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MONETARY AND CREDIT INFORMATION REVIEW

UCBs

Use of Business Correspondents/Business Facilitators

With the objective of ensuring greater financial inclusion and increasing the outreach of primary urban co-operative banks (UCBs) in providing basic and affordable banking services in their areas of operation, the Reserve Bank will now consider requests from well managed and financially sound UCBs to engage business facilitator (BF)/business correspondent (BC) using information and communication technology (ICT) solutions. Accordingly, UCBs may, with their Board's approval, formulate a scheme for use of BFs/BCs and submit the same to the concerned regional office of the Reserve Bank. The detailed guidelines in this regard are -

Eligibility

UCBs which satisfy the following criteria are eligible to engage the services of BCs/BFs.

(a) CRAR of more than 10 per cent;

(b) net NPAs less than 5 per cent;

(c) no default in the maintenance of cash reserve ratio (CRR) and statutory liquidity ratio (SLR) during the preceding financial year;

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

(e) at least two elected 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.

BF Model

Eligible Entities: Under the BF model, UCBs may use intermediaries, such as, non-government organisations (NGOs)/micro finance institutions (MFIs) set up under societies/ trust Acts, farmers' clubs, co-operative societies, other than primary & credit co-operatives, community based organisations, IT enabled rural outlets of corporate entities, post offices, insurance agents, well functioning panchayats, village knowledge centres, agri clinics/agri business centres, krishi vigyan kendras, Khadi and Village Industries Commission (KVIC)/Khadi and Village Industries Board (KVIB) units, and individuals as BFs depending on the comfort level of the bank, for providing facilitation services. Directors of UCBs and their relatives as also serving employees of UCBs are, however, not eligible to act as BFs.

Scope of Activities: The facilitation services may include: (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submission of applications to UCBs; (v) promotion and nurturing self help groups (SHGs)/joint liability groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of SHGs/ joint liability groups/credit groups/others; and (viii) follow-up for recovery.

Where individuals are engaged as BFs, UCBs should take adequate precautions and conduct proper due diligence.

B C Model

Eligible Entities: Under the BC model, NGOs/MFIs set up under societies/trust Acts, co-operative societies registered under Mutually Aided Co-operative Societies Acts or the Co-operative Societies Acts of states, other than primary/co-operative credit societies, post offices, retired bank employees, ex-servicemen, retired teachers, retired government employees, individual kirana/medical/fair price shop owners, individual public call office (PCO) operators, agents of small savings

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schemes of Government of India/insurance companies, individuals who own petrol pumps, authorised functionaries of well run SHGs linked to UCBs or any other individual, including those operating common service centres, may act as BCs. Directors of UCBs and their relatives as also serving employees of UCBs are, however, not eligible to act as BCs. UCBs may also engage companies registered under Section 25 of the Companies Act, 1956 provided, the companies registered under Section 25 are stand-alone entities, or Section 25 companies in which NBFCs, banks, telecom companies and other corporate entities or their holding companies do not have equity holdings in excess of 10 per cent. If UCBs in the North Eastern Region intend to engage as BCs any other organisation/association not falling under any of the above categories of BCs, they may, after due diligence, approach the Reserve Bank's regional office at Guwahati for approval. UCBs are also permitted to allow, with suitable and adequate safeguards, the BCs in the North Eastern Region to account for the transactions in the banks' books latest by the end of the second working day from the date of the transaction.

Scope of Activities: In addition to the activities listed under the BF Model, the scope of activities to be undertaken by the BCs would include (i) disbursal of small value credit; (ii) recovery of principal/collection of interest; (iii) collection of small value deposits; (iv) sale of micro insurance/mutual fund products/pension products/other third party products; and (v) receipt and delivery of small value remittances/other payment instruments.

The activities to be undertaken by the BCs would be within the normal course of the bank's banking business, but conducted by BCs at places other than the bank premises.

The arrangements with the BCs should specify -

- suitable limits on cash holding as also limits on individual customer payments and receipts;
- that the transactions are accounted for and reflected in the bank's books by end of the day or next working day; and
- all agreements/contracts with the customer should clearly specify that the bank is responsible to the customer for acts of omission and commission of the BF/BC.

With a view to ensuring adequate supervision over the operations and activities of the BCs, every BC will be attached to and be under the oversight of a specific bank branch to be designated as a base branch. The distance between the place of business of a BC and the base branch should not exceed 30 kms in rural, semi-urban and urban areas and 5 kms in metropolitan centres. While engaging BCs, UCBs should ensure that the area covered by them is strictly within their eligible area of operation.

UCBs should conduct thorough due diligence of the entities proposed to be appointed as BCs and also institute additional safeguards, as may be considered appropriate, to minimise the agency risk. In engaging intermediaries as BCs, UCBs should ensure that they are well established, enjoying good reputation and having the confidence of the local people. UCBs should also ensure that individuals engaged as BCs are permanent residents of the area in which they propose to operate as BCs. UCBs should give wide publicity in the locality about the intermediary engaged by them as BC and take measures to avoid being misrepresented.

In case, the BCs appointed by UCBs desire to appoint sub-agents at the grass-root level to render the services of a BC, UCBs should ensure that: (i) the sub-agents of BCs fulfill all relevant criteria stipulated for BCs; (ii) BCs appointed by them carry out proper due diligence in respect of the sub-agent to take care of the reputational and other risks involved; and (iii) the distance criterion of 30 kms/5 kms, as applicable, from the base branch should invariably be fulfilled in the case of all sub-agents. Further, where individuals have been appointed as BCs, they cannot in turn appoint sub-agents.

Service Charges/Commission/Fees

To ensure viability of the BC model, UCBs (and not BCs) are permitted to collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy. Considering the profile of the clientele to whom banking services are being delivered through the BC model, UCBs should ensure that the service charges/fees collected from the customer for delivery of banking services through the BC model are fair and reasonable. UCBs should ensure that there are no complaints from customers about the charges being non-transparent/not reasonable. Any unfair practices adopted by UCBs in this regard would be viewed seriously by the Reserve Bank.

UCBs may pay reasonable commission/fee to the BFs/BCs, the rate and quantum of which may be reviewed periodically. The agreement with the BFs/BCs should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

Grievance Redressal

UCBs should constitute a grievance redressal machinery within the bank for redressing complaints pertaining to services rendered by BFs and BCs and widely publicise it through the electronic and print media. The name and contact number of the designated grievance redressal officer of the bank should be widely publicised and also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC and also at the base branch. The designated officer should ensure that genuine grievances of customers be redressed promptly.

The bank's grievance redressal procedure and the time frame fixed for responding to the complaints should be placed on the bank's website.

If a complainant does not get satisfactory response from the bank within 60 days from the date of lodging the complaint, he/she will have the option to approach the office of the Banking Ombudsman (in case the complaint is against scheduled UCBs) or the concerned regional office of the Reserve Bank's Urban Banks Department for redressal of grievances.

KYC

Compliance with 'know your customer' (KYC) norms would continue to be the responsibility of UCBs. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, UCBs should adopt a flexible approach within the parameters of KYC guidelines issued from time to time. In addition to introduction from any person on whom KYC has been done, UCBs can also rely on certificates of identification issued by the intermediary being used as BC, block development officer, head of village panchayat, post master of the post office concerned or any other public functionary.

Other Terms/Conditions

As the engagement of intermediaries as BFs/BCs involves significant reputational, legal and operational risk, due consideration should be given by UCBs to those risks. They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner.

The implementation of the BF/BC model should be monitored closely by controlling authorities of UCBs, who should specifically look into the functioning of BFs/BCs during the course of their periodical visits to the branches. UCBs should also put in place an institutionalised system for periodically reviewing the implementation of the BF/BC model at the Board level.

Information regarding BCs engaged by UCBs may be placed on their website. The UCBs' annual report should also include the progress in respect of extending banking services through the BC model and the initiatives taken in this regard.

For streamlining cash management, UCBs may consider adopting 'cash routes' (linking various BCs, which are in close proximity to each other to a base branch) wherever warranted with suitable cash transit insurance.

UCBs should consider bearing the initial set up cost and other costs of the BCs and extend a handholding support to the BCs, at least during the initial stages. UCBs may consider providing reasonable temporary overdrafts to the BCs.

POLICY

Housing Loans – LTV Ratio/Risk Weight/Provisioning

The Reserve Bank has announced measures regarding housing loans sanctioned by commercial banks. These are -

Loan to Value Ratio

In order to prevent excessive leveraging, the loan to value (LTV) ratio in respect of housing loans hereafter should not exceed 80 per cent. For small value housing loans, i.e. housing loans up to Rs. 20 lakh (which get categorised as priority sector advances), however, the LTV ratio should not exceed 90 per cent. Earlier, there was no regulatory ceiling on the LTV ratio in respect of banks' housing loan exposures.

Risk Weight

The risk weight on residential housing loans of Rs. 75 lakh and above, irrespective of the LTV ratio, would be 125 per cent to prevent excessive speculation in the high value housing segment. Earlier, the risk weights on residential housing loans with LTV ratio up to 75 per cent were 50 per cent for loans up to Rs. 30 lakh and 75 per cent for loans above that amount. In case the LTV ratio was more than 75 per cent, the risk weight of all housing loans, irrespective of the amount of loan, was 100 per cent.

Provisioning

In view of the higher risk associated with housing loans sanctioned by banks at teaser rates, the standard asset provisioning on the outstanding amount has been increased from 0.40 per cent to 2.00 per cent. The provisioning on these assets would revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.

SLR Reduced

The Statutory Liquidity Ratio (SLR) for scheduled commercial banks (SCBs) has been reduced from 25 per cent of their net demand and time liabilities (NDTL) to 24 per cent from December 18, 2010.

Non-Convertible Debentures

Investment in NCDs

Banks may, henceforth, invest in non-convertible debentures (NCDs) with original or initial maturity up to one year issued by corporates (including NBFCs). While investing in such instruments, however, banks should be guided by the extant prudential guidelines in force, ensure that the issuer has disclosed the purpose for which the NCDs are being issued in the disclosure document and such purposes as are eligible for bank finance.

Banks are further advised that the guidelines on listing and rating requirements pertaining to non-SLR securities issued by the Reserve Bank on November 12, 2003 and December 10, 2003 would not be applicable to banks' investments in NCDs.

Issuance of NCDs

Taking into account the feedback received from the market participants, the Reserve Bank has amended its directions on issuance of NCDs. As per the amendment –

- Financial institutions (FIs) can invest in NCDs of maturity up to one year.
- Non-banking financial companies (NBFCs) including primary dealers that do not maintain a working capital limit have been permitted to issue NCDs of maturity up to one year.
- Foreign institutional investors (FIIs) can invest in NCDs of maturity up to one year subject to extant provisions of the Foreign Exchange Management Act (FEMA) and the Securities and Exchange Board of India (SEBI) guidelines issued in this regard.

BRANCH BANKING

Monitoring End Use of Funds

Banks have been advised to evaluate the efficacy of their existing machinery for post-sanction supervision and follow-up of advances. Wherever possible, the system should be made robust. Illustratively, the systems and procedures may include the following:

- Meaningful scrutiny of the periodical progress reports and operating/financial statements of the borrowers.
- Regular visits to the assisted units and inspection of securities charged/hypothecated to the banks.
- Periodical scrutiny of the borrowers' books of accounts.
- Introduction of stock audits depending upon the extent of exposure.
- Obtaining certificates from the borrowers that the funds have been utilised for the purposes approved. In case of incorrect certification, prompt action, as may be warranted, may be initiated which include, withdrawal of the facilities sanctioned and legal recourse as well. In case a specific

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certification regarding diversion/siphoning of funds is desired from the borrowers' auditors, a separate mandate may be awarded to them and appropriate covenants incorporated in the loan agreements.

- Examination of all aspects of diversion of funds during internal audit/inspection of the branches and at the time of periodical reviews.

PAYMENT SYSTEM

Cheque Collection Charges Reviewed

The Reserve Bank has revised the charges for the collection of local/outstation cheques and speed clearing. While the Reserve Bank would continue to mandate charges for smaller value transactions relating to savings account customers, greater freedom has been accorded to banks to determine charges for larger value transactions, subject to such charges being levied by the banks in a fair and transparent manner. These measures are expected to hasten the migration of transactions to an electronic mode. The revised service charge structure which will come into effect from April 1, 2011 is:

Service (Processing) Charges for Local Clearing (by Clearing Houses from Member Banks)

System	Existing (Rs.)		Revised (Rs.)	
	Presenting Bank	Drawee Bank	Presenting Bank	Drawee Bank
Clearing at MICR-CPCs	1.00	1.00	1.00	1.50
Cheque truncation	0.50	0.50	0.50	1.00

Service Charges for Outstation Cheque Collection

Existing (Rs.)		Revised (Rs.)	
Up to and including 10,000	50	Up to and including 5,000	25^
		Above 5,000 and up to and including 10,000	50*^
Above 10,000 and up to and including 1,00,000	100	Above 10,000 and up to and including 1,00,000	100*^
Above 1,00,000	150	Above 1,00,000	Left to the banks to decide

* No change

^ All inclusive maximum amount chargeable by banks to the customers

Service Charges for Cheque Collection under Speed Clearing (by Collecting Banks from Customers)

Existing (Rs.)		Revised (Rs.)	
Value	Service Charge from all Customers	Value	Service Charge from Savings A/c Customers
Up to and including 1,00,000	Nil	Up to and including 1,00,000	Nil*
Above 1,00,000	150	Above 1,00,000	Left to the banks to decide

Banks are free to fix charges for collection of instruments for credit to other types of accounts. While fixing service charges not mandated above, banks are advised that –

(a) The service charge structure put in place by them should have their Board's approval.

(b) Charges fixed should be reasonable and computed on a cost-plus-basis and not as an arbitrary percentage of the value of the instrument. The service charges structure should not be open ended and should clearly specify the maximum charges that would be levied on customers including charges if any, payable to other banks.

(c) While sharing service charges, the provisions of the Indian Banks' Association's circular of April 8, 2010 should be followed.

(d) It should be ensured that collection charges fixed for instruments of any value are lower under speed clearing vis-a-vis outstation cheque collection so as to encourage the use of speed clearing.

(e) The service charges mandated/fixed by banks are inclusive of all charges (postal, courier, handling, etc.) other than service tax.

Banks should use electronic modes like RTGS/NEFT to remit clearing proceeds to the collecting bank branch availing of outstation cheque collection facility.

NBFCs

NBFCs advised to provision for Standard Assets

The Reserve Bank has advised all NBFCs that it has been decided to introduce provisioning for standard assets. Accordingly -

(i) NBFCs should make a general provision at 0.25 per cent of their outstanding standard assets.

(ii) The provisions on standard assets should not be reckoned for arriving at net non performing assets (NPAs).

(iii) The provisions towards standard assets need not be netted from gross advances but shown separately as 'contingent provisions against standard assets' in the balance sheet.

(iv) NBFCs are allowed to include the 'general provisions on standard assets' in Tier II capital which together with other 'general provisions/loss reserves' will be admitted as Tier II capital up to a maximum of 1.25 per cent of the total risk-weighted assets.

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