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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Repo/Reverse Repo/MSF Rates

The repo/reverse repo/marginal standing facility (MSF) rate has been reduced/adjusted from April 17, 2012 as indicated below -

Repo rate under the liquidity adjustment facility (LAF) reduced by 50 basis points from 8.50 per cent to 8.00 per cent.

Reverse repo rate under the LAF automatically adjusted to 7.00 per cent

Marginal standing facility rate automatically adjusted to 9.00 per cent.

In order to provide greater liquidity cushion, from April 17, 2012, the borrowing limit of scheduled commercial banks under the MSF has been raised from one per cent to two per cent of their net demand and time liabilities (NDTL) outstanding at the end of the second preceding fortnight. Banks can continue to access overnight funds under the MSF against their excess SLR holdings.

Standing Liquidity Facilities for Banks/Primary Dealers

The standing liquidity facilities provided to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank made available at the revised repo rate, i.e., at 8.00 per cent from April 17, 2012.

Bank Rate

The Bank Rate adjusted by 50 basis points from 9.50 per cent to 9.00 per cent from April 17, 2012. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also revised as indicated on page 2.

BRANCH BANKING

Small Savings Schemes - Interest Rates revised

The Government of India have notified that from April 1, 2012, the interest rates on Public Provident Fund Scheme, 1968 (PPF, 1968) and Senior Citizens Savings Scheme, 2004 (SCSS, 2004) for the financial year 2012-13, on the basis of the interest compounding/payment built-in in the schemes, will be as under:

Scheme	Rate of interest (per annun) from 1.12.2011	Rate of interest (per annun) from 1.04.2012
5 year SCSS, 2004	9.0 per cent	9.3 per cent
PPF, 1968	8.6 per cent	8.8 per cent

All agency banks have been advised to bring the revised interest rates to the notice of their bank branches operating the PPF, 1968 and SCSS, 2004 schemes. This information should also be displayed on the notice boards of the bank branches for the information of the PPF, 1968 and SCSS, 2004 subscribers.

Compensation for Delayed Payment

Agency bank have been advised to compensate an investor in relief/savings bonds, for the financial loss due to late receipt/delayed credit of interest warrants/maturity value, at a fixed rate of 8 per cent per annum. The Reserve Bank may review the compensation rate as and when considered appropriate.

It may be recalled that on December 9, 2011 agency banks were advised to compensate an investor in relief/savings bonds, for the financial loss due to late receipt/delayed credit of interest warrants/maturity value, at their own savings bank rate for respective amounts (i.e., up to Rs.1 lakh and over Rs. 1 lakh) without any discrimination.

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Penal Interest Rates which are linked to the Bank Rate

Item	Existing Rate	Revised Rate (Effective from April 17, 2012)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls).	Bank Rate plus 3.0 percentage points (12.50 per cent) or Bank Rate plus 5.0 percentage points (14.50 per cent).	Bank Rate plus 3.0 percentage points (12.00 per cent) or Bank Rate plus 5.0 percentage points (14.00 per cent).

Opening Accounts of Proprietary Concerns

On a review, it has been decided to include the following documents in the indicative list of required documents for opening accounts of proprietary concerns:

(i) The complete income tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the income tax authorities.

(ii) Utility bills, such as, electricity, water, and landline telephone bills in the name of the proprietary concern.

PAYMENT SYSTEMS

Sub-membership to Centralised Payment Systems

On a review, it has been decided to expand the sub-membership route to enable all licenced banks to participate in national electronic funds transfer (NEFT) and real time gross settlement system (RTGS) systems. This would be an alternate mechanism for all licenced banks which have the technological capabilities but are not participating in centralised payment systems on account of either not meeting the access criteria or because of cost considerations. This arrangement would be subject to the following conditions:

(i) The sub-member/s would participate in the centralised payment systems through their sponsor bank which is a direct member of the centralised payment system.

(ii) In order to ensure compliance with timely credit and return discipline which are of utmost importance in centralised payment systems, branches of sub-member/s that are not under core banking system would be kept out of the centralised payment systems till such time they are brought under core banking.

(iii) Sponsor banks would be responsible for sending/ receiving the transactions/messages on behalf of their sub-member/s.

(iv) There are no restrictions on the number of sub-members a sponsor bank could sponsor. Sponsor banks should take care of aspects relating to operational feasibility, risk mitigation, fund settlement, collaterals etc., before sponsoring sub-member/s.

(v) Sponsor banks should put in place a risk management framework and a system of continuous monitoring of the risk management practices of sub-member/s that they desire to sponsor. The risk management framework should be approved by the sponsor bank's Board.

(vi) The settlement of transactions by/on the sub-members would take place in the settlement accounts of the sponsor banks maintained with the Reserve Bank. The sponsor bank under this arrangement will assume complete responsibility for the settlement of all transactions by/on the sub-members.

(vii) Sponsor banks should at all times ensure that their sub-member/s adhere to and abide by the rules, regulations, operational requirements, instructions, orders, decisions etc., of the centralised payment systems, as laid down by the Reserve Bank from time to time.

(viii) Redressal of all customer complaints/grievance would be the responsibility of the sponsor bank. To aid in this process, the sponsor bank should ensure that the sub-member/s have put in place a transparent and robust mechanism to resolve customer complaints in a quick and efficient manner, as laid down in the procedural guidelines, business rules and regulations of the centralised payment systems.

(ix) All disputes between the sponsor bank and the sub-member/s will be handled bi-laterally amongst them.

(x) Sponsor banks should immediately bring to the notice of the Reserve Bank if their sub-member/s -

- involve in any suspicious transactions, frauds, etc.,
- resort to any unfair practices relating to their participation in centralised payment systems; and
- do not adhere to the rules, regulations, operational requirements, instructions etc., of the centralised payment systems.

(xi) Sponsor banks are not required to take the Reserve Bank's prior approval for sponsoring a sub-member/s into the centralised payment systems. As and when they sponsor sub-member/s they should, however, immediately inform the Reserve Bank of the details of the sub-member/s, IFSC/MICR codes allotted to the branch/ branches of sub-member/s, date of commencement of sub-membership ,etc.

(xii) Sponsor banks should immediately inform the Reserve Bank in case of cessation of sponsorship arrangement between them and their sub-member/s.

(xiii) The charges for customer transactions of sub-member/s cannot exceed the charges applicable to customers of sponsor banks/direct members of the centralised payment systems viz., RTGS and NEFT.

ECS Debit Mandate

Observing that banks are not fully adhering to its instructions on electronic clearing service (ECS), the Reserve Bank has reiterated that -

(a) All debit mandates executed by customers authorising debit in their accounts should be authenticated and stored by the destination banks. Any debit to customers' accounts will be raised only on the basis of a valid mandate. If such mandates are not available on their record, banks are not authorised to effect such debits to the customers' accounts.

(b) The account holder should also be given the facility of putting an upper limit for each individual transaction in the mandate, and/or a time limit for operation of a particular ECS mandate (life of a mandate) by the end user/destination banker. The debit to a customer's account has to be within this amount and time limits prescribed by the customer.

(c) Any instructions on withdrawal of mandate by the customer should be accepted by the destination banks without necessitating the customer to obtain the prior concurrence/approval for withdrawal from the beneficiary user institution and will be treated equal to a "stop payment" instruction in the cheque clearing system. After receipt of such instructions for mandate withdrawal, no debit in the account will be permitted. In view of the possibility of multiple mandates in one account, banks should be careful to record the withdrawal of the correct mandate.

Acceptance of NEFT Inward for Credit to Loan A/cs

The Reserve Bank has advised all banks to allow customers to also choose NEFT as one of the electronic modes of making payment towards equated monthly instalments (EMIs)/repayments of loans, etc.

FEMA

AD Category II – Permitted to open Nostro Account

Authorised dealers category-II (AD Category-II) have now been permitted to issue forex pre-paid cards to residents travelling on private/business visits abroad, subject to adherence to know your customer (KYC)/anti-money laundering (AML)/combating financing of terrorism (CFT) requirements. The settlement in respect of forex pre-paid cards should, however, be effected through AD Category-I banks.

To ensure greater flexibility in sending remittances, AD Category-II have also been allowed to open nostro accounts subject to the conditions that -

(i) only one nostro account for each currency should be opened;

(ii) balances in the account should be utilised only for settlement of remittances sent for permissible purposes and not for the settlement in respect of forex prepaid cards;

(iii) no idle balance should be maintained in the account; and

(iv) they would be subject to reporting requirements as prescribed from time to time.

Overseas Direct Investments

The regulations pertaining to opening/holding/maintaining a foreign currency account (FCA) by an Indian party outside India have now been liberalised. An Indian party can now open, hold and maintain FCA abroad for the purpose of overseas direct investments subject to the following conditions:

(i) The Indian party is eligible for overseas direct investments in terms of Regulation 6 (Regulation 7, if applicable) of Notification No. FEMA 120/RB-2004 dated July 7, 2004, as amended from time to time.

(ii) The host country regulations stipulate that the investment into the country is required to be routed through a designated account.

(iii) FCA should be opened, held and maintained as per the regulation of the host country.

(iv) The remittances sent to the FCA by the Indian party should be utilised only for making overseas direct investment into the joint ventures (JVs)/wholly owned subsidiaries (WOS) abroad.

(v) Any amount received in the account by way of dividend and/or other entitlements from the subsidiary should be repatriated to India within 30 days from the date of credit.

(vi) The Indian party should submit the details of debits and credits in the FCA on a yearly basis to the designated AD bank with a certificate from its statutory auditors certifying that the FCA was maintained as per the host country laws and the extant FEMA regulations/provisions as applicable.

(vii) The FCA so opened should be closed immediately or within 30 days from the date of disinvestment from JV/WOS or cessation thereof.

External Commercial Borrowings Policy

On a review of the policy related to external commercial borrowings (ECBs) and keeping in view the announcements made in the Union Budget for the year 2012-13, the extant guidelines on ECBs have been further rationalised and liberalised.

Enhancement of Refinancing Limit for Power Sector

Indian companies in the power sector are now allowed to utilise 40 per cent of the fresh ECB raised towards refinancing of Rupee loan/s availed by them from the domestic banking system, under the approval route, provided that at least 60 per cent of the fresh ECB proposed to be raised is utilised for fresh capital expenditure for infrastructure project(s).

Maintenance/Operation of Toll Systems for Roads/Highways

ECBs would also be allowed for capital expenditure under the automatic route for the purpose of maintenance and

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operations of toll systems for roads and highways provided they form part of the original project.

Refinancing/Rescheduling

Borrowers desirous of refinancing an existing ECB have now been permitted to raise fresh ECB at a higher all-in-cost/ reschedule an existing ECB at a higher all-in-cost under the approval route provided the enhanced all-in-cost does not exceed the all-in-cost ceiling prescribed as per the extant guidelines.

UCBs

Discounting of Bills - Restricted Letters of Credit

In March 2004 primary urban co-operative banks (UCBs) were advised, inter alia, that they should purchase/discount/ negotiate bills under letters of credit (LCs) only for their borrower constituents who have been sanctioned regular credit facilities.

Reviewing these instructions, the Reserve Bank has advised that in case of bills drawn under LCs restricted to a particular UCB, and the beneficiary of the LC is not a borrower who has been granted regular credit facility by that UCB, the UCB concerned may, as per its discretion and based on its perception about the credit worthiness of the LC issuing bank, negotiate such LCs, subject to the condition that the proceeds would be remitted to the regular banker of the beneficiary of the LC. The prohibition regarding negotiation of unrestricted LCs for borrowers who have not been sanctioned regular credit facilities would, however, continue to be in force.

INFORMATION

Unclaimed Deposits lying with Banks

As on December 31, 2011, a total amount of around Rs. 2481.39 crores is lying in 11249844 accounts as unclaimed deposits with scheduled commercial banks. In this regard, the Reserve Bank has directed banks to -

- Play a more pro-active role in finding the whereabouts of the account holders, whose accounts have remained inoperative.
- Annually review accounts in which there are no operations for more than one year.
- Consider launching a special drive for finding the whereabouts of the customers/legal heirs in respect of existing accounts which have already been transferred to the separate ledger of “Inoperative Accounts”.
- Allow operations in such accounts after due-diligence and not to levy any charge for activation of inoperative accounts.
- Display on their website, the list of unclaimed deposits/ inoperative accounts which are inactive/inoperative for ten years or more. The list displayed on the website must contain only the names of the account holder(s) and his/her address.
- Display on their website, information on the procedure for claiming the unclaimed deposit/activating the inoperative account and the necessary forms and documents for claiming the same.
- Complete this process by June 30, 2012.
- Have adequate operational safe-guards to ensure that the claimants are genuine. *(Source: Parliament Questions)*

Annual Monetary Policy Statement for 2012-13

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Annual Monetary Policy Statement for the year 2012-13 on April 17, 2012. Highlights:

Projections

- Baseline projection of GDP growth for the current year is 7.3 per cent.
- Inflation for March 2013 projected at 6.5 per cent.
- M3 growth for 2012-13 projected at 15 per cent.

Stance

- Adjust the policy rates to levels consistent with the current growth moderation.
- Guard against risks of demand-led inflationary pressures re-emerging.
- Provide a greater liquidity cushion to the financial system.

Monetary Measures

- Bank Rate adjusted to 9.0 per cent.
- Cash reserve ratio (CRR) of scheduled banks retained at 4.75 per cent of their NDTL.
- Repo rate under the liquidity adjustment facility (LAF) reduced by 50 basis points from 8.5 per cent to 8.0 per cent.
- Reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, calibrated at 7.0 per cent.
- Marginal standing facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, adjusted to 9.0 per cent.

Expected Outcomes

The policy actions and the guidance are expected to:

- Stabilise growth around its current post-crisis trend.
- Contain risks of inflation and inflation expectations re-surging.
- Enhance the liquidity cushion available to the system.

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