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# MONETARY AND CREDIT INFORMATION REVIEW

## RBI's Recent simplified KYC Measures For Public Awareness

The Reserve Bank, on August 26, 2014 released a note along with a poster and a booklet (available on [www.rbi.org.in](http://www.rbi.org.in)) comprising a few common questions relating to simplification of Know Your Customer (KYC) norms for opening bank accounts for awareness among the general public.

### Measures taken for simplification:

- *Single document for proof of identity and proof of address*

If the officially valid document (such as, Passport, Driving Licence, Voters' ID card, PAN card, Aadhaar letter issued by Unique Identification Authority of India (UIDAI), Job card issued by National Rural Employment Guarantee Act (NREGA) signed by a State Government official) submitted for opening a bank account has both, identity and address of the person, there is no need for submitting any other documentary proof. To further ease the process, the information containing personal details like name, address, age, gender, etc., and photographs made available from UIDAI as a result of e-KYC process can also be treated as an 'Officially Valid Document'.

- *No separate proof of address is required for current address*

Since migrant workers, transferred employees, etc., often face difficulties while submitting a proof of current address for opening a bank account, such customers can submit only one proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation. If the current address is different from the address mentioned on the proof of address submitted by the customer, a simple declaration by her/him about her/his current address would be sufficient.

- *No separate KYC documentation is required while transferring accounts from one branch to another of the same bank*

Once KYC is done by one branch of the bank, it is valid for transfer of the account to any other branch of the same bank. The customer would be allowed to transfer her/his account from one branch to another branch without restrictions and on the basis of declaration of his/her local address for communication.

- *Small Accounts*

Those persons who do not have any of the 'officially valid documents' can open 'small accounts' with banks. A 'small account' can be opened on the basis of a self-attested photograph and putting her/his signature or thumb print in the presence of an official of the bank. Such accounts have limitations regarding the aggregate credits (not more than Rupees one lakh in a year), aggregate withdrawals (not more than Rupees ten thousand in a month) and balance in the accounts (not more than Rupees fifty thousand at any point of time). These small accounts would be valid normally for a period of twelve months. Thereafter, such accounts would be allowed to continue for a further period of twelve more months, if the account holder provides a document showing that she/he has applied for any of the officially valid document, within twelve months of opening the small account.

- *Relaxation regarding OVDs for low risk customers*

If a person does not have any of the 'officially valid documents', but is categorised as 'low risk' by the banks, then she/he can open a bank account by submitting any one of these documents- (a) identity card with applicant's photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions; (b) letter issued by a gazetted officer, with a duly attested photograph of the person.

- *Periodic updation of KYC*

Time intervals for periodic updation of KYC for existing low/medium and high risk customers have been increased from 5/2 years to 10/8/2 years, respectively.

- *Other relaxations*

- KYC verification of all the members of Self Help Groups (SHGs) is not required while opening the savings bank account of the SHG and KYC verification of only the officials of the SHGs would suffice. No separate KYC verification is needed at the time of credit linking the SHG.
- Foreign students have been allowed a time of one month for furnishing the proof of local address.
- In case a customer categorised as low risk is unable to submit the KYC documents due to genuine reasons, she/he may submit the documents to the bank within a period of six months from the date of opening account.

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## Policy

### Clarification regarding Wilful Defaulters

The Reserve Bank, on September 9, 2014, advised scheduled commercial banks (excluding RRBs and LABs) and All India Notified Financial Institutions (FIs) that while dealing with wilful default of a single borrowing company in a Group, the banks/FIs should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where guarantees furnished by the companies within the Group on behalf of the wilfully defaulting units are not honoured when invoked by the banks/FIs, such Group companies should also be reckoned as wilful defaulters.

The Reserve Bank has further advised that when a default is made in making repayment by the principal debtor, the banker will be able to proceed against the guarantor/surety even without exhausting the remedies against the principal debtor as in terms of Section 128 of the Indian Contract Act, 1872, the liability of the surety is co-extensive with that of the principal debtor unless it is otherwise provided by the contract. As such, where a banker has made a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor is immediate. In case the said guarantor refuses to comply with the demand made by the creditor/banker, despite having sufficient means to make payment of the dues, such guarantor would also be treated as a wilful defaulter. The Reserve Bank has clarified that this would apply only prospectively and not to cases where guarantees were taken prior to this circular. Banks/FIs may ensure that this position is made known to all prospective guarantors at the time of accepting guarantees.

The Reserve Bank has also advised the banks/FIs to take due care to follow the provisions in identifying and reporting instances of wilful default in respect of guarantors also. While reporting such names to the Reserve Bank, banks/FIs may include "Guar" in brackets i.e. (Guar) against the name of the guarantor and report the same in the Director column.

### Upper Age limit for WTDs on Private Banks' Boards

The Reserve Bank, on September 9, 2014 advised all private sector banks that the upper age limit for the post of Managing Director and Chief Executive Officers (MD & CEO) and other Whole Time Directors (WTDs) of banks in private sector in India should be 70 years, that is, beyond which nobody should continue in the post. Within the overall limit of 70 years, individual bank's Boards are free to prescribe a lower retirement age for the WTDs, including the MD & CEO, as an internal policy.

The Reserve Bank has examined the matter relating to fixing an upper age limit for the post of Managing Director and Chief Executive Officers (MD & CEO) and other Whole Time Directors (WTDs) of banks in private sector in India in the light of the provisions of the Companies Act, 2013, which prescribes that 'no company shall appoint or continue the employment of any person as Managing Director, Whole Time Director or Manager who is below the age of 21 years or has attained the age of 70 years.

### Basel III Liquidity Returns

The Reserve Bank, on September 5, 2014, advised public sector banks, private sector banks / foreign banks (excluding regional rural banks) that certain prescribed liquidity returns have to be submitted by banks to monitor their resilience to potential liquidity disruptions under stress scenarios. These returns, covering global operations and effective from September 2014, are (i) Statement

on Liquidity Coverage Ratio (LCR)- BLR-1 Monthly, (ii) Statement of Funding Concentration - BLR-2 Monthly, (iii) Statement of Available Unencumbered Assets - BLR-3 Quarterly, (iv) LCR by Significant Currency - BLR-4 Monthly, (v) Statement on Other Information on Liquidity - BLR-5 Monthly. The above returns are required to be submitted in XBRL platform. Further, failure to adhere to instructions on timely submission and data integrity may invite penal provisions of the Banking Regulation Act, 1949.

### Client Due Diligence Measures

The Reserve Bank, on September 4, 2014, advised the scheduled commercial banks to adhere to the following client due diligence measures:

- i. Undertake client due diligence measures while commencing an account-based relationship. Such measures include identifying and verifying the customer and beneficial owner on the basis of reliable and independent information and data or documentation.
- ii. Apply client due diligence measures to existing clients at an interval of two/eight/ten years in respect of high/medium/low risk clients respectively.
- iii. Carry out ongoing due diligence of existing clients in order to ensure that their transactions are consistent with the bank's knowledge of the client, his business and risk profile and where necessary, the source of funds.

The Reserve Bank has further advised the banks to do away with the requirement of obtaining 'positive confirmation' at two/three years in respect of medium and low risk customers respectively, as indicated earlier in its master circular issued on July 1, 2014.

Further, 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, would also continue taking into account whether and when client due diligence measures have previously been undertaken and the adequacy of data obtained. Physical presence of the clients may, however, not be insisted upon at the time of such periodic updations.

The Reserve Bank also issued similar instructions on 'Client Due Diligence measures' to regional rural banks on September 9, 2014 and to urban co-operative banks on September 16, 2014.

### Clarification on Inoperative Accounts

The Reserve Bank, on September 1, 2014, clarified to the scheduled commercial banks that since dividend on shares is credited to savings bank accounts as per the mandate of the customer, the same should be treated as a customer induced transaction. As such, the account should be treated as operative account as long as the dividend is credited to the savings bank account. The savings bank account can be treated as inoperative account only after two years from the date of the last credit entry of the dividend, provided there is no other customer induced transaction. The Reserve Bank also issued the clarification on inoperative accounts to regional rural banks on September 9, 2014 and to urban co-operative banks on September 11, 2014.

Earlier on August 22, 2008, the Reserve Bank had issued a circular on unclaimed deposits/inoperative accounts in banks in terms of which a savings as well as current account should be treated as inoperative/dormant if there are no transactions in the account for over a period of two years. Further, the Reserve Bank had advised that for the purpose of classifying an account as inoperative, both the types of transactions i.e. debit as well as credit transactions induced at the instance of customers as well as third party should be considered.

### Timelines for Credit Decisions

The Reserve Bank, on September 1, 2014, advised the commercial banks to clearly delineate the procedure for disposal of loan proposals, with appropriate timelines, and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. It is, however, reiterated that there should not be any compromise on due diligence requirements. Banks may also make suitable disclosures on the timelines for conveying credit decisions through their websites, notice-boards, product literature, etc. Banks are further advised to put in place the above system within 30 days from the date of this circular.

The advice came after the Reserve Bank observed that there have been inordinate delays on part of banks in conveying their credit decisions leading to delays in project implementation. While banks are required to carry out necessary due diligence before arriving at credit decisions, timely and adequate availability of credit is a pre-requisite for successful implementation of large projects. The Reserve Bank on May 5, 2003 had stipulated that the time frame within which loan applications up to Rs.2 lakh will be disposed of should be indicated at the time of acceptance of loan applications. It is felt that a similar practice of time bound decision making may be required in the case of other loans too.

### Accounts opened for Credit of Scholarship

The Reserve Bank, on September 10, 2014, advised all regional rural banks / state and central co-operative banks to ensure that accounts of all student beneficiaries under the various central/state government scholarship schemes are free from restrictions of 'minimum balance' and 'total credit limit'. Earlier, Bombay High Court brought to notice of the Reserve Bank that banks fix a limit on total credits in zero balance accounts opened for students studying in primary, secondary/higher secondary schools and technical institutions. Resultantly, in cases where scholarship amounts exceed the credit limit, banks do not allow the credit and return the amount to the disbursement account of the Government. Further, in some cases banks are reported to have closed zero balance accounts unilaterally without intimating student beneficiaries concerned. Instances of banks refusing to open zero balance account for students have also been brought to the Reserve Bank's notice.

### Payment and Settlement Systems

#### Modification in CTS on Paid Government cheques

The Reserve Bank, on September 18, 2014 advised all agency banks that the Controller General of Accounts, Ministry of Finance, New Delhi has approved doing away with the requirement of returning paid government cheques back to Government Departments concerned. Accordingly, with effect from October 1, 2014, the following modifications in the "Memorandum of Instructions issued to Agency Banks for conducting government business" will be effected:

- (i) Both the presenting banks and drawee banks would continue to discharge their duties prescribed under various Acts/Regulations/Rules such as the Negotiable Instruments Act 1881, Bankers' Books Evidence Act 1891, Clearing House Regulations, Rules framed under CTS, etc. The government cheques would be paid in CTS clearing based on their electronic images.
- (ii) In case any drawee bank desires to verify the government cheque in physical form before passing it for payment, the image would be returned unpaid under the reason "present with documents". The presenting bank shall ensure that the

instrument is presented again in the next applicable clearing session without any reference to the Account holder.

- (iii) The presenting banks are required to preserve the physical cheques in their custody securely for a period of 10 years as required under CTS. In case some specific cheques are required for the purpose of any investigation, enquiry, etc., under the law, they may be preserved beyond 10 years. The images of all the government cheques paid should be preserved by the drawee banks likewise for a period of 10 years.
- (iv) The government cheques paid by a drawee bank across its counter by way of Cash withdrawal or Transfer also need to be truncated and preserved for 10 years. Adequate safeguards should be built to ensure that these images are captured separately by the drawee banks and not mixed up with the images of the instruments received for payment in clearing. A common electronic file containing the images of all the cheques paid should be created, on a daily basis.
- (v) The drawee bank should continue to send the payment scrolls, monthly DMS, etc., to Government Department as hitherto. The respective images of paid cheques (by way of cash, clearing and transfer) should be sent to the Government by way of electronic media or through a CD depending upon their volume on daily/weekly/monthly basis, as per their requirement.
- (vi) At any time during the preservation period of cheques, for the purpose of reconciliation, enquiry, investigation, etc., the Government may require any paid cheque in physical form for which it would approach the drawee bank. Whenever so demanded by the Government, the drawee bank shall arrange to furnish the cheques paid by it by way of Cash and Transfer immediately. In case of cheques paid by way of clearing, the same should be supplied to Government within a reasonable period after obtaining it from the presenting bank. It is the responsibility of the presenting bank to comply with the requirement of the Government for any physical cheque and furnish the same to the respective drawee bank.
- (vii) At present, the CTS is operated on grid basis. Hence, the government cheques drawn on RBI/agency banks may be presented against the drawees within the grid only.
- (viii) As hitherto, the drawee bank should continue to send the payment scrolls, monthly DMS, etc., to Government Department. They should ensure that the mistakes/ discrepancies pointed out are rectified as per procedure, missing images of paid cheques are submitted immediately, the copies of the scrolls duly verified by the PAO are kept on its record, etc.

### FEMA

#### ECB in Indian Rupees

The Reserve Bank, on September 3, 2014 advised all category - I authorised dealer banks that recognised non-resident External Commercial Borrowings (ECB) lenders may extend loans in Indian Rupees subject to the conditions that (i) the lender should mobilise Indian Rupees through swaps undertaken with an authorised dealer category-I bank in India; (ii) the ECB contract should comply with all other conditions applicable to the automatic and approval routes as the case may be; (iii) the all-in-cost of such ECBs should be commensurate with prevailing market conditions; (iv) for the purpose of executing swaps for ECBs denominated in Indian Rupees, the recognised ECB lender, if it desires, may set up a representative office in India following the prescribed process; and (v) the hedging arrangement for ECBs denominated in Indian Rupees extended by non-resident equity-holders shall continue to be governed by extant guidelines.



## FPIs - Hedging Facilities

The Reserve Bank, on September 8, 2014 advised all category - I authorised dealer banks that Foreign Portfolio Investors (FPIs) can now hedge the coupon receipts arising out of their investments in debt securities in India falling due during the following twelve months subject to the condition that the hedge contracts shall not be eligible for rebooking on cancellation. The decision was taken to enhance the hedging facilities for the Foreign Portfolio Investors (FPIs) holding securities under the Portfolio Investment Scheme (PIS). The contracts can however be rolled over on maturity provided the relative coupon amount is yet to be received.

## Issue of Equity Shares against Legitimate Dues

The Reserve Bank, on September 17, 2014 advised all category - I authorised dealer banks to permit issue of equity shares against any other funds payable by the investee company, remittance of which does not require prior permission of the Government of India or Reserve Bank under FEMA, 1999 or any rules/ regulations framed or directions issued thereunder, subject to the extant FDI guidelines. The decision was taken after reviewing the extant guidelines for issue of shares/convertible debentures under the automatic route.

## Data on Import of Gold Statement

The Reserve Bank, on September 15, 2014, advised all category - I authorised dealer banks to move from manual reporting of the Import of Gold Statements to eXtensible Business Reporting Language (XBRL) system from half year ended September 2014. The details may be accessed at <https://secweb.rbi.org.in/orfsxbtrl/>. AD banks are advised to submit the statement in soft copy (through

## Report

### Committee on Capacity Building in Banks and Non-Banks

The Reserve Bank, on September 23, 2014, released the Report of the Committee on Capacity Building in banks and non-banks on its website ([www.rbi.org.in](http://www.rbi.org.in)).

The Committee [Chairman: Shri G. Gopalakrishna, former Executive Director, Reserve Bank of India and currently Director, Centre for Advanced Financial Research and Learning (CAFRAL)] was constituted by the Reserve Bank with the objective of implementing non-legislative recommendations of the Financial Sector Legislative Reforms Commission (FSLRC) relating to capacity building in banks and non-banks, streamlining training intervention and suggesting changes thereto in view of ever increasing challenges in banking and non-banking sectors. The objectives also included evolving an appropriate certification mechanism in the realm of training, where feasible, examining possible incentives for undertaking such certification and covering all stages of hierarchy-from the lowest rung to the Board level executives.

The Committee made exhaustive recommendations after examination of feedback received from the banking industry, inputs from member-experts, academicians and various training/consulting institutions. The key recommendations of the Report pertain to:

- i. approach to capacity building in banks and non-banks;
- ii. enhancing Human Resources Management practices;
- iii. creation of position of "Chief Learning Officer" in banks and concept of return on learning;
- iv. strategies for addressing issues of replacement / replenishment of talent in banks;

XBRL) as well as manual statement (MS-Excel file through email) for month/half year ending September, 2014. From the month of October, 2014 onwards, the submission of manual statements (monthly as well as half yearly) would be dispensed with.

## Co-operative Banking

### Transfer of Assets and Liabilities of UCBs to Commercial Banks

The Reserve Bank, on September 3, 2014 advised all primary (urban) cooperative banks that the existing guidelines for transfer of assets and liabilities of UCBs to commercial banks have been revised by stipulating that the acquiring bank should not incur any loss arising out of the said merger/ transfer of assets and liabilities. Further, big depositors holding deposits in excess of one lakh rupees each will be required to sacrifice in proportion to the deposit erosion of the target bank.

## Data Release

### Performance of the Private Corporate Business Sector in Q1

The Reserve Bank, on September 24, 2014, released, on its website, the data on the performance of non-financial private corporate business sector during first quarter of 2014-15 (April-June 2014).

The data compiled are based on the abridged financial results of 2,755 listed non-government non-financial companies. To enable comparison, similar data pertaining to Q1:2013-14 and Q4:2013-14 are also presented.

- v. process and steps for skill development;
- vi. training strategy and need for expert trainers to help build capacities;
- vii. coaching and mentoring including mentoring programme for Top Management of banks;
- viii. entry point qualifications at recruitment stage, development of competency standards and certification/accreditation in various areas of training;
- ix. conducting a common Banking Aptitude Test (BAT) at entry levels;
- x. qualifications for generalists and specialists;
- xi. e-learning as an important constituent for building capacity and imparting training;
- xii. training/learning Infrastructure oriented to banking;
- xiii. proposal for setting up a Centre of Excellence for Leadership Development in banking sector;
- xiv. fostering research on skill development in banking sector and evolving a monitoring framework for capacity development in banking sector; and
- xv. creation of skills registry for the banking sector.

Suggestions/comments on evolving a framework to operationalise the recommendations of the Report may be emailed or sent by post to the Chief General Manager In-Charge, Reserve Bank of India, Department of Banking Operations and Development, Central Office on or before October 31, 2014.