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MONETARY AND CREDIT INFORMATION REVIEW

BRANCH BANKING

Basic Savings Bank Deposit Account

With a view to making basic banking facilities available in a more uniform manner across the banking system, the Reserve Bank has advised banks to offer a 'Basic Savings Bank Deposit Account' to all their customers. Banks have been advised to offer the following minimum common facilities to such account holders:

- No requirement of minimum balance.
- Deposit and withdrawal of cash at bank branch as well as at ATMs.
- Receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by central/state government agencies and departments.
- No limit on the number of deposits that can be made in a month.
- A maximum of four withdrawals in a month, including ATM withdrawals.
- ATM card or ATM-cum-debit card facility.

Banks have been further advised not to levy any charges for providing the above facilities. Further, such account holders should not be charged for non-operation/activation of in-operative accounts.

Banks would be free to evolve other requirements including, pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.

The 'Basic Savings Bank Deposit Account' would be subject to the Reserve Bank's instructions on 'Know Your Customer' (KYC)/Anti-Money Laundering (AML) for opening of bank accounts issued from time to time. If such an account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'small account' and would be subject to the conditions stipulated for such accounts as indicated in the Master Circular on KYC norms/AML standards/ combating of financing of terrorism/obligation of banks under PMLA, 2002 dated July 2, 2012.

Holders of 'Basic Savings Bank Deposit Account' will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a 'Basic Savings Bank Deposit Account'.

Existing basic banking 'no-frills' accounts should be converted to 'Basic Savings Bank Deposit Account'.

Interest Rate on Deposits

The Reserve Bank has advised banks to put in place a board approved transparent policy on pricing of liabilities and also to ensure that the variation in interest rates on single term deposits of Rs.15 lakh and above and other term deposits (i.e. deposits of less than Rs.15 lakh) is minimal for corresponding maturities.

It has been observed that there are wide variations in the interest rates offered by banks on single term deposits of Rs.15 lakh and above and those offered on other deposits (i.e. deposits of less than Rs.15 lakh) of corresponding maturities. Further, banks are offering significantly different rates on

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deposits with very little difference in maturities. This suggests inadequate liquidity management system and inadequate pricing methodologies.

Premature Repayment of Term/Fixed Deposits

The Reserve Bank has reiterated that in case of term deposits with "either or survivor" or "former or survivor" mandate, banks are permitted to allow premature withdrawal of term/fixed deposit by the surviving joint depositor on the death of the other, only if there is a joint mandate from the joint depositors to this effect.

Banks have also been advised once again to incorporate a clause in the account opening form itself to the effect that in the event of death of the depositor, premature termination of term deposits would be allowed subject to the conditions, which may be specified therein. Banks have also been advised to inform their existing as well as future term deposit holders about the availability of such an option.

The joint deposit holders may be permitted to give the mandate either at the time of placing the fixed deposit or anytime subsequently during the term/tenure of the deposit. If such a mandate is obtained, banks can allow premature withdrawal of term/fixed deposits by the surviving depositor without seeking the concurrence of the legal heirs of the deceased joint deposit holder. It is also reiterated that such premature withdrawal would not attract any penal charge.

Out of Pocket Expenses

It has been decided to do away with the practice of the Indian Banks' Association (IBA) prescribing out of pocket expenses on behalf of member banks. The decision to recover out of pocket expenses has now been left to the individual banks. Banks have been advised that while recovering out of pocket expenses, they should ensure that the charges are reasonable and on an actual cost basis.

Earlier, IBA had been prescribing out of pocket expenses for member banks. It had been observed that out of pocket expenses are linked to actual costs incurred by banks towards specific activities like courier/dispatch of documents, telecommunications and 'Swift' operations and that the rates vary depending on the agencies involved as well as the efficacy of services, which differ from bank to bank.

PAYMENT SYSTEM

Compensation for Delay in Clearance of Local Cheques

The Reserve Bank has advised banks to reframe their cheque collection policies (CCPs) to include compensation payable for the delayed period in the case of collection of local cheques as well. In case, no rate is specified in the CCP for delay in realisation of local cheques, compensation at savings bank interest rate should be paid for the corresponding period of delay.

Banks have also been advised to give publicity to their revised CCPs through display board in their branches and on their website for better customer service and dissemination of information.

It may be recalled that in November 2008, banks were advised to specify the time line for realisation of local and outstation cheques in their CCPs, including the compensation payable for delayed credit, if any. Banks were also advised to permit usage of the shadow credit afforded to the customer's account immediately after closure of relative return clearing and in any case, to allow withdrawal on the same day or maximum within an hour of the commencement of business on the next working day, subject to the usual safeguards.

First Quarter Review of Monetary Policy 2012-13

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the First Quarter Review of the Monetary Policy Statement for the year 2012-13 on July 31, 2012. Highlights:

Projections

- Projection of GDP growth for the current year revised downwards from 7.3 per cent to 6.5 per cent.
- Baseline projection for WPI inflation for March 2013 raised from 6.5 per cent to 7.0 per cent.
- M3 growth projection for 2012-13 retained at 15 per cent.

Stance

- Contain inflation and anchor inflation expectations.
- Support a sustainable growth path over the medium term.
- Continue to provide liquidity to facilitate credit availability to productive sectors.

Monetary Measures

- Bank Rate retained at 9.0 per cent.
- CRR of scheduled banks retained at 4.75 per cent of their NDTL.
- SLR of scheduled commercial banks reduced from 24 per cent to 23 per cent of their NDTL.
- Repo rate under the liquidity adjustment facility (LAF) retained at 8.0 per cent.
- Reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, retained at 7.0 per cent.
- Marginal standing facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, retained at 9.0 per cent.

Expected Outcomes

The policy actions and the guidance are expected to:

- Anchor inflation expectations based on the commitment of monetary policy to control inflation.
- Maintain liquidity to facilitate smooth flow of credit to the productive sectors of the economy and thereby support growth.

Issue of Multicity/Payable at all Branches Cheques

Taking into consideration the availability of processing infrastructure for clearing outstation cheques at all clearing locations across the country and to bring about further efficiency in cheque clearing, all core banking solutions (CBS) enabled banks have been advised to issue only “payable at par”/“multi-city” CTS 2010 Standard cheques to all eligible customers. Banks have also been advised to put in place appropriate board approved risk management procedures based on risk categorisation of accounts. Further, since such cheques (payable at par) are cleared as local cheques in clearing houses, customers should not be levied extra charges. Banks have been further advised to place the updated board approved policy on their web-site and also to notify their customers.

It had been observed that, while a few banks are issuing “payable at par”/“multi-city” cheques with a value cap, some other banks issue these cheques as per category of account (high net-worth customers). Instances of banks levying intersol charges when such cheques are cleared at other than the base branch city have also come to the Reserve Bank’s notice.

POLICY

SLR Reduced

The statutory liquidity ratio (SLR) for scheduled commercial banks has been reduced from 24 per cent of their net demand and time liabilities (NDTL) to 23 per cent with effect from the fortnight beginning August 11, 2012.

RRBs

Branch Licensing Policy Relaxed for Tier 2 Centres

With a view to enhancing the penetration of banking services in Tier 2 centres, it has been decided to allow regional rural banks (RRBs) to open branches in Tier 2 centres on par with the existing policy for Tier 3 to 6 centres. Accordingly, RRBs can now open branches in Tier 2 centres (with population of 50,000 to 99,999 as per Census 2001) without taking the Reserve Bank’s permission in each case, provided they fulfill the following conditions, as per the latest inspection report:

- Capital to risk weighted assets ratio (CRAR) is at least 9 per cent.
- Net non-performing asset (NPA) is less than 5 per cent.
- No default in maintenance of cash reserve ratio (CRR)/statutory liquidity ratio (SLR) during the last year.
- Net profit in the last financial year.
- CBS compliant.

RRBs not fulfilling the above conditions would have to continue to approach the Reserve Bank/National Bank for Agriculture and Rural Development (NABARD), as hitherto. RRBs desirous of opening branches in Tier 1 centres (centres with population of 100,000 and above as per Census 2001) would also be required to obtain the Reserve Bank’s prior permission, as hitherto.

RRBs may approach the Reserve Bank’s Regional Office for post-facto automatic issue of the licence/s. The licence should be displayed in the premises of the branch so opened, for the information of its customers/public to instill confidence in them that the branch is authorised to conduct banking business.

Branch Licensing Procedure Simplified

In order to expedite the process of disposal of applications submitted by RRBs for opening, shifting, merger or conversion of branches, the Reserve Bank’s Regional Offices have been delegated powers to take a decision without reference to the concerned Empowered Committees. RRBs may continue to submit their applications to the concerned Regional Office of the Reserve Bank, through the respective Regional Office of NABARD which will give its comments on the merits of the application. If required, the Reserve Bank’s Regional Offices may consult the concerned state government. The approval of the sub-group of the district consultative committee (DCC) will be required, as hitherto, for shifting, merger and conversion of branches.

FEMA

Relaxations to Exchange Earners/Exporters/ADs

On a review of the extant guidelines governing exchange earner’s foreign currency (EEFC) accounts, cancellation and rebooking of forward contracts booked by exporters and the net overnight open position limit (NOOPL) of authorised dealer category-I banks, the Reserve Bank has decided to provide the following operational flexibility to exchange earners/exporters and AD Category-I banks:

- To restore the erstwhile stipulation of allowing credit of 100 per cent foreign exchange earnings to EEFC accounts subject to the condition that, the sum total of the accruals in the account during a calendar month should be converted into rupees on or before the last day of the succeeding calendar month after adjusting for utilisation of the balances for approved purposes or forward commitments.
- To allow exporters to cancel and rebook forward contracts to the extent of 25 per cent of the total contracts booked for hedging their exposure.
- For computation of net overnight open position involving rupee as one of the currencies, AD Category-I banks need not include the positions taken by their overseas branches and also the delta of the options position. It is, however, clarified that these positions will continue to be part of the total NOOPL along with cross-currency positions and positions arising out of exchange traded currency futures/options transactions for calculation of the total foreign currency exposure of banks.

Compounding of Contraventions

The Reserve Bank has clarified that whenever a contravention is identified by the Reserve Bank or brought to its notice by the entity involved in the contravention by way of a reference other than through the prescribed application for compounding, the Reserve Bank will continue to decide whether the contravention -

(i) is technical and/or minor in nature and, as such, can be dealt with by way of an administrative/cautionary advice;

(ii) is material and, hence, is required to be compounded for which, the necessary compounding procedure has to be followed; or

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(iii) involves issues which are sensitive/serious in nature and, therefore, need to be referred to the Directorate of Enforcement.

The Reserve Bank has further clarified that, once a compounding application is filed by the concerned entity *suo moto,* admitting the contravention, it will not be considered as 'technical' or 'minor' in nature and the compounding process shall be initiated in terms of section 15 (1) of Foreign Exchange Management Act, 1999 read with Rule 9 of Foreign Exchange (Compounding Proceedings) Rules, 2000.

INFORMATION

Expert Committee to Streamline STCCS

The Reserve Bank has constituted a Committee under the Chairmanship of Shri Prakash Bakshi, Chairman, NABARD to review the existing short term co-operative credit structure (STCCS) focusing on structural constraints in rural credit delivery system and explore various ways to strengthen the rural co-operative credit architecture with appropriate institutions and instruments of credit to fulfill credit needs. The Committee will make an in-depth analysis of the STCCS and examine various alternatives with a view to reducing the cost of credit, including feasibility of setting up of a two-tier STCCS as against the existing three-tier structure.

Terms of Reference

- To assess the role played by state and district central co-operative banks in fulfilling the requirement of agriculture credit, the primary purpose for which they were set up.
- To identify co-operative banks that may not be sustainable in the long run even if some of them have met the diluted licensing criteria for the time being.
- To suggest appropriate mechanism for consolidation by way of amalgamation, merger, takeover, liquidation and de-layering.
- To suggest pro-active measures that need to be taken in this direction by the cooperative banks themselves, the Government of India, state governments, the Reserve Bank and NABARD.
- Any other issues and concerns relevant to the subject matter.

Report of Working Group on Enhancing Liquidity in Government Securities and Interest Rate Derivatives Markets

The Reserve Bank of India has, on August 13, 2012, placed on its website, the report of the Working Group on Enhancing Liquidity in Government Securities and Interest Rate Derivatives Markets (Chairman: Shri R. Gandhi, Executive Director, RBI). The Working Group has made various recommendations, which have been categorised into essential recommendations, desirable recommendations and operational recommendations. Some of the important recommendations made by the Group are:

Government Securities Market

- Consolidation of outstanding government securities, based on model plan indicated in the report;
- Allocation of specific securities to each primary dealer for market making in them;
- Gradual increase in the investment limit for foreign institutional investors in government securities keeping in view the country's overall external debt position, current account deficit, size of government's borrowing programme, etc.;
- A roadmap to gradually bring down the upper-limit on the held-to-maturity portfolio in a calibrated manner to make it non-disruptive to the entities and other stakeholders may be prepared; and
- Promotion of the term-repo market with suitable restrictions on 'leverage' and introduction of tripartite repo in government securities.

Retail Participation

- Services of banks (and post offices if possible at a later stage and in consultation with Government of India) may be utilised as a distribution channel and nodal point for interface with individual investors; and
- A centralised market maker for retail participants in government securities in the long-term who would quote two-way prices of government securities for retail/individual investors, may be considered.

Interest Rate Derivatives Market

- An electronic swap execution facility (electronic trading platform) for the interest rate swap (IRS) market may be introduced with a Central Counter Party mechanism for guaranteed settlement through the electronic platform;
- Insurance companies, provident funds and other financially sound entities be permitted to participate in IRS market;
- Futures contracts that have high probability of attracting participant interest, such as, interest rate futures (IRF) based on overnight call borrowing rate to be introduced; and
- Cash-settled 10-year IRF subject to appropriate regulations like restricted participation, entity-based open position limit, price band, etc., to be introduced.

The Reserve Bank would examine and initiate appropriate action on the recommendations made by the Working Group.

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