themselves about the systems followed by the agents for identifying the beneficiaries, before issuance of these instruments.
- The card should be loaded only with the remittance proceeds received under the MTSS guidelines.
- The maximum value of such payment instruments should not exceed ₹ 50,000.
- Splitting of single credits among different modes of payment should not be permitted. Any amount received in excess of ₹ 50,000 under MTSS should be paid by credit to a bank account.
- Banks should facilitate transfer of funds from such payment instruments to a regular bank account of the beneficiary, if asked for.
- Banks would be responsible for all customer service aspects related to these instruments.

The Reserve Bank has also amended certain provisions of its guidelines on the issuance and operation of pre-paid instruments in India dated April 27, 2009 and subsequent instructions dated August 14, 2009. The amendment to the guidelines (i) extend the use of semi-closed prepaid instruments intended for payment of utility bills/essential services, for purchase of air/train travel tickets; (ii) permit banks to issue semi-closed prepaid instruments through agents in addition to their business correspondents; and (iii) permit the issue of co-branded prepaid payment instruments.

## RRBs - Branch Licensing Policy Relaxed

As part of further liberalisation of the extant branch licensing policy in respect of regional rural banks (RRBs), they have been permitted to open branches in Tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001) without the Reserve Bank's prior authorisation provided -

(i) the capital to risk-weighted assets ratio (CRAR) is at least 9 per cent;

(ii) the net non-performing assets (NPAs) are less than 5 per cent;

(iii) they have not defaulted in the maintenance of cash reserve ratio (CRR)/statutory liquidity ratio (SLR) during the last year; and

(iv) they have earned a net profit in the last financial year.

Other RRBs would have to continue to approach the Reserve Bank/National Bank for Agriculture and Rural Development (NABARD) as hitherto. As RRBs have to be core banking solution (CBS) compliant by September 30, 2011, after that date, this liberalisation would be available only to the compliant RRBs.

## Repo/Reverse Repo Rates Increased

The repo rate and the reverse repo rate under the liquidity adjustment facility (LAF) have been increased since November 2, 2010 as under :

**Repo Rate :** by 25 basis points from 6.00 per cent to 6.25 per cent.

**Reverse Repo Rate :** by 25 basis points from 5.00 per cent to 5.25 per cent.

## Standing Liquidity Facilities for Banks/PDs

The standing liquidity facilities provided to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 6.25 per cent from November 2, 2010.

# UCBs

## Maximum Limit on Unsecured Loans and Advances

Keeping in view the growth in business of primary (urban) co-operative banks (UCBs) over the years, it has been decided to enhance the limits on unsecured loans and advances granted by UCBs complying with a CRAR norm of 9 per cent. The enhanced limits for grant of unsecured loans (with or without surety or for cheque purchase) are :

### Limits for Individual Borrower and Group Borrower

| Criteria | UCBs with DTL up to ₹ 10 crore | UCBs with DTL above ₹ 10 crore & up to ₹ 50 crore | UCBs with DTL above ₹ 50 crore & up to ₹ 100 crore | UCBs with DTL above ₹ 100 crore |
|---|---|---|---|---|
| UCBs having CRAR equal to or more than 9 per cent | ₹ 1 lakh | ₹ 2 lakh | ₹ 3 lakh | ₹ 5 lakh |
| UCBs having CRAR less than 9 per cent | ₹ 0.25 lakh | ₹ 0.50 lakh | ₹ 1 lakh | ₹ 2 lakh |

### Aggregate Limits

The total unsecured loans and advances (with surety or without surety or for cheque purchase) granted by a UCB to its members should not exceed 10 per cent of its total assets as per the audited balance-sheet as on March 31 of the preceding financial year. The total assets should be reckoned net of losses, intangible assets and contra items like bills receivables, etc.

The enhanced limits would be applicable from November 15, 2010. UCBs having unsecured loans and advances in excess of 10 per cent of their total assets should initiate steps to align their exposure to the revised limits within a period of six months from November 15, 2010.

## Opening of Branches/Extension Counters Liberalised

Liberalising the norms for opening of branches and extension counters by UCBs, the Reserve Bank has advised that well managed and financially sound UCBs can open branches/ extension counters in their approved area of operation beyond the current annual ceiling of 10 per cent and upgrade extension counters which are in operation for more than three years. The revised norms would be effective provided the UCBs have the required capital in terms of assessed net worth per branch, including all the existing branches. The conditions that are required to be fulfilled include-

(a) maintenance of a minimum CRAR of 10 per cent on a continuous basis with minimum owned funds commensurate with the prevalent entry point capital norms for the centre where the branch is proposed/where it is to be registered;

(b) net NPA is less than 5 per cent;

(c) no default in the maintenance of CRR/SLR during the preceding financial year;

(d) continuous net profit has been earned for the last three years;

(e) a sound internal control system with at least two professional directors on its Board; and

(f) regulatory comfort based on inter alia, record of compliance with the provisions of the Banking Regulation Act, 1949 (AACS), RBI Act, 1934 and the instructions/ directions issued by the Reserve Bank from time to time.

UCBs complying with the above norms would be eligible, as hitherto, to open off-site automated teller machines (ATMs) in their approved area of operation without including such proposals in their annual business plans (ABP).

UCBs satisfying these norms should prepare the ABP for opening branches/extension counters/up gradation of extension counters into full-fledged branches, in their existing area of operation, for the next 12 months, with their Board of Directors' approval, and submit the ABP in duplicate to the Reserve Bank’s regional office concerned.

### Extension of Area of Operation

The Reserve Bank has advised that well managed and financially sound UCBs that have a minimum assessed net worth of ₹ 50 crore, would henceforth, be allowed to extend their area of operation beyond the state of registration as also to any other state/s of their choice provided -

(a) CRAR is not less than 10 per cent;

(b) net NPA is less than 5 per cent;

(c) no default in the maintenance of CRR/SLR during the preceding financial year;

(d) continuous net profit for the last three years;

(e) sound internal control systems with at least two professional directors on the Board; and

(f) regulatory comfort based on inter alia, record of compliance with the provisions of the Banking Regulation Act, 1949 (AACS), RBI Act, 1934 and the instructions/ directions issued by the Reserve Bank from time to time.

Tier II UCBs registered or deemed to be registered under the Multi-State Cooperative Societies Act, 2002 satisfying the above criteria would be permitted to extend their area of operation to the entire state of original registration.

Well managed and financially sound Uni-state Tier II UCBs satisfying these norms would be permitted to extend their area of operations to the entire state of registration.

UCBs which have acquired weak banks in other state(s) would be allowed to extend their area of operation to the entire state of registration of the target bank provided they have a minimum net worth of ₹ 50 crore. Banks acquiring multi-state status by acquiring a weak bank in another state and whose net worth is below ₹ 50 crore would, however, be permitted to extend their area of operations in the state(s) in which they are acquiring banks, only to the extent of the area of operations of the target bank as hitherto.

Eligible UCBs may approach the Reserve Bank's regional office concerned for approval.

### Housing/Real Estate Sector/Commercial Real Estate

It has now been decided to link housing, real estate and commercial real estate loans of UCBs to their total assets instead of their deposits. Accordingly, the exposure of UCBs to housing, real estate and commercial real estate loans would, henceforth, be limited to 10 per cent of their total assets, instead of 15 per cent of their deposits. The total assets may be reckoned based on the audited balance sheet as on March 31 of the preceding financial year. This ceiling of 10 per cent of total assets can be exceeded by an additional limit of 5 per cent of total assets for granting housing loans to individuals for purchase or construction of dwelling units costing up to ₹ 10 lakh. For reckoning total assets, losses, intangible assets, contra items like bills receivables etc., would be excluded.

The revised limits of credit exposure to housing, real estate and commercial real estate would be applicable from November 15, 2010. UCBs having exposure in excess of the above limits should initiate steps to align their exposure to the revised limits within a period of six months from November 15, 2010.

### Exemption from Share Linking to Borrowing Norm

UCBs which maintain CRAR of 12 per cent or above on a continuous basis, have been exempted from the extant mandatory share linking norms. This exemption would be effective from November 15, 2010.

Earlier, it was mandatory for borrowers of UCBs to subscribe to the shares of the bank to the extent of 2.5 - 5.0 per cent of their borrowings.

## FEMA

### Repatriation of Export Receipts - Online Payment Gateways

Authorised Dealer Category- I (AD Category-l) banks have been permitted to offer the facility of repatriation of export related remittances by entering into standing arrangements with online payment gateway service providers (OPGSPs), subject to the conditions that -

(i) The AD Category-I banks offering this facility should carry out the due diligence of the OPGSP.

(ii) This facility would be available only for export of goods and services of value not exceeding USD 500.

(iii) AD Category-I banks providing such facilities should open a NOSTRO collection account for receipt of the export

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related payments facilitated through such arrangements. Where the exporters availing of this facility are required to open notional accounts with the OPGSP, it should be ensured that no funds are allowed to be retained in such accounts and all receipts should be automatically swept and pooled into the NOSTRO collection account opened by the AD Category-I bank.

(iv) A separate NOSTRO collection account should be maintained for each OPGSP or the bank should be able to delineate the transactions in the NOSTRO account of each OPGSP.

(v) The debits which would be permitted to the NOSTRO collection account opened under this arrangement are:

* Repatriation of funds representing export proceeds to India for credit to the exporter's account.
* Payment of fee/commission to the OPGSP as per the predetermined rates/frequency/arrangement.
* Charge back to the importer where the exporter has failed in discharging his obligations under the sale contract.

(vi) Balances held in the NOSTRO collection account should be repatriated and credited to the respective exporter's account with a bank in India immediately on receipt of the confirmation from the importer and, in no case, later than seven days from the date of credit to the NOSTRO collection account.

(vii) AD Category -I banks should satisfy themselves as to the bonafides of the transactions and ensure that the purpose codes reported to the Reserve Bank in the online payment gateways are appropriate.

(viii) AD Category -I banks should submit all the relevant information relating to any transaction under this arrangement to the Reserve Bank as and when advised to do so.

(ix) Each NOSTRO collection account should be subject to reconciliation and audit on a quarterly basis.

(x) Resolution of all payment related complaints of exporters in India would remain the responsibility of the OPGSP concerned.

(xi) OPGSPs who are already providing such services as per the specific holding-on approvals issued by the Reserve Bank should open a liaison office in India within three months from November 16, 2010, after duly finalising their arrangement with the AD-Category-I banks and obtaining approval from the Reserve Bank's Foreign Exchange Department.

For all new arrangements, the OPGSP should open a liaison office with the Reserve Bank's approval before operationalising the arrangement.

AD Category-I banks desirous of entering into such an arrangement/s should approach the Reserve Bank's Foreign Exchange Department for obtaining one time permission and thereafter report the details of each such arrangement as and when entered into.

## Second Quarter Review of Monetary Policy for the Year 2010-11

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Second Quarter Review of Monetary Policy for the Year for 2010-11 on November 2, 2010. The highlights are:

### Projections

- Real GDP growth for 2010-11 retained at 8.5 per cent.
- Baseline projection of wholesale price index (WPI) inflation for March 2011 retained at 6 per cent.
- Money supply (M3) growth for 2010-11 retained at 17 per cent.
- Growth in non-food bank credit of scheduled commercial banks retained at 20 per cent.

### Stance

The current stance of monetary policy is intended to :

- Contain inflation and anchor inflationary expectations, while being prepared to respond to any further build-up of inflationary pressures.
- Maintain an interest rate regime consistent with price, output and financial stability.
- Actively manage liquidity to ensure that it remains broadly in balance, with neither a surplus diluting monetary transmission nor a deficit choking off fund flows.

### Monetary Measures

- Bank rate retained at 6.0 per cent.
- Repo rate under the LAF increased by 25 basis points from 6.0 per cent to 6.25 per cent.
- Reverse repo rate under the LAF increased by 25 basis points from 5.0 per cent to 5.25 per cent.

### Expected Outcomes

The monetary policy actions are expected to:

- Sustain the anti-inflationary thrust of recent monetary actions and outcomes in the face of persistent inflation risks.
- Rein in rising inflationary expectations which may be aggravated by the structural nature of food price increases.
- Be moderate enough not to disrupt growth.

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