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MONETARY AND CREDIT INFORMATION REVIEW

Banking Regulation

Priority Sector Lending- Revised Targets and Classification

The Reserve Bank of India issued guidelines on priority sector norms revising the targets and classification for banks. The revised guidelines are operational from April 23, 2015. The priority sector loans sanctioned under the guidelines issued prior to April 23, 2015 will continue to be classified under priority sector till repayment/ maturity/renewal.

Total Priority Sector

Domestic scheduled commercial banks and foreign banks with 20 branches and above have to achieve a target of 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher.

Categories of Priority Sector

(i) *Medium Enterprises*, *Social Infrastructure* and *Renewable Energy* will form part of priority sector, in addition to the existing categories.

(ii) *Agriculture:* The distinction between direct and indirect agriculture is dispensed with. Bank loans to food and agro processing units will form part of agriculture. Within agriculture, credit to small and marginal farmers has been given a target of 8 percent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher, in a phased manner, i.e., 7 percent by March 2016 and 8 percent by March 2017.

(iii) *Micro, Small and Medium Enterprises:* A target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, has been prescribed for Micro Enterprises, to be achieved in a phased manner, i.e. 7 percent by March 2016 and 7.5 percent by March 2017.

(iv) *Export Credit:* A target of 32 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, will be eligible as part of priority sector for foreign banks with less than 20 branches. For other banks, the incremental export credit over corresponding date of the preceding year will be reckoned upto 2 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.

(v) *Education:* Loans to individuals for educational purposes including vocational courses upto ₹ 10 lakh irrespective of the sanctioned amount will be considered as eligible for priority sector.

(vi) *Housing:* Loans to individuals up to ₹ 28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to ₹ 20 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed ₹ 35 lakh and ₹ 25 lakh, respectively. The housing loans to banks' own employees will be excluded.

(vii) *Social Infrastructure:* Bank loans up to a limit of ₹ 5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres, have been included in priority sector lending.

(viii) *Renewable Energy:* Bank loans up to ₹ 15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities, namely, street lighting systems, and remote village electrification, are included in priority sector lending. For individual households, the loan limit will be ₹ 10 lakh per borrower.

(ix) *Weaker Sections*: As was earlier, 10 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.

(x) *Other eligible loans*:

- Loans not exceeding ₹ 50,000/- per borrower provided directly by banks to individuals and their self-help group(SHG)/joint liability group (JLG), provided the individual borrower's household annual income in rural areas does not exceed ₹ 100,000/- and for non-rural areas it does not exceed ₹ 1,60,000/-.
- Loans to distressed persons (other than farmers) not exceeding ₹ 100,000/- per borrower to prepay their debt to non-institutional lenders.
- Overdrafts extended by banks upto ₹ 5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts provided the borrowers household annual income does not exceed ₹ 100,000/- for rural areas and ₹ 1,60,000/- for non-rural areas.

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- Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

- Investments by banks in securitised assets, representing loans to various categories of priority sector, except 'others' category depending on the underlying assets subject to certain conditions.

- Inter Bank Participation Certificates (IBPCs) bought by banks, on a risk sharing basis, provided the underlying assets are eligible to be categorised under the respective categories of priority sector

- The outstanding priority sector lending certificates (after the guidelines are issued in this regard by the Reserve Bank of India) bought by banks provided the assets are originated by banks, and are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on priority sector lending certificates.

Target for Foreign Banks

Foreign Banks with 20 branches and above have to achieve priority sector targets and sub-targets for agriculture and weaker sections, as per the action plans submitted by them and approved by the Reserve Bank, by March 31, 2018. The sub-targets for small and marginal farmers and micro enterprises would be made applicable post 2018 after a review in 2017.

Foreign banks with less than 20 branches will move to total priority sector target of 40 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, on par with other banks by 2019-20, and the sub-targets for these banks, if to be made applicable post 2020, would be decided in due course.

Targets to be achieved on quarterly basis

The priority sector targets will have to be achieved on a quarterly basis, instead of annual basis as at present.

An Internal Working Group (IWG) was set up in July 2014 to revisit the existing priority sector lending guidelines. The report of the IWG was placed in the public domain inviting comments. The recommendations of the IWG were examined in the light of the comments/ suggestions received from Government of India, banks, and other stakeholders and revised guidelines were issued. (FIDD.CO.Plan.BC.54/04.09.01/2014-15 dated April 23, 2015)

First Bi-monthly Monetary Policy Statement, 2015-16

On the basis of an assessment of the current and evolving macroeconomic situation, the Reserve Bank on April 7, 2015 decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 7.5 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liability (NDTL); and
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF remained unchanged at 6.5 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 8.5 per cent. (https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=33628)

Third Gender in Bank Forms/Applications

The Reserve Bank, on April 23, 2015, directed scheduled commercial banks (excluding regional rural banks) to include 'third gender' in all their forms/applications, as prescribed by the Reserve Bank or the banks themselves, wherein any gender classification is envisaged.(DBR.No.Leg.BC.91/09.07.005/2014-15 dated April 23, 2015)

Transparent Mechanism to identify Wilful Defaulters

The Reserve Bank, on April 23, 2015, advised all scheduled commercial banks (excluding regional rural banks and local area banks) and all India notified financial institutions to put in place a detailed transparent mechanism to identify wilful defaulters. (DBR.No.CID.BC.90/20.16.003/2014-15 dated April 23, 2015).

In another notification, the Reserve Bank communicated that a non-whole time director should not be considered as a defaulter unless it is conclusively established that he was aware of the default by the borrower or he had connived or consented to the borrower defaulting. (DBR.No.CID.BC.89/20.16.001/2014-15 dated April 23, 2015)

Mandatory Leave for Employees in Sensitive Positions

The Reserve Bank, on April 23, 2015, advised all scheduled commercial banks, that employees posted in sensitive positions or areas of operations (namely, treasury, currency chests, risk modelling, model validation, etc.) are covered under a 'Mandatory Leave' policy. As per the policy, these employees are required to compulsorily avail of leave for a few days (say 10 working days) in a single spell every year, during their posting in such areas. The bank should also identify such highly sensitive positions where the bank will, without any prior intimation, advise the employee to be away from his desk for a specified number of working days each year. While the employee is on 'mandatory leave' or asked to be away from his desk as above, it should be ensured that he does not have access to any physical or virtual resources related to his work responsibilities, with the possible exception of corporate email. An exhaustive list of sensitive positions or areas of operations to be covered under 'mandatory leave' and under 'away from desk' requirement, may be decided as per the bank's own policy duly approved by the Board of Directors or committee of the Board, and the incumbents of these positions should be kept aware of these requirements. Implementation of such policy would be covered under the Pillar II review of banks' risk management system by the Reserve Bank of India. (DBR.No.BP.BC.88/21.04.048/2014-15 dated April 23, 2015)

Differential Interest Rates on Deposits

The Reserve Bank, on April 16, 2015, permitted all scheduled commercial banks (excluding RRBs) to offer differential interest rates based on whether the term deposits are with or without-premature-withdrawal-facility, subject to certain guidelines:

(i) All term deposits of individuals (held singly or jointly) of ₹ 15 lakh and below should, necessarily, have premature withdrawal facility.

(ii) For all term deposits other than (i) above, the customers can be given the option to choose between term deposits either with or without premature withdrawal facility.

(iii) Banks should disclose in advance the schedule of interest rates payable on deposits.

(iv) The banks should have a Board approved policy with regard to interest rates on deposits including deposits with differential rates of interest and ensure that the interest rates offered are reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required. (DBR.No.Dir.BC.87/13.03.00/2014-15 dated April 16, 2015)

BE AWARE

RBI cautions on 'All Bank Balance Enquiry' App

It has come to the notice of the Reserve Bank of India that an application was doing rounds on What's App groups purportedly to facilitate checking of balance in customers' bank accounts. The application had an RBI logo with the title 'All Bank Balance Enquiry No' and had listed several banks with either a mobile number or call centre number. The Reserve Bank clarified that it had not developed any such application.

Prudential Norms on Change in Ownership of Projects

The Reserve Bank, on April 6, 2015, allowed all SCBs (excluding RRBs) to permit extension of date of commencement of commercial operations (DCCO) up to a further period of two years, in addition to the extension of DCCO permitted under existing regulations. The permission can be extended in cases where, in the assessment of the banks, the implementation of the project has been stalled primarily due to inadequacies of the existing promoters and a subsequent change in the ownership of the borrowing entity has been effected. (DBR.No.BP.BC.84/21.04.048/2014-15 dated April 6, 2015)

Prudential Norms pertaining to Advances

The Reserve Bank, on April 6, 2015 advised all SCBs (excluding RRBs) that export performance guarantees, where permitted to be issued, shall strictly be in the nature of performance guarantee and shall not contain any clauses which may in effect allow such performance guarantees to be utilised as financial guarantees/ Standby Letters of Credits.(DBR.No.BP.BC.85/21.04.048/2014-15 dated April 6, 2015).

Provisioning pertaining to Fraud Accounts

On a review, the Reserve Bank, on April 1, 2015, prescribed a uniform provisioning norm in respect of all cases of fraud, as under:

- The entire amount due to the bank (irrespective of the quantum of security held against such assets), or for which the bank is liable (including deposit accounts), is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected;
- However, where there has been delay, beyond the prescribed period, in reporting the fraud to the Reserve Bank, the entire provisioning is required to be made at once. In addition, the Reserve Bank may also initiate appropriate supervisory action where there has been a delay by the bank in reporting a fraud, or provisioning there against. (DBR.No.BP.BC.83/21.04.048/2014-15 dated April 1, 2015)

Guidelines on Capital Adequacy and Liquidity Standards

The Reserve Bank, on March 31, 2015, advised the banks to adopt and implement the minimum prudential standards in a manner which is consistent across all member jurisdictions, with effect from April 1, 2015. The Reserve Bank had amended certain prudential guidelines on capital adequacy framework and liquidity standards for banks operating in India, keeping in view the internationally accepted reform package, as agreed to by the Basel Committee on Banking Supervision (BCBS) and endorsed by the G20 Leaders post-crisis. (DBR.No.BP.BC.80/21.06.201/2014-15 dated March 31, 2015).

Foreign Exchange

Operational Guidelines on IFSC

The Reserve Bank, on March 31, 2015,advised authorised dealers category-I (AD Category- I) banks that a financial institution or a branch of a financial institution set up in the International Financial Services Centre(IFSC) and permitted / recognised as such by the Government or a Regulatory Authority, shall be treated as person resident outside India. Therefore, their transaction with a person resident in India shall be treated as a transaction between a resident and non- resident and shall be subject to the provisions of Foreign Exchange Management Act, 1999 and the Rules/Regulations/Directions issued thereunder. (A.P. (DIR Series) Circular No.92 dated March 31, 2015)

FDI Reporting on e-Biz Platform

The Reserve Bank, on April 17, 2015, advised authorised dealers category-I (AD Category- I) banks on certain financial aspects for using the virtual private network (VPN) accounts obtained from National Informatics Centre (NIC) for accessing the e-Biz portal. The VPN account will be in the name of the individual users and will be coterminous with the life-time of the digital signing (Class 2) certificates (which is for a maximum period of two years) issued by Institute for Development and Research in Banking Technology (IDRBT), Hyderabad. AD Category-I banks will be required to credit through National Electronic Funds Transfer (NEFT)/Real-Time Gross Settlement (RTGS)necessary payment in advance for the VPN accounts directly to National Informatics Centre Services Inc's (NICSI) bank account. After making the payment, the AD bank may fill up the details in the 'Payment Reference Form' and forward the form. AD banks will maintain appropriate records pertaining to the number of connections, amounts remitted to NICSI.(A.P. (DIR Series) Circular No.95 dated April 17, 2015)

FDI in Insurance Sector

The Reserve Bank advised authorised dealers category-I (AD Category- I) banks that with effect from April 8, 2015, foreign direct investment (FDI) in insurance sector shall be permitted up to 49 percent subject to the revised conditions. A new activity, such as, "Other Insurance Intermediaries appointed under the provisions of Insurance Regulatory and Development Authority Act, 1999" has also been included within the definition of 'Insurance'.

The salient changes over the existing regime include:

(i) Foreign investment in Indian insurance company shall be limited up to forty-nine percent of the paid up equity capital;

(ii) Foreign direct investment up to 26 percent shall be under automatic route and beyond 26 percent and up to 49 percent shall be with Government approval;

(iii) Foreign investment in the sector is subject to compliance of the provisions of the Insurance Act, 1938 and the condition that companies bringing in FDI shall obtain necessary licence from the Insurance Regulatory and Development Authority of India for undertaking insurance activities.

(iv) An Indian insurance company shall ensure that its ownership and control remains at all times in the hands of resident Indian entities;

(v) Foreign portfolio investment in an Indian insurance company shall be governed by the provisions of Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000 and provisions of the Securities Exchange Board of India (Foreign Portfolio Investors) Regulations.

(vi) Any increase of foreign investment of an Indian insurance company shall be in accordance with the pricing guidelines specified by Reserve Bank of India under the Foreign Exchange Management Act, 1999.(A. P. (DIR Series) Circular No.94 dated April 8, 2015)

Non-Banking Regulation

NBFC-MFIs Directions modified

The Reserve Bank, on April 8, 2015, directed that loan disbursed by a non-banking financial company-micro finance institutions (NBFC-MFIs) to a borrower with a rural household annual income not exceeding ₹1,00,000 or urban and semi-urban household income not exceeding ₹1,60,000, would be eligible to be defined as a qualifying asset. NBFCs-MFI while disbursing loans are required to ensure that the total indebtedness of the borrower does not exceed ₹1,00,000. Education and medical expenses will be excluded while arriving at the total indebtedness of a borrower. The Reserve bank also revised the limit on disbursal of loans. The loan amount should not exceed ₹60,000 in the first cycle and ₹1,00,000 in subsequent cycles. Aggregate amount of loans given for income generation should constitute at least 50 per cent of the total loans of the NBFC-MFI and the remaining 50 per cent can be for other purposes. Notwithstanding, all NBFC-MFIs are expected to be prudent and responsible in their lending activity besides educating their borrowers on the dangers of wasteful conspicuous consumption. (DNBR.CC.PD.No.027/03.10.01/2014-15 dated April 8, 2015).

Currency Management

Procedure for Opening of Currency Chests simplified

The Reserve Bank, on April 23, 2015, reviewed extant instructions for "Construction of Currency Chests Strong Rooms / Vaults" and advised all Scheduled Commercial Banks as under:

A. Locations that are at/ close to the International Border/ Insurgency affected areas

- In case the place of the proposed location of a currency chest is within 80 kms from the international border and it is not a State Capital or a cantonment area, banks may approach Regional Offices (ROs) of the Reserve Bank for obtaining security clearance. Under no circumstance, construction can be commenced before receipt of the required clearance.
- The banks may also note to obtain all necessary approvals from other agencies before beginning construction.
- Strict adherence to the Technical Specifications of construction in terms of the circular dated November 14, 2008, must be ensured by banks.
- Final Approval from the respective Regional Offices of the Reserve Bank may be sought after construction is completed. No deviation will be permitted or considered and any construction falling short of specifications will not be approved.

B. All other locations

- Banks may construct new Currency Chests at any place after informing the Regional Office concerned of the Reserve Bank, under whose jurisdiction it is to be established.
- The banks may also note to obtain all necessary approvals from other agencies before beginning construction.
- Strict adherence to the Technical Specifications of construction in terms of circular dated November 14, 2008, must be ensured by banks.
- Final Approval from the respective Regional Office of the Reserve Bank may be sought after construction is completed. No deviation will be permitted or considered and any construction falling short of specifications will not be approved.

Approvals for opening of CCs by public sector banks and private sector banks will continue to be given by regional offices of the Reserve Bank. All other banks (RRBs, Cooperative banks and foreign banks) may continue to seek approvals for opening of Currency Chests from DCM, Central Office, Mumbai. (DCM(CC)No.G-13/4553/03.39.01/2014-15 dated April 23, 2015)

Useful Information

Bifurcation of Top Posts in Public Sector Banks

The Government approved the proposal to separate the posts of Chairman and Managing Directors in Public Sector Banks (PSBs). While the Chairman would be non-executive, Managing Director and Chief Executive Officer (MD & CEO) would be the executive head. The splitting of the posts of Chairman and Managing Director is in accordance with the international best practices. While the Chairman would give an overall policy directions to the Bank, MD & CEO would be responsible for day-to-day management of the Bank. The separation would bring in appropriate checks and balances and there would be accountability at the board level as the person executing will be answerable to a board that is headed by a different non-executive Chairman. The Government has appointed MD & CEOs in five PSBs and the process of selection of Non-Executive Chairman in Public Sector Banks in underway.

This was stated by Shri Jayant Sinha, Minister of State in Ministry of Finance, on April 24, 2015, in written reply to a question in the Lok Sabha. (Source: Parliament Questions and Answers)

Use of Regional Languages in Banks

The Reserve Bank has advised the banks vide its Master Circular dated July 1, 2014 on customer service regarding use of regional languages in public/private sector banks as under:

- Displaying indicator boards at all the counters in English, Hindi as well as in the concerned regional language. Business posters at semi-urban and rural branches of banks should also be in the concerned regional languages.
- Providing customers with booklets consisting of all details of service and facilities available at the bank in Hindi, English and the concerned regional languages.
- Use of Hindi and regional languages in transacting business by banks with customers, including communications to consumers.
- In order to ensure that banking facilities percolate to the vast sections of the population, banks should make available all printed material used by retail customers including account opening forms, pay-in-slips, passbooks, etc, in trilingual form i.e., English, Hindi and the concerned regional language.
- All cheque forms should be printed in Hindi and English. The customer may, however, write cheques in Hindi, English or in the concerned regional language.
- Both the drop box facility and the facility for acknowledgement of the cheques at regular collection counters should be available to the customers and no branch should refuse to give an acknowledgement if the customer tenders the cheques at the counters. The above message is required to be displayed in English, Hindi and the concerned regional language of the State.

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