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MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

Additional Guidelines on Savings Account

Non-maintenance of Minimum Balance in Savings Account

The Reserve Bank, on November 20, 2014, advised the scheduled commercial banks (excluding regional rural banks) to adhere to the following additional guidelines with effect from April 1, 2015, while levying charges for non-maintenance of minimum balance in savings bank account-

- In the event of a default in maintenance of minimum balance/ average minimum balance as agreed to between the bank and customer, the bank should notify the customer clearly by SMS/ email/ letter that in the event of the minimum balance not being restored in the account within a month from the date of notice, penal charges will be applicable.
- In case the minimum balance is not restored within a reasonable period, which shall not be less than one month from the date of notice of shortfall, penal charges may be recovered under intimation to the account holder.
- The policy on penal charges to be so levied may be decided with the approval of Board of the bank.
- The penal charges should be directly proportionate to the extent of shortfall observed. In other words, the charges should be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account. A suitable slab structure for recovery of charges may be finalised.
- The penal charges should be reasonable and not out of line with the average cost of providing the services.
- The balance in the savings account does not turn into negative balance solely on account of levy of charges for non-maintenance of minimum balance.

The Reserve Bank has also advised the banks to bring these additional guidelines to the notice of all customers apart from releasing on their respective website and to take immediate steps to update customer information so as to facilitate sending alerts through electronic modes (SMSs/ emails) for effective implementation of the guidelines.

Clarifications on Periodic Updation under KYC

Advising on the continuance of the requirement of applying 'client due diligence' measures to existing clients at an interval of two/eight/ ten years in respect of high/medium/low risk clients, respectively, the Reserve Bank, on October 21, 2014, issued certain clarifications with regard to the KYC Norms, as under-

- 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, etc. Banks may not insist on physical presence of such low risk customer at the time of periodic updation.
- If an existing 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.

As regards non-compliance of KYC requirements by the customers despite repeated reminders by banks, banks should impose 'partial freezing' on such KYC non-compliant in a phased manner. Meanwhile, the account holders can revive accounts by submitting the KYC documents. While imposing 'partial freezing', banks are advised to ensure that the option of 'partial freezing' is exercised after giving due notice of three months initially to the customers to comply with KYC requirement and followed by a reminder for further period of three months. If the accounts are still KYC non-compliant after six months of imposing initial 'partial freezing' banks may render them inoperative. Further, it would always be open to the bank to close the account of such customers.

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Basel III–Intraday Liquidity Management

The Reserve Bank, on November 3, 2014, advised scheduled commercial banks (excluding RRBs) to develop suitable strategy, risk management policies and practices to monitor intraday liquidity, ensure integrity of regulatory reporting and review the efficacy of the monitoring tools. Accordingly, the banks will need to report the monitoring tools to the Reserve Bank on a monthly basis from January 1, 2015 to coincide with the implementation of the Liquidity Coverage Ratio (LCR) reporting requirements as per the Reserve Bank's guidelines on "Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards".

Use of Business Correspondents

Taking into account the recommendations of the Nachiket Mor Committee, the Reserve Bank, on October 29, 2014, reviewed existing guidelines on appointment of Business Correspondents (BCs) as under:

Eligible individuals/entities

- Regional Rural Banks will be permitted to engage non-deposit taking NBFCs (NBFCs-ND) as Business Correspondents, subject to the prescribed conditions.

Distance criteria

- To provide operational flexibility to RRBs and in view of the technological developments in the banking sector, the Reserve Bank has removed the stipulation regarding distance criteria. The RRBs should, however, while formulating the Board approved policy for engaging BCs, keep in mind their notified area of operations and the objectives of adequate oversight of the BCs as well as provision of services to customers.

RRBs may continue to take measures to address possible reputational risks arising out of appointment and functioning of BCs.

Financing of JLGs of 'Bhoomi Heen Kisan'

The Reserve Bank, on November 13, 2014 issued guidelines for financing of Joint Liability Groups (JLGs) of 'Bhoomi Heen Kisan' and advised the commercial banks to follow these guidelines, that were based on the inputs received from NABARD. Considering the priorities being attached by the Government of India in financing landless farmers' groups through JLG mode of financing, the Reserve Bank has advised the banks to closely monitor the progress in JLG financing, which will be monitored through State Level Bankers' Committees (SLBCs) and reviewed at the highest corporate level of banks on a quarterly basis. The Reserve Bank has further advised the banks to send the progress report on JLG financing to NABARD (Micro Credit Innovations Department), Mumbai, on a monthly basis as per the prescribed format.

The revised approach evolved by NABARD for financing the JLGs, both for farm and non-farm activities, pertain to - (i) enabling JLGs within and outside SHGs; (ii) cluster approach in JLG promotion; (iii) assessing JLGs for bank finance; (iv) training requirements; (v) incentive for promotion of JLGs; (vi) NABARD refinance; and (vii)monitoring and review of financing through JLGs.

Co-operative Banking

Display Full Name prominently

The Reserve Bank, on October 30, 2014, advised primary (urban) co-operative banks (UCBs) to ensure that the full name of the bank as appearing in the Certificate of Registration and the licence granted by the Reserve Bank are displayed prominently wherever abbreviated/abridged version of their name is used for logo/brand building. Besides, the font size used for the full name should not be smaller than the one used for their abbreviated name/abridged name/logo.

Gold Loan Bullet Repayment Scheme

The Reserve Bank, on October 30, 2014, increased the quantum of loans that primary (urban) co-operative banks (UCBs) were permitted to grant under the bullet repayment option scheme, from one lakh to two lakh Rupees subject to certain conditions.

LAF to Scheduled UCBs

The Reserve Bank has provided an additional avenue for liquidity management to scheduled urban co-operative banks (UCBs), with effect from November 28, 2014, by extending Liquidity Adjustment Facility (LAF) to those scheduled UCBs which are core banking solution (CBS) enabled, have capital to risk (weighted) assets ratio (CRAR) of at least 9 per cent and are fully compliant with the eligibility criteria prescribed for LAF.

PMLA- Designated Director

The Reserve Bank, on November 5, 2014, clarified that to ensure compliance with the obligations under the Prevention of Money Laundering Amendment Act, 2013, primary (urban) co-operative banks (UCBs) can also designate a person who holds the position of senior management or equivalent as a 'Designated Director'. However, in no case, the Principal Officer should be nominated as the 'Designated Director'.

Essay Competition to promote Financial Literacy

The Reserve Bank of India's **College of Agricultural Banking (CAB)**, Pune is conducting an essay competition to promote financial literacy. The theme for the Essay Competition 2014 is "How to make India a financially literate country – Strategies".

The competition is open for participation for two channels of participants- (i) the staff of various banks, namely, scheduled commercial banks, regional rural banks, state cooperative banks, National Bank for Agricultural and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and the Reserve Bank of India and (ii) students, academicians, financial literacy counsellors and general public. The last date for submission of entries is December 30, 2014 and the results will be announced on January 30, 2015.

The prize winning participants under each channel will be given a certificate and ₹ 20,000 for first prize, ₹ 15,000 for second prize, ₹ 10,000 for third prize and a consolation prize of ₹ 5,000. Details of the competition are available on the CAB website at http://cab.org.in

Non-Banking Regulation

Regulatory Framework for NBFC Revised

The Reserve Bank, on November 10, 2014, revised the regulatory framework for NBFC (Non-Banking Finance Company) sector to a) address risks wherever they exist, b) address regulatory gaps and arbitrage arising from differential regulations, both within the sector as well as vis-a-vis other financial institutions, c) harmonise and simplify regulations to facilitate a smoother compliance culture among NBFCs, and d) strengthen governance standards. With a view to transitioning, over time, to an activity based regulation of NBFCs, the Reserve Bank made the changes in the regulatory framework for NBFCs as under-

Requirement of Minimum NOF of ₹ 200 lakh

NBFCs are required to obtain a Certificate of Registration (CoR) from the Reserve Bank to commence/carry on business of NBFI (Non-Banking Finance Intermediary) and have the minimum Net Owned Fund (NOF) as prescribed from time to time. Given the need for strengthening the financial sector and technology adoption, and in view of the increasing complexities of services offered by NBFCs, all NBFCs should mandatorily attain a minimum NOF of:

- ₹ 100 lakh by the end of March 2016
- ₹ 200 lakh by the end of March 2017

NBFCs, the NOF of which currently falls below ₹ 200 lakh, have to submit a statutory auditor's certificate certifying compliance to the revised levels at the end of each of the two financial years as mentioned.

NBFCs failing to achieve the prescribed ceiling within the stipulated time period shall not be eligible to hold the CoR as NBFCs. The Reserve Bank will initiate the process for cancellation of CoR against such NBFCs.

Deposit Acceptance

- To harmonise the deposit acceptance regulations across all deposit taking NBFCs (NBFCs-D) and move over to a regimen of only credit rated NBFCs-D accessing public deposits, existing unrated Asset Finance Companies (AFCs) shall have to get themselves rated by March 31, 2016.
- Those AFCs that do not get an investment grade rating by March 31, 2016, will not be allowed to renew existing or accept fresh deposits thereafter.
- In the intervening period, i.e. till March 31, 2016, unrated AFCs or those with a sub-investment grade rating can only renew existing deposits on maturity, and not accept fresh deposits, till they obtain an investment grade rating.
- For rated AFCs, the limit for acceptance of deposits across the sector is reduced from 4 times to 1.5 times of NOF, with effect from November 10, 2014.

Systemic Significance

The threshold for defining systemic significance for non-deposit taking NBFCs (NBFCs-ND) has been revised in the light of the overall increase in the growth of the NBFC sector. Non–deposit taking systemically important NBFCs (NBFCs-ND-SI) will henceforth be those NBFCs-ND which have asset size of ₹ 500 crore and above as per the last audited balance sheet. With this revision in the threshold for systemic significance, NBFCs-ND shall be categorised into two broad categories- (i) NBFCs-ND (those with assets of less than ₹ 500 crore) and (ii) NBFCs-ND-SI (those with assets of ₹ 500 crore and above).

Multiple NBFCs

NBFCs that are part of a corporate group or are floated by a common set of promoters will not be viewed on a standalone basis. The total assets of NBFCs in a group including deposit taking NBFCs, if any, will be aggregated to determine if such consolidation falls within the asset sizes of the two categories mentioned above. Regulations as applicable to the two categories will be applicable to each of the NBFC-ND within the group.

Prudential Norms

The regulatory approach in respect of NBFCs-ND with an asset size of less than ₹ 500 crore will be as under:

- They shall not be subjected to any regulation either prudential or conduct of business regulations viz., Fair Practices Code (FPC), Know Your Customer (KYC), etc., if they have not accessed any public funds and do not have a customer interface.
- Those having customer interface will be subjected only to conduct of business regulations including FPC, KYC etc., if they are not accessing public funds.
- Those accepting public funds will be subjected to limited prudential regulations but not conduct of business regulations if they have no customer interface.
- Where both public funds are accepted and customer interface exist, such companies will be subjected both to limited prudential regulations and conduct of business regulations.
- Irrespective of whichever category the NBFC falls in, registration under Section 45 IA of the RBI Act will be mandatory.
- All of the above will also be subjected to a simplified reporting system which shall be communicated separately.

All NBFCs-ND with assets of ₹ 500 crore and above, irrespective of whether they have accessed public funds or not, shall comply with prudential regulations as applicable to NBFCs-ND-SI. They shall also comply with conduct of business regulations if customer interface exists.

All NBFCs-ND which have an asset size of ₹ 500 crore and above, and all NBFCs-D, shall maintain minimum Tier 1 Capital of 10 percent. The compliance to the revised Tier 1 capital will be phased in as follows: 8.5 percent by end of March 2016; 10 percent by end of March 2017.

Asset Classification

The asset classification norms for NBFCs-ND-SI and NBFCs-D are being brought in line with that of banks, in a phased manner, as given below:

- Lease Rental and Hire-Purchase Assets shall become non-performing assets (NPAs) if they become overdue for nine months (currently 12 months) for the financial year ending March 31, 2016;
- Assets other than Lease Rental and Hire-Purchase Assets shall become NPA if they become overdue for 5 months for the financial year ending March 31, 2016;

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e-MCIR

For greater economy in expenditure and green initiative, the Monetary and Credit Information Review (MCIR) is now being published only in e-form. Readers can access the MCIR on RBI website (www.mcir.rbi.org.in). Hence, sending MCIR by email to individual readers will be discontinued with effect from January 1, 2015.

Editor

Cheque Related Frauds - Preventive Measures

The Reserve Bank, on November 5, 2014, advised scheduled commercial banks (excluding RRBs) / local area banks to review and strengthen the controls in the cheque presenting/passing and account monitoring processes and to ensure that all procedural guidelines including preventive measures are followed meticulously by the dealing staff/officials. An indicative list of some of the preventive measures, that banks may follow, are as under:

- Ensuring the use of 100 percent Cheque Truncation System (CTS) - 2010 compliant cheques;
- Strengthening the infrastructure at the cheque handling service branches and bestowing special attention on the quality of equipment and personnel posted for CTS based clearing, so that it is not merely a mechanical process;
- Ensuring that the beneficiary is KYC compliant so that the bank has recourse to him/her as long as he/she remains a customer of the bank;
- Examination under ultra violet lamp for all cheques beyond a threshold of say, ₹ 2 lakh;
- Checking at multiple levels, of cheques above a threshold of say, ₹ 5 lakh;
- Close monitoring of credits and debits in newly opened transaction accounts based on risk categorisation;
- Sending SMS alert to payer/drawer when cheques are received in clearing;

In addition to the above, banks may consider the following preventive measures for dealing with suspicious or large value cheques (in relation to an account's normal level of operations):

- Alerting the customer by a phone call and getting the confirmation from the payer/drawer.
- Contacting base branch in case of non-home cheques.

The above may be resorted to selectively if not found feasible to be implemented systematically.

The Reserve Bank has also advised banks to take appropriate precautionary measures to ensure that the confidential information, such as, customer name/account number/signature, cheque serial numbers and other related information are neither compromised nor misused either from the bank or from the vendors' (printers, couriers etc.) side. The Reserve Bank has further advised the banks to take due care and ensure secure handling of cheques from the time they are tendered over the counters or dropped in the collection boxes by customers. It has been reported that in some cases even though the original cheques were in the custody of the customer, cheques with the same series had been presented and encashed by fraudsters.

The Reserve Bank, on November 13, 2014, has also advised primary (urban) co-operative banks (UCBs), to review and strengthen the controls in the cheque presenting/passing and account monitoring processes and to ensure that all procedural guidelines including preventive measures are followed meticulously by the dealing staff/officials.

Regulatory Framework for NBFC Revised

(Continued from page 3)

- For all loan and hire-purchase and lease assets, sub-standard asset would mean an asset that has been classified as NPA for a period not exceeding 16 months (currently 18 months) for the financial year ending March 31, 2016;
- For all loan and hire-purchase and lease assets, doubtful asset would mean an asset that has remained sub-standard for a period exceeding 16 months (currently 18 months) for the financial year ending March 31, 2016;
- Overdue period will be reduced for the financial years ending March 31, 2017 and 2018.

Provisioning for Standard Assets

Provision for standard assets for all NBFCs-ND-SI and NBFCs-D has been increased to 0.40 percent in a phased manner- 0.30 percent, 0.35 percent and 0.40 percent by the end of March 2016, March 2017 and March 2018, respectively.

Credit / Investment Concentration Norms for AFCs

The credit concentration norms for AFCs will be in line with other NBFCs with immediate effect for all new loans excluding those already sanctioned. All existing excess exposures would be allowed to run off till maturity.

Corporate Governance and Disclosure norms for NBFCs

NBFCs-D with deposits of ₹ 20 crore and above, and NBFCs-ND with asset size of ₹ 50 crore and above are required to constitute an Audit Committee; NBFCs-D with deposits of ₹ 20 crore and above, and NBFCs-ND with assets of ₹ 100 crore and above are advised to consider constituting Nomination Committee to ensure 'fit and proper' status of proposed/ existing Directors and Risk Management Committee.

Board Committees

The constitution of the three Committees of the Board and instructions with regard to rotation of partners have now been made applicable to all NBFCs-ND-SI, as also all NBFCs-D. Other NBFCs are encouraged to continue such practices, if already being followed. The Audit Committee of all NBFCs-ND-SI, as also all NBFCs-D must ensure that an Information Systems Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the company.

Fit and Proper Criteria for Directors

All NBFCs-ND-SI, as also all NBFCs-D, with effect from March 31, 2015 shall ensure a policy for ascertaining the fit and proper criteria at the time of appointment of Directors and on a continuing basis, a declaration and undertaking shall be obtained from the Directors by the NBFC. The Directors shall sign a Deed of Covenant and the NBFCs shall furnish to the Reserve Bank a quarterly statement on change of Directors certified by the auditors and a certificate from the Managing Director that fit and proper criteria in selection of directors have been followed.

Disclosures in Financial Statements

In addition to the existing disclosures, all NBFCs-SI (as redefined) as also all NBFCs-D will have to make additional disclosures in their financial statements, as prescribed in the revised guidelines.

The above revisions shall be applicable to NBFCs-MFI also except wherever in conflict with the provision of Non-Banking Financial Company- Micro Finance Institutions (Reserve Bank) Directions, 2011, in which case the Directions will be followed. Likewise, the above revisions shall be applicable to registered Core Investment Companies except wherever contrary with the provisions of Core Investment Companies (Reserve Bank) Directions, 2011, in which case the Directions will be followed.

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