



## Volume XI ♦ Issue 4 October 2014

# MONETARY AND CREDIT INFORMATION REVIEW

### Policy

#### Simplification of KYC Norms

The Reserve Bank, on October 21, 2014, clarified to all scheduled commercial banks (excluding regional rural banks)/local area banks/all India financial institutions that:

(i) Banks need not seek fresh proofs of identity and address at the time of periodic updation, from those customers who are categorised as 'low risk', in case of no change in status with respect to their identities and addresses. A self-certification by the customer to that effect should suffice in such cases. In case of change of address of such 'low risk' customers, they could merely forward a certified copy of the document (proof of address) by mail/post. Banks may not insist on physical presence of such low risk customer at the time of periodic updation.

(ii) If an existing Know Your Customer (KYC) compliant customer of a bank desires to open another account in the same bank, there should be no need for submission of fresh proof of identity and/or proof of address for the purpose.

If a customer is non-compliant of KYC requirements despite repeated reminders, banks can impose a 'partial freezing' on such accounts in a phased manner while allowing the account holders to revive their accounts by submitting the KYC documents as per instructions in force. While imposing 'partial freezing', banks should ensure that the option of 'partial freezing' is exercised after initially giving a notice of three months to the customers to comply with KYC requirement, followed by a reminder giving a further period of three months and thereafter imposing 'partial freezing' by allowing all credits and disallowing all debits with the freedom to close the accounts. If the accounts continue to be KYC non-compliant after six months of imposing initial 'partial freezing', banks may disallow all debits and credits from/to the accounts, rendering them inoperative. It would always be open to the bank to close the account of such customers.

The clarification was issued in order to ease the difficulties of customers in complying with the KYC requirements while staying within the overall framework of the Prevention of Money Laundering Act, 2002 (PMLA) and Rules (PMLR).

#### Clarification on Proof of Address

Earlier, on October 13, 2014, the Reserve Bank advised banks to ensure that customers were not unnecessarily asked to submit

additional proof of addresses for current addresses in case where proof of addresses for permanent addresses was already available. The Reserve Bank also advised banks to confirm latest by October 17, 2014, that the bank had communicated the instruction to all their branches.

The clarifications were issued after the Reserve Bank gathered that despite taking several measures towards simplification of KYC norms, customers are still facing difficulties in complying with the periodic updation requirements and some banks are still insisting on submission of a proof of address for the current address even when a customer produces a proof of permanent address, which prevents many prospective customers, especially migrant workers, from opening bank accounts.

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### Fourth Bi-Monthly Monetary Policy Statement, 2014-15

Dr. Raghuram G. Rajan, Governor, announced the Fourth Bi-Monthly Monetary Policy Statement, 2014-15 on September 30, 2014 in Mumbai. On the basis of an assessment of the current and evolving macroeconomic situation, the Reserve Bank decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
- reduce the liquidity provided under the export credit refinance (ECR) facility from 32 per cent of eligible export credit outstanding to 15 per cent with effect from October 10, 2014;

- continue to provide liquidity under overnight repos at 0.25 per cent 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 one-day term repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF will remain unchanged at 7.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 9.0 per cent.

The fifth bi-monthly monetary policy statement is scheduled on Tuesday, December 2, 2014.

### SLR Holdings under HTM Category

Banks were, with effect from August 9, 2014, permitted to exceed the limit of 25 per cent of the total investments under held to maturity (HTM) category provided the excess comprised only SLR securities, and the total SLR securities held in the HTM category was not more than 24.00 per cent of their NDTL as on the last Friday of the second preceding fortnight.

In order to further develop the government securities market and to enhance liquidity, the Reserve Bank decided to bring down the ceiling on SLR securities under the HTM category from 24 per cent of NDTL to 22 per cent in a gradual manner. Accordingly, banks are permitted to exceed the limit of 25 per cent of total investments under HTM category provided:

- (a) the excess comprises only of SLR securities, and
- (b) the total SLR securities held in the HTM category is not more than
- 23.50 per cent effective January 10, 2015,
  - 23.0 per cent effective April 4, 2015,
  - 22.5 per cent effective July 11, 2015 and
  - 22.0 per cent effective September 19, 2015

of their DTL as on the last Friday of the second preceding fortnight.

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to Available for sale (AFS)/Held for trading(HFT), the Reserve Bank decided to allow such shifting of the excess securities at the beginning of January, July and September 2015. This may be in addition to the shifting permitted at the beginning of the accounting year, that is, April 2015. Such transfer to Available for sale (AFS)/Held for trading(HFT) category would be excluded from the 5 per cent cap prescribed for value of sales and transfers of securities to/from HTM category.

### Export Credit Refinance Facilities

The Reserve Bank, on September 30, 2014 advised scheduled commercial banks, excluding regional rural banks(RRBs) that the eligible limit of export credit refinance (ECR) facility has been reduced from the level of 32 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight to 15 per cent effective from October 10, 2014.

### Payment and Settlement Systems

#### Free ATM Transactions on other Bank ATMs

The Reserve Bank, on October 10, 2014 advised all scheduled commercial banks including regional rural banks / urban co-operative banks / state co-operative banks / district central co-operative banks that they have to mandatorily provide services to their customers in other bank's ATMs from November 1, 2014, as under:

(i) Not to charge any fees to their savings bank account customers for five ATM transactions (inclusive of both financial and non-financial) in a month carried out at other bank ATMs irrespective of the location of the ATMs;

(ii) Three transactions (inclusive of both financial and non-financial) would be free of charge if carried out at other bank ATMs located in six metro centres, viz., Mumbai, New Delhi, Chennai, Kolkata, Bengaluru and Hyderabad;

(iii) If transactions are carried out at both the six metro centres and other locations, the total number of transactions (inclusive of both financial and non-financial) free of charge at other bank ATMs would continue to remain at five;

Banks are, however, free to offer more number of free transactions per month at other bank ATMs as well as own ATMs in any geographical location. Banks are also free to decide on the combination (for metro and non-metro locations) of free transactions while adhering to the minimum requirements.

#### CTS - Government Cheques

The Reserve Bank, on September 30, 2014 advised all banks that the date of implementation of the revised procedure of doing away with the requirement of returning paid government cheques back to Government Departments concerned, has been extended by three months to January 1, 2015. Earlier, on September 18, 2014, the Reserve Bank conveyed to all agency banks about the approval of the Controller General of Accounts, Ministry of Finance, New Delhi regarding doing away with the requirement of returning paid government cheques back to Government Departments concerned with effect from October 1, 2014.

As part of enhancing the efficiency in cheque clearing, the Reserve Bank has introduced Cheque Truncation system (CTS) for clearance of cheques facilitating the presentation and payment of cheques without their physical movement.

## Co-operative Banking

### Norms for Classification of UCBs as FSWM

The Reserve Bank, on October 13, 2014 advised that primary (urban) co-operative banks (UCBs) fulfilling the following criteria would now be termed as Financially Sound and Well Managed (FSWM):

- Capital to Risk (Weighted) Assets Ratio (CRAR) of not less than 10 per cent;
- Gross non-performing asset (NPA) of less than 7 per cent and net NPAs of not more than 3 per cent;
- Net profit for at least three out of the preceding four years subject to it not having incurred a net loss in the immediate preceding year;
- No default in the maintenance of CRR / SLR during the preceding financial year;
- Sound internal control system with at least two professional directors on the Board;
- Core Banking Solution (CBS) fully implemented; and
- Regulatory Comfort, that is, a proven record of compliance with the provisions of Banking Regulation Act, 1949 (As Applicable to Cooperative Societies - AACS), Reserve Bank of India Act, 1934 and the instructions/directions issued by the Reserve Bank from time to time that is, the bank should have an impeccable record of regulatory compliance and no warning letter/cautionary advice should have been issued to or monetary penalty imposed on the bank on account of violation of the Reserve Bank directives/guidelines during the preceding three financial years.

The new criteria would be considered for processing applications received from UCBs for opening of on-site/off-site/mobile ATMs, applications under Annual Business Plans (ABP), extension of area of operation, shifting of premises and all other permissions from the Reserve Bank.

### Internet Banking Facility for UCB Customers

With a view to offering value added services to the customers, the Reserve Bank, on October 13, 2014, permitted all urban

co-operative banks (UCBs) which have fully implemented Core Banking Solution (CBS) and have migrated from Internet Protocol Version 4 (IPv4) to Internet Protocol Version 6 (IPv6), to offer internet banking (view only) facility to their customers subject to compliance to certain prescribed security features. The Reserve Bank further advised UCBs, offering internet banking (view only) facility to their customers, to ensure that online facility offered is strictly non-fund based service (such as, balance enquiry, balance viewing, account statement download, request for supply of cheque-books, etc.) and no online fund-based transactions are allowed. UCBs commencing internet banking (view only) facility, should report to the concerned regional office of the Reserve Bank within one month of operationalisation of the facility.

### KYC Norms – Creating Public Awareness

The Reserve Bank, on September 16, 2014 advised primary (urban) co-operative banks to initiate steps to create awareness and give wider publicity by circulating the poster and booklet comprising a few common questions relating to Know Your Customer (KYC) norms for opening bank accounts, among all their branches. Branches may be advised to make available the booklet to the customers/general public and display the poster prominently in their premises. Progress made in this regard would be reviewed by the Reserve Bank in due course.

The Reserve Bank has been taking several measures to simplify KYC requirements to help the common man open bank accounts. It was, however, observed that despite such measures, the general public was still facing problems in opening a bank account as these measures had not been given adequate publicity and the common man still lacked awareness on the basics of opening a bank account. In order to address these issues, to create public awareness and to give wide publicity to KYC simplification measures, the Reserve Bank published a poster and a booklet on the subject and placed it on its website for banks' use.

### Instruments for Augmentation of Capital Funds

The Reserve Bank, on September 30, 2014 permitted state/central cooperative banks (StCBs/CCBs) to issue long term (subordinated) deposits (LTDs) subject to compliance with their bye-laws/provisions of the Co-operative Societies Act under which they are registered and with the approval of the Reserve Bank of India and the concerned Registrar of Co-operative Societies. LTDs may be issued to members and non-members, including those outside the area of operation of the StCBs/CCBs concerned. There is no prohibition on existing shareholders subscribing to LTD. The amounts raised through LTDs will be eligible to be treated as lower Tier II capital subject to compliance with prescribed terms and conditions.

## Banking Supervision

### MoU on Supervisory Cooperation with Kenya

The Reserve Bank signed the Memorandum of Understanding (MoU) on "Supervisory Cooperation and Exchange of Supervisory Information" with the Central Bank of Kenya on October 16, 2014. The MoU was signed by Prof. Njuguna Ndung'u, Governor, Central Bank of Kenya and Dr. Raghuram G. Rajan, Governor, on behalf of the Reserve Bank. The signing ceremony was held at Hyderabad. Shri S.S. Mundra, Deputy Governor and Shri Chandan Sinha, Executive Director, were present.

### Suggestions invited for Utilisation of Unclaimed Deposits

The Committee appointed by the Ministry of Finance to examine issues related to unclaimed amounts lying in various small savings schemes (Chairman: Shri Harun R. Khan, Deputy Governor, Reserve Bank of India), has invited suggestions/ideas from general public/senior citizens/welfare organisations and non-government organisations associated with welfare of senior citizens on appropriate use of unclaimed amount lying in various small savings schemes in post offices and banks. Interested persons/organisations may submit their suggestions/ideas to the Joint Director, National Savings Institute, Government of India, Ministry of Finance, 'A' Block, 4th Floor, CGO Complex, Seminary Hills, Nagpur-440006 or email them to [nsi@nsiindia.gov.in](mailto:nsi@nsiindia.gov.in), latest by November 15, 2014. The National Savings Institute is providing Secretarial support to the Committee.



### Inter-Bank Hindi Essay Competition: 2014-15

The Reserve Bank has announced three topics for the inter-bank Hindi Essay Competition to be held for 2014-15. These are:

- (i) रिटेल बैंकिंग का भविष्य;
- (ii) भारतीय बैंकिंग क्षेत्र-चुनौतियाँ और अवसर;
- (iii) ग्राहक सेवा में इंटरनेट बैंकिंग का महत्व

Participants may send their essay in Hindi on any one of the given topics. The last date for submission is December 31, 2014.

Some important rules for the competition are:

- The word limit for the essay is between 3000 and 4000 words.
- The Essay should be typed on one side in quarto size paper. Handwritten essays will also be accepted provided they are neatly written and are legible.
- The amount of First, Second and Third Prize is ₹ 11,000/-, ₹ 7,000/- and ₹ 5,000/-, respectively.

With this, the Reserve Bank has signed 22 such MoUs and one Letter for Supervisory Co-operation. The Reserve Bank has been signing the Memorandum of Understanding and Letter for Supervisory Co-operation with supervisors of other countries to promote greater co-operation and share supervisory information among the authorities.

## FEMA

### Risk Management and Inter Bank Dealings: Hedging

The Reserve Bank, on September 30, 2014 advised Authorised Dealers Category-I (AD Category-I) banks that importers are allowed to book forward contracts, under the past performance route, up to 100 per cent of the eligible limit. Importers who have already booked contracts up to previous limit of 50 per cent in the current financial year, shall be eligible for difference arising out of the enhanced limits.

### ECB in Indian Rupees

The Reserve Bank, on September 3, 2014 advised Authorised Dealer Banks(Category – I) that recognised non-resident External Commercial Borrowings (ECB) lenders may extend loans in Indian Rupees subject to the conditions that (i) the lender should mobilise Indian Rupees through swaps undertaken with an Authorised Dealer Category-I bank in India, (ii) the ECB contract should comply with all other conditions applicable to the automatic and approval routes as the case may be, (iii) the all-in-cost of such ECBs should be commensurate with prevailing market conditions, (iv) for the purpose of executing swaps for ECBs denominated in Indian Rupees, the recognised ECB lender, if it desires, may set up a representative office in India following the prescribed process, (v) the hedging arrangement for ECBs denominated in Indian Rupees extended by non-resident equity-holders shall continue to be governed by extant guidelines.

### Compounding of Contraventions under FEMA

The Reserve Bank, on October 16, 2014, delegated more powers to its regional offices with regard to compounding of select contraventions under Foreign Exchange Management Act (FEMA). These contraventions include:

- Each participant is required to certify in the prescribed form through concerned bank that his/her essay is original and that it has not been sent for prize or publication elsewhere.
- The participants should not write his/her name, address, etc. on the essay.

To encourage original writing in Hindi on banking subjects, the Reserve Bank conducts an inter-bank Hindi Essay competition every year. All Officers and Staff Members (Except Rajbhasha Officers and Translators) can participate in this competition.

The Reserve Bank has advised all public sector banks (including regional rural banks) and financial institutions to inform their staff and publish information regarding the competition in their house journals/Hindi periodicals and also on their websites.

- delay in submission of Foreign Currency- Transfer of Shares (FC-TRS) form in case of transfer of shares from resident to non-resident;
- delay in submission of form FC-TRS on transfer of shares from non-resident to resident;
- taking on record transfer of shares by investee company, in the absence of certified form FC-TRS.

Further, officers attached to the FED, CO Cell, New Delhi office are authorised to compound the contraventions as under:

- contraventions relating to acquisition and transfer of immovable property outside India;
- contraventions relating to acquisition and transfer of immovable property in India;
- contraventions relating to establishment in India of Branch office, Liaison Office or project office; and
- contraventions falling under Foreign Exchange Management (Deposit) Regulations, 2000.

The powers to compound the contraventions have been delegated to all regional offices and FED, CO Cell, New Delhi, respectively, without any limit on the amount of contravention. Kochi and Panaji ROs can compound these contraventions if the amount of contravention is below Rupees one crore (₹1,00,00,000). The contraventions of Rupees one crore (₹1,00,00,000) or more under the jurisdiction of Panaji and Kochi Regional Offices and all other contraventions of FEMA will continue to be compounded by the Cell for Effective Implementation of FEMA (CEFA), Mumbai, as earlier.

Concerned entities may submit applications for compounding these contraventions, up to the prescribed amount of contravention, to the respective regional offices under whose jurisdiction they fall or to FED, CO Cell, New Delhi, respectively. For all other contraventions, applications may continue to be submitted to CEFA, Foreign Exchange Department, 5th floor, Amar Building, Sir P.M.Road, Mumbai 400001.