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INFORMATION REVIEW

UCBs

Lending to Self Help Groups/Joint Liability Groups

With a view to further expanding the outreach of primary (urban) co-operative banks (UCBs) and opening an additional channel for promoting financial inclusion, UCBs have been allowed to lend to self help groups (SHGs) and joint liability groups (JLGs). UCBs may, frame a comprehensive policy with their Board's approval, based on the guidelines given below, before undertaking such activity.

Policy

Lending to SHGs/JLGs would be considered as a normal business activity of the bank. The comprehensive policy on lending to SHGs/JLGs framed with the Board's approval, including the maximum amount of loan, interest rate chargeable on loans etc., should form part of the overall credit policy of the bank.

Method of Lending

UCBs may lend directly to SHGs/JLGs. Lending through intermediaries is not permitted.

Enrollment of SHG/JLG as Member

SHGs are small groups, formal/informal, of individuals promoting savings habit among members. These savings are then lent by the group to the members for income generating purposes. On the other hand, JLG is an informal group of individuals coming together for the purpose of availing of bank loan either singly or through the group mechanism against mutual guarantee in order to engage in similar type of economic activities.

The SHG would normally consist of 10 to 20 members whereas a JLG would normally have between 4 and 10 members. Membership matters are governed by the bye laws adopted by the bank and provisions of the respective State Co-operative Societies Acts or the Multi State Co-operative Societies Act, 2002. UCBs should, therefore, be guided by the provisions contained in the respective Act and take prior approval of the registrar of co-operative societies (RCS)/chief registrar of co-operative societies (CRCS), wherever required, while enrolling such members and granting loans to SHGs/JLGs. The bye-laws of UCBs also need to provide for such lending.

Share-linking Norms

The extant instructions on share linking to borrowing would apply for lending to SHGs/JLGs.

Nature of Loan

The extant limits (individual and total) on grant of unsecured loans and advances will not apply to loans granted to SHGs. Loans granted by UCBs to JLGs, to the extent not backed by tangible security would, however, be treated as unsecured and would be subject to the extant limits on unsecured loans and advances.

Exposure

Loans granted to SHGs/JLGs would be governed by the extant guidelines on individual exposure limits.

Amount

The maximum amount of loan to SHGs should not exceed four times of the savings of the group. The limit may be exceeded in case of well managed SHGs subject to a ceiling of ten times of savings of the group. The groups may be rated on the basis of certain objective parameters, such as, proven track record, savings pattern, recovery rate, housekeeping etc.

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JLGs are not obliged to keep deposits with the bank and hence the amount of loan granted to JLGs would be based on the credit needs of the JLG and the bank's assessment of the credit requirement.

Margin/Security

Margin/security requirement will be as per the UCB's Board approved policy.

Documentation

UCBs may prescribe simple documentation for loans to be granted to SHGs/JLGs keeping in view the purpose of the loan and the status of the borrower.

Priority Sector

Loans to SHGs/JLGs for agricultural and allied activities would be considered as priority sector advance. Other loans to SHGs/JLGs up to Rs. 50,000 would be considered as micro credit and hence treated as priority sector advances. Lending to SHGs which qualify as loans to priority sector, would also be treated as part of lending to weaker sections.

Opening of Savings Bank A/c

SHGs/JLGs would be eligible to open savings bank account with UCBs.

KYC Norms

UCBs should adhere to the know your customer (KYC) guidelines in respect of each member of the SHG/JLG before opening savings bank account/granting loans.

POLICY

Repo/Reverse Repo and Marginal Standing Facility Rates

Repo Rate : has been increased by 25 basis points from 7.25 per cent to 7.50 per cent from June 16, 2011.

Reverse Repo Rate : stands adjusted to 6.50 per cent.

Marginal Standing Facility Rate : adjusted to 8.50 per cent from June 16, 2011

All other terms and conditions of the current liquidity adjustment facility (LAF) and marginal standing facility (MSF) schemes remain unchanged.

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 7.50 per cent from June 16, 2011.

NBFCs

Opening of Branch/Subsidiary/Joint Venture/Office Abroad

The Reserve Bank has issued guidelines for non-banking finance companies (NBFCs) desirous of opening branch/subsidiary/joint venture/representative office or undertaking investment abroad. The detailed guidelines are -

(1) No NBFC shall open subsidiary/joint venture/representative office abroad or shall make investment in

any foreign entity without obtaining the Reserve Bank's prior approval in writing.

- (2) These directions are in addition to those prescribed by the Reserve Bank's Foreign Exchange Department for opening of branches abroad and for investments in joint venture/wholly owned subsidiary.
- (3) The general and specific conditions prescribed for opening of subsidiaries/joint ventures/representative office or making investments abroad by a NBFC (both deposit taking and non-deposit taking) registered with the Reserve Bank are -

General Conditions

- (a) Investment in non-financial service sectors shall not be permitted.
- (b) Direct investment in activities prohibited under FEMA or in sectoral funds will not be permitted.
- (c) Investments will be permitted only in those entities having their core activity regulated by a financial sector regulator in the host jurisdiction.
- (d) The aggregate overseas investment should not exceed 100 per cent of the net owned fund (NOF). The overseas investment in a single entity, including its step down subsidiaries, by way of equity or fund based commitment shall not be more than 15 per cent of the NBFC's owned funds.
- (e) Overseas investment should not involve multi layered, cross jurisdictional structures and at most only a single intermediate holding entity shall be permitted.
- (f)
 - The capital to risk-weighted assets ratio (CRAR) of the deposit taking NBFC, post investment in subsidiary abroad, should be not less than that applicable to deposit taking NBFCs in terms of Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time;
 - The CRAR of the NBFC-ND-SI, post investment in subsidiary abroad, should be not less than that applicable to them in terms of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time; and
 - The CRAR of the non-deposit taking NBFCs (other than NBFC-ND-SI), post investment in subsidiary abroad, should not be less than 10 per cent, or as modified from time to time.
- (g) The NBFC should continue to maintain the required level of NOF after accounting for investment in the proposed subsidiary/investment abroad as prescribed in the explanation to Section 45-IA of the RBI Act, 1934.
- (h) The net non-performing assets (NPAs) of the NBFC should not be more than 5 per cent of its net advances.
- (i) The NBFC should be earning profit for the last three years and its performance in general should be satisfactory during the period of its existence.
- (j) The NBFC should comply with the regulations issued under FEMA, 1999 from time to time.

- (k) Regulatory compliance and servicing of public deposits, if held by the NBFC, should be satisfactory.
- (l) The NBFC shall comply with the KYC norms.
- (m) Special purpose vehicles (SPVs) set up abroad or acquisition abroad would be treated as investment or subsidiary/joint venture abroad, depending upon the percentage of investment in overseas entity.
- (n) The NBFC should submit an annual certificate from the statutory auditors to the Regional Office of the Reserve Bank's Department of Non-Banking Supervision (DNBS) where it is registered, certifying that it has fully complied with all the conditions stipulated under these Guidelines for overseas investment.
- (o) The NBFC should submit a quarterly return in the prescribed format to the Regional Office of DNBS and also to the Reserve Bank's Department of Statistics and Information Management.
- (p) If any adverse features come to the notice of the Reserve Bank, the permission granted would be withdrawn.

Specific Conditions

Opening of Branch

As a general policy, NBFCs shall not be allowed to open a branch abroad. NBFCs which have already set up branch(es) abroad for undertaking financial business would, however, be allowed to continue to operate them provided, they comply with the revised guidelines, as applicable.

Opening of Subsidiary

All the conditions stipulated above would be applicable in case a NBFC opens a subsidiary abroad. The no objection certificate to be issued by the Reserve Bank is independent of the overseas regulators' approval process. In addition, the following stipulations are also applicable to all NBFCs:

- In case a subsidiary is opened abroad, the parent NBFC would not be permitted to extend implicit or explicit guarantee to or on behalf of such subsidiary.
- No request for letter of comfort in favour of the subsidiary abroad from any institution in India would be permitted.
- It should be ensured that the NBFC's liability in the proposed overseas entity is restricted to either its equity or fund based commitment to the subsidiary.
- The subsidiary being established abroad should not be a shell company i.e., "a company that is incorporated, but has no significant assets or operations." Companies undertaking activities, such as, financial consultancy and advisory services with no significant assets would, however, not be considered as shell companies.
- The subsidiary being established abroad by the NBFC should not be used as a vehicle for raising resources for creating assets in India for the Indian operations.
- In order to ensure compliance of the provisions, the parent NBFC should obtain periodical reports/audit reports about the business undertaken by the subsidiary abroad and should make them available to the Reserve Bank and its inspecting officials.
- If the subsidiary has not undertaken any activity or such reports are not forthcoming, the approvals given for setting

up a subsidiary abroad would be reviewed/recalled.

- The subsidiary should make disclosure in its balance sheet to the effect that the liability of the parent entity in the proposed overseas entity shall be limited to either its equity or fund based commitment to the subsidiary.
- All the operations of the subsidiary abroad would be subject to the regulatory prescriptions of the host country.

Joint Ventures

Investments abroad, other than in subsidiaries, would also be governed by the same guidelines as those applicable to subsidiaries.

Opening of Representative Office

The representative office can be set up abroad for the purpose of liaison work, undertaking market study and research but not undertaking any activity which involves outlay of funds, provided it is subject to regulation by a regulator in the host country. As it is not envisaged that such office would carry on any activity other than liaison work, no line of credit should be extended.

The parent NBFC shall obtain periodical reports about the business undertaken by the representative office abroad. If the representative office has not undertaken any activity or such reports are not forthcoming, the approvals given for the purpose would be reviewed/recalled.



Remittance of Assets by Foreign Nationals

In order to facilitate foreign nationals employed in India holding valid visas, to collect their pending bonafide dues in India, AD Category-I banks may, now permit such foreign nationals to re-designate their resident account maintained in India as NRO account, on leaving the country after their employment, subject to the conditions that –

- The AD Category-I bank should obtain the full details from the account holder about his/her legitimate dues expected to be received into his/her account.
- The AD Category-I bank should satisfy itself regarding the credit of amounts, which have to be bonafide dues of the account holder, when she/he was a resident in India.
- The funds credited to the NRO account should be repatriated abroad immediately, after ensuring that the applicable income tax and other taxes in India have been paid.
- The amount repatriated abroad should not exceed USD one million per financial year.
- The debit to the account should be only for the purpose of repatriation to the account holder's account maintained abroad.
- There should not be any other inflow/credit to this account other than the account holder's legitimate dues.
- The AD Category-I bank should put in place proper internal control mechanism to monitor the credits and debits to this account.
- The account should be closed immediately after all the dues have been received and repatriated as per the declaration made by the account holder.

PAYMENT SYSTEM

Retail Electronic Payment Systems—Processing Charges

On a review and after consultation with stakeholders, the Reserve Bank has decided to permit clearing houses/processing centres to levy processing charges on the originating banks for retail electronic payment products (NEFT, NECS, RECS and ECS) as under -

- 25 paise (exclusive of service tax) for every outward transaction
- 25 paise (exclusive of service tax) for every return transaction

Destination banks may be paid compensation by the originating banks as below:

- 25 paise (exclusive of service tax) for every credit transaction
- 50 paise (exclusive of service tax) for every debit transaction

The necessary data on number of transactions originated and received by each bank will be provided by the clearing houses/processing centres on a monthly basis. Using this data, banks should put in place necessary systems to calculate the compensation payable/receivable to/from other banks and settle the same amongst themselves.

Banks have also been advised that the charges should be collected on a monthly basis. The participant banks are not permitted to pass on these charges to customers.

These charges would be applicable from July 1, 2011. All clearing houses/processing centres have been advised to put in place a system of recovering their processing charges, and also disseminating suitable data to banks as indicated above.

The Reserve Bank had been waiving processing charges for retail electronic payment products since the year 2006 in order to promote the usage of these systems. The last waiver was valid up to March 31, 2011. In recent years, the usage of these products has increased considerably. While the originating banks are levying charges on their customers, the processing centres and destination banks did not receive any compensation. There has been a demand for compensation from the paying banks/processing centres.

Reconciliation of Failed Transactions at ATMs

The Reserve Bank has been receiving a number of complaints from bank customers regarding debit of accounts even though the automated teller machines (ATMs) have not disbursed cash for various reasons. After examining the procedures involved in verification and resolution of such complaints and with a view to improving the efficiency of operations, the Reserve Bank has advised banks that -

- (a) The time limit for resolution of customer complaints by issuing banks has been reduced from 12 working days to 7 working days from the date of receipt of customer

complaint. Accordingly, if the issuing bank fails to re-credit the customer's account within 7 working days of receipt of the complaint, it should pay compensation to the customer @ Rs. 100/- per day.

- (b) A customer is entitled to receive such compensation for delay, only if a claim is lodged with the issuing bank within 30 days of the date of the transaction.
- (c) The number of free transactions permitted per month at other bank ATMs to savings bank account holders would be inclusive of all types of transactions, financial or non-financial.
- (d) All disputes regarding ATM failed transactions should be settled by the issuing bank and the acquiring bank through the ATM system provider only. No bilateral settlement arrangement outside the dispute resolution mechanism available with the system provider is permissible. This measure is intended to bring down the instances of disputes in payment of compensation between the issuing and acquiring banks.

These instructions would be applicable from July 1, 2011. Banks have been advised to widely publicise these changes at all ATM locations and also by individually intimating their customers.

INFORMATION

Chip Based ATM Cards

A Working Group on "Information Security, Electronic Banking, Technology Risk Management and Tracking Cyber Frauds" had been set up by the Reserve Bank in April 2010. The Group among its various recommendations has suggested that chip based ATM cards may be used as an alternative to magnetic strip based cards as a measure to counter the risks of skimming of ATM cards.

The details of incidents of fraudulent withdrawal of money/theft/robbery from ATM machines reported during the years 2008, 2009 and 2010 by banks are indicated below :

Year	Number of Incidents	Amount (Rs. in lakhs)
2008	34	139.52
2009	41	294.86
2010	67	269.42

It can be seen from the above table that while in terms of number of incidents there has been a steady rise, the amounts involved after registering increase in 2009, have declined in 2010.

However, no time frame has been prescribed for the introduction of chip based cards by banks.

Source : Parliament Questions