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MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

Entry of Banks into Insurance Business

The Reserve Bank, on January 15, 2015, permitted banks to undertake insurance business by setting up a subsidiary/ joint venture, as well as undertake insurance broking/insurance agency/either departmentally or through a subsidiary subject to certain conditions. However, if a bank or its group entities, including subsidiaries, undertake insurance distribution through either broking or corporate agency mode, the bank/other group entities would not be permitted to undertake insurance distribution activities. In other words, only one entity in the group can undertake insurance distribution by either one of the two modes mentioned above. The Reserve Bank revised the guidelines after reviewing the existing guidelines on conduct of insurance business by banks. Other highlights of the revised guidelines are :

Banks setting up a subsidiary/JV for undertaking insurance business with risk participation

Banks are not allowed to undertake insurance business with risk participation departmentally and may do so only through a subsidiary/ joint venture (JV) set up for the purpose. Banks which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach the Reserve Bank to set up a subsidiary/joint venture company for undertaking insurance business with risk participation:

- The net worth of the bank should not be less than ₹1000 crore;
- The capital to risk weighted assets ratio (CRAR) of the bank should not be less than 10 percent;
- The level of net nonperforming assets should be not more than 3 percent.
- The bank should have made a net profit for the last three continuous years;
- The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

It may be noted that a subsidiary of a bank and another bank will not normally be allowed to contribute to the equity of the insurance company on risk participation basis.

It should also be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. There should be an 'arms length' relationship between the bank and the insurance outfit.

ii) Banks undertaking insurance broking/corporate agency through a subsidiary/JV

Banks require prior approval of the Reserve Bank for setting up a subsidiary/JV. Accordingly, banks desirous of setting up a subsidiary for undertaking insurance broking/corporate agency and which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach the Reserve Bank for approval to set up such subsidiary/JV:

- The net worth of the bank should not be less than ₹ 500 crore after investing in the equity of such company;
- The capital to risk weighted assets ratio (CRAR) of the bank should not be less than 10 per cent;
- The level of net non-performing assets should be not more than 3 percent;

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Monetary Policy Statement

On the basis of an assessment of the current and evolving macroeconomic situation, the Reserve Bank in its Sixth Bi-Monthly Monetary Policy Statement, 2014-15 announced on February 3, 2015, decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 7.75 percent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 percent of net demand and time liabilities (NDTL);
- reduce the statutory liquidity ratio (SLR) of scheduled commercial banks by 50 basis points from 22.0 percent to 21.5 percent of their NDTL with effect from the fortnight beginning February 7, 2015;
- replace the export credit refinance (ECR) facility with the provision of system level liquidity with effect from February 7, 2015;
- continue to provide liquidity under overnight repos of 0.25 percent of bank-wise NDTL at the LAF repo rate and liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily variable rate term repo and reverse repo auctions to smooth liquidity.

Consequently, the reverse repo rate under the LAF remain unchanged at 6.75 percent, and the marginal standing facility (MSF) rate and the Bank Rate at 8.75 percent.

Earlier, in the Monetary Policy Statement, announced on January 15, 2015, the Reserve Bank had reduced the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 8.0 percent to 7.75 percent with immediate effect. Consequently, the reverse repo rate under the LAF stood adjusted to 6.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 8.75 percent with immediate effect.

Display of Information by Banks

In order to further enhance transparency in pricing of credit, the Reserve Bank advised all banks on January 22, 2015, to adhere to the following additional instructions, with effect from April 1, 2015:

a) *Website:*

- Banks should display on their website the interest rate range of contracted loans for the past quarter for different categories of advances granted to individual borrowers along with mean interest rates for such loans.
- The total fees and charges applicable on various types of loans to individual borrower should be disclosed at the time of processing of loan as well as displayed on the website of banks for transparency and comparability and to facilitate informed decision making by customers.
- Banks should publish Annual Percentage Rate (APR) or such similar other arrangement of representing the total cost of credit on a loan to an individual borrower on their websites so as to allow customers to compare the costs associated with borrowing across products and/ or lenders.

b) *Key Statement/ Fact Sheet:*

Banks should provide a clear, concise, one page key fact statement/fact sheet, as per the prescribed format, to all individual borrowers at every stage of the loan processing as well as in case of any change in any terms and conditions. The same may also be included as a summary box to be displayed in the credit agreement.

Entry of Banks into Insurance Business

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- The bank should have made a net profit for the last three continuous years;
- The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

On both the cases, the Reserve Bank's approval would factor in regulatory and supervisory comfort on various aspects of the bank's functioning, such as, corporate governance, risk management.

Banks undertaking corporate agency functions/broking functions departmentally

Banks need not obtain prior approval of the Reserve Bank to act as corporate agents on fee basis, without risk participation/ undertake insurance broking activities departmentally, subject to IRDA Regulations, and compliance with certain conditions.

Banks undertaking referral services

In terms of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations 2010, no bank is presently eligible to conduct insurance referral business.

Excluding Some Directors from Wilful Defaulters' List

The Reserve Bank, on January 7, 2015, decided to exclude the names of non-promoter/ non-whole time directors (Nominee and Independent directors) from the list of Wilful Defaulters in view of their limited role in the management of a company's debt contracts, except in the rarest circumstances which also have been specified in the Master Circular on Wilful Defaulters. Further, certain substantive changes have also been made in the due process required to be adopted for identification of Wilful Defaulters, to bring in greater transparency and accountability.

Non-Banking Regulation

Membership of Credit Information Companies (CICs)

The Reserve Bank, on January 15, 2015, directed all Credit Institutions (CIs) that within three months:

- All CIs should become members of Credit Information Companies (CICs) and submit data (including historical data) to them. Further, CICs and CIs should keep the credit information collected/ maintained by them, updated regularly on a monthly basis or at such shorter intervals as may be mutually agreed upon between the CI and the CIC. Presently, four CICs, such as, Credit Information Bureau (India) Limited, Equifax Credit Information Services Private Limited, Experian Credit Information Company of India Private Limited and CRIF High Mark Credit Information Services Private Limited have been granted Certificate of Registration by the Reserve Bank. Every Credit Institution shall become member of at least one CIC. A CIC may seek and obtain credit information from its members (Credit Institution / CIC) only.
- Secondly, the one-time membership fee charged by the CICs, for CIs to become their members, shall not exceed ₹ 10,000 each. The annual fees charged by the CICs to CIs shall not exceed ₹ 5000 each.

Foreign Exchange Management

Security for External Commercial Borrowings

The Reserve Bank, on January 1, 2015, permitted Authorised Dealers Category-I (AD Category-I) banks to allow creation of charge on immovable assets, movable assets, financial securities and issue of corporate and / or personal guarantees in favour of overseas lender / security trustee, to secure the External Commercial Borrowings (ECB) to be raised / raised by the borrower, subject to satisfying themselves about stipulations. The AD Category-I bank may permit creation of charge on immovable assets, movable assets, financial securities and issue of corporate and / or personal guarantees, during the currency of the ECB with security co-terminating with underlying ECB, subject to the prescribed conditions.

Non-Resident Guarantee for Non-Fund Based Facilities

The Reserve Bank, on January 6, 2015, clarified that residents that are subsidiaries of multinational companies can also hedge their foreign currency exposure through permissible derivative contracts executed with an AD Category-I bank in India on the strength of guarantee of its non-resident group entity. The method of discharge of liability by the non-resident guarantor under the guarantee and the subsequent repayment of the liability by the principal debtor remain unchanged.

Foreign Investment in India by FPIs

The Reserve Bank on February 3, 2015, instructed all authorised persons that all future investments by Foreign Portfolio Investors (FPI) within the limit for investment in corporate bonds are required to be made in corporate bonds with a minimum residual maturity of three years. Further, all future investments against the limits vacated when the current investment runs off either through sale or redemption, shall be required to be made in corporate bonds with a minimum residual maturity of three years. FPIs shall not be allowed to make any further investment in liquid and money market mutual fund schemes. There will, however, be no lock-in period and FPIs shall be free to sell the securities (including those that are presently held with less than three years residual maturity) to domestic investors. Further, operational guidelines, if any, will be issued by SEBI.

Import of Goods into India

As part of liberalisation of procedures, the Reserve Bank, on February 12, 2015, dispensed with the requirement of submitting request in Form A-1 to the authorised dealer (AD) category– I banks for making payments towards imports into India. AD Category – I may however, need to obtain all the requisite details from the importers and satisfy itself about the bonafides of the transactions before effecting the remittance.

Earlier, persons, firms and companies had to apply in Form A-1, for making payments, exceeding USD 5,000 or its equivalent towards imports into India, as per the notification dated February 21, 2012.

Import of Gold by Nominated Banks / Agencies

The Reserve Bank, on February 18, 2015, clarified on some of the operational aspects of the guidelines on import of gold consequent upon the withdrawal of 20:80 scheme, that:

(i) The obligation to export under the 20:80 scheme will continue to apply in respect of unutilised gold imported before November 28, 2014, that is, the date of abolition of the 20:80 scheme.

(ii) Nominated banks are now permitted to import gold on consignment basis. All sale of gold domestically will, however, be against upfront payments. Banks are free to grant gold metal loans.

(iii) Star and Premier Trading Houses (STH/PTH) can import gold on Document against Payment (DP) basis as per the entitlement without any end use restrictions.

(iv) While the import of gold coins and medallions will no longer be prohibited, pending further review, the restrictions on banks in selling gold coins and medallions are not being removed.

Payment Systems

Display Company Name with Brand Names for Products

To ensure transparency in the promotional material and to build an enduring relationship with the customers, the Reserve Bank on January 2, 2015 advised all authorised entities operating a payment system within the country, to comply with the following:

(i) All the information available to the public regarding the product, whether as advertisements, on website, application form, should prominently carry the name of the entity/company authorised by the Reserve Bank under the Payment and Settlement Act, 2007.

(ii) The authorised entities/companies should also regularly keep the Reserve Bank informed regarding the brand names employed / to be employed for their products.

Under the Payment and Settlement Systems (PSS) Act, an entity operating a payment system within the country has to obtain authorisation from the Reserve Bank. The Certificate of Authorisation (COA) issued by the Reserve Bank to an entity on receiving approval is in the name of the company. However, many authorised entities, which use specific brand names for their products like e-wallets, smart cards, White Label ATMs (WLAs), do not disclose/ disseminate their own company name in the information made available to the users of their products. The public may thus not be able to correlate a product brand name to the name of the entity/company authorised under the PSS Act.

Deadline for Setting up of and Operating TReDS

The Reserve Bank on February 6, 2015, extended the last date for receiving applications for setting up of and operating the Trade Receivables Discounting System (TReDS), to March 9, 2015. The last date for this was February 13, 2015. This has been done keeping in view the difficulties expressed by various parties in meeting the deadline. Accordingly, applications will be accepted till the close of business as on March 9, 2015.

Net-worth of an Entity Operating a Payment System

In order to have uniformity and clarity in respect of the computation of net-worth for an entity authorised under the PSS Act, the Reserve Bank issued guidelines on January 16, 2015 that 'Net-worth' would consist of paid up equity capital, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of assets but not reserves created by revaluation of assets adjusted for accumulated loss balance, book value of intangible assets and deferred revenue expenditure.

Financial Inclusion and Development

Banking Services in Villages with Population below 2000

The Reserve Bank on January 2, 2015, advised State Level Bankers' Committee (SLBC) Convener banks and lead banks to complete the process of providing banking services in unbanked villages with population below 2000 by August 14, 2015 in line with the Pradhan Mantri Jan Dhan Yojana (PMJDY) being implemented through banks in a time bound manner.

Annual Report of the BO Scheme released

The Reserve Bank, on February 12, 2015 released the Annual Report of the Banking Ombudsman Scheme for the year 2013-2014. The report highlights various customer service initiatives by the Reserve Bank and some exemplary cases dealt with by offices of Banking Ombudsman during the year.

Highlights of the Report:

- During the year 2013-2014, the number of complaints received by Banking Ombudsmen increased by 8.55 per cent to 76,573, from 70,541 complaints received during the previous year.
- Banking Ombudsmen disposed-off 96 per cent of the total complaints received.
- Of the total complaints received 32 per cent were against State Bank of India and Associates and nationalised banks each, 22 per cent against private sector banks and 6.5 per cent against foreign banks.
- Complaints pertaining to failure to meet commitment, non-observance of fair practices code, Banking Codes and Standard Board of India (BCSBI) Codes taken together constituted largest category of complaints (26.6 per cent of complaints received), followed by card related complaints (24.1 per cent).
- Non-adherence to prescribed working hours, refusal to accept, or delay in accepting, payments towards taxes, refusal to issue /delay in issuing or failure to service, or delay in servicing, or redemption of Government securities, refusal to close or delay in closing of accounts were other categories of complaints.
- The Appellate Authority handled 107 appeals under the Scheme during the year.
- Awareness campaigns were undertaken by Banking Ombudsmen during the year to ensure greater reach of the Scheme among the members of public.
- The feedback emanating from the complaints handled by the Banking Ombudsmen occasioned several customer-centric policy decisions by the Reserve Bank during the year.

Currency Management

RBI issues Rupee 1 Currency Notes

The Reserve Bank has put in circulation currency notes in one rupee denomination. The notes are printed by the Government of India. These currency notes are legal tender as provided in The Coinage Act 2011. The existing currency notes in this denomination in circulation also continues to be legal tender.'

One Rupee currency note are rectangular in shape, 9.7 x 6.3 cm in size. Paper composition is 100 per cent (Cotton) rag content, 90 GSM (Grams per Square Meter) with tolerance of +/-3 GSM/ 110 microns with tolerance +/-5 microns.

Committee/Guidelines

External Advisory Committee for Small/ Payments Banks

The Reserve Bank, on February 4, 2015, announced the names of the members of the *External Advisory Committee (EAC) for small finance banks*-

- Chairperson: Smt. Usha Thorat, former Deputy Governor
- Shri M.S. Sahoo, Secretary, The Institute of Company Secretaries of India (ICSI)
- Shri M.S. Sriram, Professor at IIM Bangalore & Distinguished Fellow of Institute for Development and Research in Banking Technology (IDRBT);
- Shri M. Balachandran, Chairman, National Payments Corporation of India (NPCI)

The Reserve Bank also announced the names of the members of *the External Advisory Committee for payments banks* –

- Chairman: Shri Nachiket M. Mor, Director, Central Board of Reserve Bank of India;
- Ms. Roopa Kudva, former MD & CEO, CRISIL Limited
- Ms. Shubhalakshmi Panse, former Chairman & Managing Director, Allahabad Bank and
- Shri Deepak Phatak, Chair Professor, IIT Bombay

Earlier, the Reserve Bank had indicated that the applications for small finance banks and payment banks would be initially screened by the Reserve Bank to ensure *prima facie* eligibility of the applicants. An External Advisory Committee (EAC) comprising eminent professionals like bankers, chartered accountants, finance professionals, would evaluate the applications thereafter and that the names of the members of the EAC would also be placed on the Reserve Bank's website.

High Powered Committee on Urban Co-operative Banks

The Reserve Bank, on January 30, 2015, constituted a High Powered Committee under the Chairmanship of Shri R. Gandhi, Deputy Governor, to re-examine and recommend appropriate set of businesses, size, conversion and licensing terms for the Urban Cooperative Banking Sector. This was pursuant to the recommendation made by the Standing Advisory Committee (SAC) on Urban Co-operative Banks (UCBs) in its meeting held on October 20, 2014. SAC is an advisory body convened by the Reserve Bank of India periodically. It is chaired by DG-in-charge of the Department of Cooperative Bank Regulation (DCBR) and has representatives from the sector, Registrars of Co-operative Societies of select States and IBA as its members.

Guidelines for Implementation of CCCBs

The Reserve Bank, on February 5, 2015 placed on its website the final guidelines for implementation of Countercyclical Capital Buffer (CCCB) in India. The framework for CCCB takes immediate effect. However, the activation of CCCB will take place when circumstances warrant.

The Internal Working Group of the Reserve Bank under the Chairmanship of Shri B. Mahapatra had submitted the final Report on the implementation of Countercyclical Capital Buffer (CCCB) in July 2014. The Report made recommendations in areas, such as, indicators that should be used for CCCB decisions, thresholds for activating the buffer, lead time for announcement of buffer, etc.

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