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Payment Systems

White Label ATMs in India - Guidelines

The Reserve Bank of India has on June 20, 2012 released the final guidelines on "White Label Automated Teller Machines (WLAs) in India". White label automated teller machines (ATMs) are ATMs set up, owned and operated by non-bank entities incorporated in India under the Companies Act, 1956. Till now, only banks were permitted to set up ATMs as extended delivery channels.

Under the guidelines, non-bank entities incorporated in India under the Companies Act, 1956 will be permitted to set up, own and operate ATMs in India. Prospective operators/applicants would need to seek authorisation from the Reserve Bank under the Payment and Settlement Systems (PSS) Act, 2007, within four months from the date of issuance of these guidelines, beyond which the authorisation seeking window will be closed. For setting up WLAs, entities should have a minimum net worth of Rs. 100 crore as per the latest financial year's audited balance sheet, which is to be maintained at all times.

The specific criteria and guidelines subject to which prospective WLA operators will be authorised to operate WLAs, the roles and responsibilities of the stakeholders (WLA operators, sponsor banks, network operators) are indicated below -

WLA Operators

Eligibility Criteria

- The Memorandum of Association of the applicant entity must cover the proposed activity of operating WLAs.
- In case of any foreign direct investment (FDI) in the applicant entity, necessary approval from the competent authority as required under the policy notified by Department of Industrial Policy and Promotion (DIPP) under the consolidated policy on FDI and regulations framed under the Foreign Exchange Management Act (FEMA) must be submitted while seeking authorisation.
- Non-bank entities must have net worth of at least Rs 100 crore as per the last audited balance sheet. The net worth of at least Rs 100 crore has to be maintained at all times.

The WLA operator would have the freedom to choose the location of the WLA. The authorisation for setting up a WLA operation would be initially valid for a period of one year. The scheme and number of WLAs sought to be installed would need to be indicated at the time of application.

The authorisation can be sought under three schemes:

Scheme A

- A minimum of 9,000 WLAs in a period of three years in a ratio of 3:1 – that is, minimum of 1000 WLAs to be installed in Year 1, minimum of twice the number of WLAs installed in Year 1 to be installed in year 2, and minimum of three times the number of WLAs installed in Year 2 to be installed in year 3;
- For every three WLAs installed in Tier III to VI centres, one WLA can be installed in Tier I to II centres.
- Out of the 3 WLAs installed in Tier III to VI centres, a minimum of 10 per cent should be installed in Tier V & VI centres.

Scheme B

- A minimum of 5000 WLAs to be installed every year for three years in the ratio of 2:1, that is, for every two WLAs installed in Tier III to VI centres, one WLA should be installed in Tier I to II centres.
- Out of the WLAs installed in Tier III to VI centres, a minimum of 10 per cent should be installed in Tier V & VI centres.

Scheme C

- A minimum of 25,000 WLAs to be installed in the first year and at least another 25,000 in the next two years in the ratio of 1:1.
- Out of WLAs installed in Tier III to VI centres, a minimum of 10 per cent should be installed in Tier V & VI centres.

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Other Terms/Conditions

- The authorisation issued to a WLA operator cannot be assigned/transferred without the Reserve Bank's prior approval.
- No switchover of schemes is permissible. The date for determining the time line for implementation would commence 30 days after issuance of the authorisation.
- WLA operators would have to seek extension of their authorisation, if required, three months prior to the completion of one year for continued operation of the system.
- In the initial stage, only cards issued by banks in India (domestic cards) would be permitted to be used at the WLAs.
- WLA operators would not be permitted to accept deposits at the WLAs.
- WLA operators may display advertisements and offer value added services as per the regulations in force from time to time. The advertisements placed on such ATMs would be subject to the Advertising Standards Council of India (ASCI) codes and other regulations. WLA operators may display advertisement of financial products conforming to the regulatory framework as laid down by the Reserve Bank, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA). Advertisements running on the WLA screen should, however, disappear once the customer commences a transaction in order to ensure that the customer is not distracted in any way during the process.
- The extant guidelines on five free transactions in a month as applicable to bank customers for using other bank ATMs would be inclusive of the transactions effected at the WLAs.
- WLA operator would not be entitled to any fee from the card issuer-bank other than the "interchange" fee payable to "acquirer" bank under the bank owned ATM scenario.
- While the WLA operator is entitled to receive a fee from the banks for the use of ATM resources by the bank customers, WLAs are not permitted to charge bank customers directly for the use of WLAs.
- Regulatory guidelines relating to compensation for failed transactions at bank ATMs would, mutatis mutandis, apply to the transactions effected at such WLAs. General guidelines governing the operations of the bank operated ATMs would also apply, mutatis mutandis, to WLAs.

Roles/Responsibilities of Stakeholders*WLA Operator*

- Non-bank entities shall commence setting up and operating WLAs only after they have been authorised to do so by the Reserve Bank under the Payment and Settlement Systems Act, 2007.
- Taking over of ATMs operated by banks would not be permitted. Entities may ensure to draw a strategic plan for installation of such WLAs based on the criteria set during authorisation. WLA operators may also indicate the value added services they propose to offer at the WLA while seeking authorisation.

- WLA operators are permitted to have more than one sponsor bank. All the transactions of WLAs serviced by this sponsor bank would be settled through it. The sponsor bank should be a member of the ATM network operators/card payment network operators authorised by the Reserve Bank and also be a member of the real time gross settlement (RTGS) system. WLA operators may ensure that there are no operational constraints particularly with reference to security and customer service while considering multiple sponsor bank relationship.
- Cash management at the WLAs will be the responsibility of the sponsor bank, who may if required, make necessary arrangements with other banks for servicing cash requirements at various places. While the cash would be owned by the WLA operator, the sponsor bank would be responsible for ensuring the quality and genuineness of cash loaded at the WLAs. At no point of time, the WLA operator or his agents shall have access to the cash at the WLAs.
- WLA operators may establish connectivity with any of the authorised ATM network operators/card payment network operators and ensure that the settlement of all the transactions at the WLAs is done only in the books of the sponsor bank through the ATM network operators/card payment network operators with whom the WLA operator has established connectivity.
- WLA operators would be solely responsible for maintaining and servicing the WLAs.

Sponsor Bank

(i) Cash Management

- A suitable service level agreement (SLA) should be drawn up between the WLA operator and the sponsor bank for adequate supply of genuine and good quality notes.
- The sponsor banks may also enter into tie-ups with other banks for providing adequate cash at various WLAs at locations where it has no presence.

(ii) Funds Settlement

Inter-bank funds settlement in respect of WLA transactions involving the issuing and sponsor banks will, mutatis mutandis, follow the settlement procedures put in place by the authorised ATM network operators/card payment network operators.

(iii) Customer Grievance Redressal

- While the primary responsibility to redress grievances of customers relating to failed transactions at WLAs will vest with the issuing bank, the sponsor bank will provide necessary support in this regard, ensuring that the WLA operator makes available relevant records and information to the issuing bank.
- The Reserve Bank's extant directives on the time-lines for resolution of complaints of failed ATM transactions at bank operated ATMs would also apply to transactions at the WLAs. For delay in resolution of such complaints attributable to the sponsor bank or the WLA operator resulting in payment of penalty to the customer by the issuing bank, the issuing bank shall be compensated by the sponsor bank. The sponsor bank may have appropriate agreements with the WLA operator for recovery of such amounts.

ATM Network Operators/Card Payment Network Operators

- ATM network operators/card payment network operators may offer direct connectivity to any authorised WLA operator, if necessary, to facilitate transactions at the WLA and their settlement through the sponsor bank.
- ATM network operators/card payment network operators should bring the WLA operator under the ambit of the network's procedural guidelines as though they are members of the dispute resolution mechanism put in place in accordance with the Reserve Bank's extant directives.

Issuance and Operation of Prepaid Payment Instruments

On a review of the development of the issuance and acceptance market for prepaid payment instruments, the Reserve Bank has carried out the following amendments:

- The limit of Rs 1000 for semi-closed prepaid payment instrument that can be issued under Para 6.4 (i) of the policy guidelines on issuance and operation of prepaid instruments in India dated April 27, 2009, has been raised to Rs 2000.
- Semi-closed system payment instruments which permit only payment of utility bills/essential services/air and train travel tickets; and recurring payment of college fees, school fees, government taxes up to a limit of Rs 10,000 can be issued without separate know your customer (KYC) being undertaken by the issuer. Persons issuing such instruments should ensure that these instruments are made acceptable only at institutions which maintain the full identity of the customers. Utility bills/essential services shall include only electricity bills, water bills, telephone/mobile phone bills, insurance premium, cooking gas payments, rental for internet/broadband connections, cable/DTH subscriptions and citizen services by government or government bodies.

BRANCH BANKING**Home Loans - Levy of Fore-closure Charges**

The Reserve Bank has advised that from June 5, 2012 banks should not charge foreclosure charges/pre-payment penalties on home loans on floating interest rate basis.

The Committee on Customer Service in Banks (Chairman: Shri M. Damodaran) had observed that foreclosure charges levied by banks on prepayment of home loans are resented upon by home loan borrowers across the board especially since banks were found to be hesitant in passing on the benefits of lower interest rates to the existing borrowers in a falling interest rate scenario.

Rupee Export Credit Interest Rates

The Government of India has extended the interest subvention of 2 per cent on rupee export credit from April 1, 2012 to March 31, 2013 on the same terms and conditions as earlier, to the following sectors:

- Handicrafts
- Carpets
- Handlooms
- Small and medium enterprises (SMEs)

- Readymade garments
- Processed agriculture products
- Sports goods
- Toys

Accordingly, banks have been advised to reduce the interest rate chargeable to exporters as per Base Rate system to these sectors eligible for export credit subvention by the amount of subvention available subject to a floor rate of 7 per cent. Banks should ensure to pass on the benefit of 2 per cent interest subvention completely to the eligible exporters.

The procedure for claiming subvention is -

- The amount of subvention would be reimbursed on the basis of claim submitted as at the end of respective quarters in the prescribed format.
- The amount of subvention would be calculated on the amount of export credit from the date of disbursement -
 - up to the date of repayment; or
 - up to the date beyond which the outstanding export credit becomes overdue.
- The claims should be accompanied by an external auditor's certificate certifying that the claims for subvention of Rs...for the respective quarter is true and correct. Settlement of the claim will be done only on receipt of this certificate.
- Claims should be submitted to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Mumbai, within one month from the end of the respective quarters.
- In case no interest subvention is paid for any quarter/s, a NIL statement should be submitted.

Export Credit Refinance Facility relaxed

With a view to enhancing the credit flow to the export sector, the eligible limit of the export credit refinance (ECR) facility for scheduled banks (excluding RRBs) has been enhanced from 15 per cent of the outstanding export credit eligible for refinance to 50 per cent, from the fortnight beginning June 30, 2012. This will provide additional liquidity support to banks of over Rs. 300 billion. The rate of interest charged on the ECR facility would continue to be the prevailing repo rate under the liquidity adjustment Facility (LAF), which is currently 8.0 per cent.

Earlier, the ECR limit was fixed at 15 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight.

Unique Customer Identification Code

The Reserve Bank has advised banks to initiate steps to allot a unique customer identification code (UCIC) number to all their customers while entering into new relationships with individual customers. Similarly, existing individual customers may also be allotted unique customer identification code by end-April 2013.

A Working Group constituted by the Government of India has proposed the introduction of unique identifiers for customers across different banks and financial institutions for

setting up a centralised KYC Registry. Availability of a UCIC will help banks to identify a customer, track the facilities availed, monitor financial transactions in various accounts, improve risk profiling, take a holistic view of customer profile and smoothen banking operations for the customer.

Unclaimed Deposits

With a view to further strengthening the regulatory framework for inoperative accounts and unclaimed deposits, banks have been advised to put in place a Board approved policy on classification of unclaimed deposits, grievance redressal mechanism for quick resolution of complaints, record keeping, and periodic review of such accounts. Banks should put up the first periodic review of unclaimed deposits/inoperative accounts to their Boards by September 30, 2012.

It may be recalled that earlier in August 2008, detailed instructions were issued to banks on dealing with unclaimed deposits/inoperative accounts. The instructions, inter alia, included (i) annual review of accounts in which there are no operations; (ii) operations in such accounts to be allowed after due diligence; and (iii) no charge to be levied for activation of inoperative accounts, etc. Despite these instructions, banks have not been pro-active in tracing customers linked with unclaimed deposits/inoperative accounts. Also, the need to identify the owners of these unclaimed deposits/inoperative accounts is closely linked to KYC due diligence. In February 2012 banks were advised to display the list of unclaimed deposits/inoperative accounts which are inactive/inoperative for ten years or more on their respective websites by June 30, 2012. The list displayed on the website must contain only the name of the account holder(s) and his/her address.

BANKING POLICY

Banking Services in Villages with Population below 2000

The Reserve Bank has advised that state level bankers' committees (SLBCs) are mandated to prepare a roadmap covering all unbanked villages of population less than 2000 and notionally allot these villages to banks for providing banking services, in a time-bound manner. The notional allotment is only intended to ensure that all villages are provided with at least one banking outlet for providing banking services and does not deny or bar any other bank from operating in these areas based on the available business potential. SLBC convenor banks may, therefore, advise the lead banks to constitute a sub-committee of the district consultative committees (DCCs) to draw up a roadmap for provision of banking services in every village having population below 2000 (2001 census) in a time bound manner, especially, to start with, electronic benefit transfer (EBT) services. This sub-committee will identify such unbanked villages and allot these villages among scheduled commercial banks (including regional rural banks) operating in the district. The work of identification and allotment should be done through mutual consultation and as far as possible, through voluntary acceptance by banks.

While preparing the roadmap for providing banking services in all unbanked villages with population of less than 2000 through a combination of banking correspondent (BC) and branches, it should be ensured that there is a brick and mortar branch to provide support to a cluster of BC units, i.e., about 8-10 BC units, at a reasonable distance of 3-4 kilometres. While allotting unbanked villages, the sub-committee of DCC should ensure optimal utilisation of BC infrastructure already created by banks and accordingly consider the following:

- Existing brick and mortar network of banks in the district.
- Distance of the village from the nearest bank branch and the ratio of low cost simple brick and mortar branches to BC outlets to be maintained by banks.
- Geographical contiguity to the existing BC outlets.
- Allotment of a lone isolated village to any bank to be avoided as far as possible.
- Villages having population greater than 1500 to be given priority for BC location or bank branch.
- Emphasis to be given to providing banking access to villages of North East states.
- To increase the frequency of visits by BCs from a fortnightly basis to a more frequent basis.

While sub-committees should be cognizant of the above considerations at the time of allotment, any operational difficulties post allotment with respect to the stipulation of distance and low cost intermediate branch to BC ratio should be resolved forthwith by the sub-committee.

Further, while in the initial stages, priority may be given to providing door step services to EBT beneficiaries through regular visits by BCs to the allocated villages, for making it a self sustaining business model, banks should over a period of time, ensure that all kinds of banking services viz., remittances, recurring deposit, entrepreneurial credit in the form of kisan credit card (KCC) and general credit card (GCC), insurance (life and non-life) and other banking services are available to all the residents of the village through a mix of brick and mortar branch and BC network.

The finalised roadmap with details of allocated villages to various banks should be submitted to the Reserve Bank's Regional Office concerned latest by August 31, 2012. Further, a monitoring and review mechanism should be instituted by DCCs and SLBCs to periodically assess and evaluate the progress made in allotment of villages and achieving the target indicated in the roadmap including the quality of services provided by the banking outlets. The SLBC convenor bank should arrange to furnish a quarterly statement of the district-wise and bank-wise progress made in opening of banking outlets, starting from the quarter ending September 2012 by the 10th of the following month to the Reserve Bank's respective Regional Office. The information on roadmap and achievement should also be published on the respective SLBC's website.