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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Priority Sector Guidelines Amended

The Reserve Bank has made certain additions and amendments in the guidelines on priority sector lending issued on July 20, 2012 as follows :

Agriculture

Direct Agriculture

Bank loans to the following entities would also qualify for lending to direct agriculture -

Loans to corporates, including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in agriculture and allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage) up to an aggregate limit of Rs. 2 crore per borrower for the following purposes:

(i) Short-term loans for raising crops (crop loans). This includes traditional/non-traditional plantations, horticulture and allied activities.

(ii) Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and development loans for allied activities).

(iii) Loans for pre-harvest and post-harvest activities, viz., spraying, weeding, harvesting, grading and sorting.

(iv) Export credit for exporting own farm produce.

Indirect Agriculture

If the aggregate loan limit per borrower is more than Rs. 2 crore for the activities listed above, the entire loan would be treated as indirect finance to agriculture.

Micro and Small Enterprises (Service Sector)

Bank loans to micro and small enterprises (MSE) engaged in providing or rendering services will be eligible for classification as direct finance to MSE sector under priority sector up to an aggregate loan limit of Rs.2 crore per borrower/unit, provided they satisfy the investment criteria for equipment as defined under the MSMED Act, 2006.

Housing

Bank loans to the following entities will qualify for priority sector status -

(i) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs.10 lakh per dwelling unit.

(ii) Loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which does not exceed Rs. 10 lakh per dwelling unit. Family income limit of Rs.1,20,000 per annum, irrespective of location, has been prescribed for the purpose of identifying the economically weaker sections and low income groups.

(iii) Bank loans to housing finance companies (HFCs) approved by the National Housing Bank (NHB) for their refinance, for on-lending for the purpose of purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 10 lakh per borrower, provided the all inclusive interest rate charged to the ultimate borrower does not exceed the lowest lending rate of the lending bank for housing loans plus two per cent per annum.

Eligibility under priority sector loans to HFCs is restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with the average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

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It is also clarified that:-

- Investments in non-SLR securities, under "held to maturity" (HTM) category for computation of adjusted net bank credit (ANBC) will include only non-SLR bonds/debentures.
- Off-balance sheet inter-bank exposures are excluded for computing credit equivalent of off-balance sheet exposures for priority sector targets.
- The term "all inclusive interest" includes interest (effective annual interest), processing fees and service charges.
- Banks should ensure that loans extended under priority sector are for approved purposes and the end-use is continuously monitored. Banks should also put in place proper internal controls and systems in this regard.

The above indicated additions and amendments have become operational from July 20, 2012.

Interest Subvention Scheme

The Hon'ble Finance Minister, in his budget speech for 2012-13 had announced that - "The interest subvention scheme for providing short term loans to farmers at 7 per cent interest per annum will be continued in 2012-13. An additional subvention of three per cent will be available to prompt paying farmers. In addition, the same interest subvention on post harvest loans up to six months against negotiable warehouse receipt will also be available. This will encourage farmers to keep their produce in warehouses."

In pursuance of this announcement, the Government of India will provide interest subvention of 2 per cent per annum to public sector banks in respect of short-term production credit up to Rs.3 lakh during the year 2012-13. The amount of subvention will be calculated on the crop loan amount from the date of its disbursement/drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the bank for repayment of the loan, whichever is earlier, subject to a maximum period of one year. This subvention will be available to public sector banks on the condition that they make available short-term production credit up to Rs. 3 lakh at ground level at 7 per cent per annum.

The Government of India will also provide additional interest subvention of 3 per cent per annum to public sector banks in respect of those prompt paying farmers who repay their short-term production credit within one year of disbursement/drawal of such loans. This subvention will be available to such farmers on a maximum amount of Rs.3 lakh availed of by them during the year, from the date of disbursement/drawal of the crop loan up to the actual date of repayment or up to the due date fixed by the bank for repayment, whichever is earlier, subject to a maximum period of one year from the date of disbursement. This additional subvention will be available to public sector banks on the condition that the effective rate of interest on short-term production credit up to Rs. 3 lakh for such farmers will now be 4 per cent per annum. This benefit would not accrue to those farmers who repay after one year of availing such loans.

Similar to the previous year (2011-12), the benefits of interest subvention will also be available to small and marginal farmers having kisan credit card for a further period of up to six months post harvest on the same rate as available to crop loan against negotiable warehouse receipt for keeping their produce in warehouses.

Banks have been advised to give adequate publicity to the above scheme so that farmers can avail the benefits.

Banks have also been advised that –

- Claims in respect of 2 per cent interest subvention and 3 per cent additional interest subvention should be submitted in the prescribed formats to the Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Shahid Bhagat Singh Road, Fort, Mumbai – 400 001.
- In respect of 2 per cent interest subvention, banks are required to submit their claims on a half-yearly basis as on September 30, 2012 and March 31, 2013. Claims as on March 31, 2013 should be accompanied by a statutory auditor's certificate certifying the claims for subvention for the entire year ended March 31, 2013 as true and correct. Any remaining claim pertaining to disbursements made during the year 2012-13 and not included in the claim for March 31, 2013, may be consolidated separately and marked as an 'Additional Claim' and submitted latest by April 30, 2014, duly audited by the statutory auditor certifying the correctness.
- In respect of the 3 per cent additional subvention, banks may submit their one-time consolidated claims pertaining to the disbursements made during the entire year 2012-13 latest by April 30, 2014, duly audited by the statutory auditor certifying the correctness.

Interest Rate Ceiling on Lines of Credit

The Reserve Bank has advised that the interest rate ceiling on lines of credit with overseas banks will continue to be six months LIBOR/EURO LIBOR/EURIBOR plus 250 basis points till further orders.

FEMA

Facilities for FIIs Liberalised

As per the extant guidelines, only designated branches of AD Category I banks maintaining accounts of foreign institutional investors (FIIs) are allowed to act as market makers to FIIs for hedging their currency risk on the market value of entire investment in equity and/or debt in India as on a particular date.

The Reserve Bank has now allowed FIIs to approach any AD Category I bank for hedging their currency risk on the market value of entire investment in equity and/or debt in India as on a particular date subject to the following conditions:

(i) The eligibility for cover may be determined on the basis of a valuation certificate provided by the designated AD category bank along with a declaration by the FII to the effect that its global outstanding hedges plus the derivatives contracts cancelled across all AD category banks is within the market value of its investments.

(ii) The FII should also provide a quarterly declaration to the custodian bank that the total amount of derivatives contract booked across AD Category banks are within the market value of its investments.

(iii) The hedges taken with AD banks other than designated AD banks have to be settled through the special non-resident rupee account maintained with the designated bank through RTGS/NEFT.

Loans against NRE/FCNR (B) Deposits

It has been decided that, banks may now grant loans against non-resident (external) rupee accounts [NR(E)RA] and foreign currency non-resident (bank) [FCNR(B)] deposits either to the depositors or third parties as under:

	Earlier Provision	Revised Provision
Rupee Loans* in India		
Loans against NRE/FCNR(B) fixed deposits	Rs. 100 lakh ceiling applicable	Rupee loans allowed to depositor/third party without any ceiling, subject to usual margin requirements**
Foreign Currency Loan* in India/Outside India		
Loans against NRE/FCNR(B) fixed deposits	Rs. 100 lakh ceiling applicable	Foreign currency loans allowed to depositor/third party without any ceiling, subject to usual margin requirements **

* The term 'loan' shall include all types of fund based/non-fund based facilities.

** In case of FCNR deposits, the margin requirement shall be notionally calculated on the rupee equivalent of the deposits in accordance with para 9(2) of Schedule-2 of the Foreign Exchange Management (Deposit) Regulations, 2000.

Further, the facility of premature withdrawal of NRE/FCNR deposits will not be available to deposit holders who have taken loans against such deposits. Authorised dealer banks may specifically bring this requirement to the notice of the deposit holder at the time of sanction of the loan. Existing loans which are not in conformity with these instructions shall continue for their existing term and shall not be rolled over/renewed. Other conditions regarding grant of loan against NRE/FCNR deposits shall remain unchanged.

PAYMENT SYSTEM

NEFT - Requirement of IFSC in Transactions

With a view to further facilitating electronic modes of remittance and enhancing customer service at branches for national electronic funds transfer (NEFT) transactions, participating banks have been advised that -

(i) Bank staff should assist customers in filling out the details as required in the NEFT application form, and ensure that beneficiary account details etc., are duly filled in.

(ii) Where the customer has provided both, the Indian Financial System Code (IFSC) as well as the branch details of the beneficiary branch, the bank should ensure that these details match. Mismatch, if any, should be brought to the notice of the customer for rectification, before originating the transaction.

(iii) Where the customer is able to provide only one of the inputs related to beneficiary branch, i.e., either the IFSC or the branch name, then the bank staff should assist the customer in ascertaining the other information which should be duly filled in by the customer in the NEFT application form before originating the transaction.

(iv) The maker-checker/double scrutiny procedure being followed by banks should cover details provided by the customer in the NEFT application form, including matching of IFSC number as indicated above.

(v) Banks should ensure that these instructions for facilitating hassle and error free NEFT transactions are communicated to their branches and the dealing staff for compliance.

Prepaid Payment Instruments

On a review, the Reserve Bank has considered it necessary to carry out the following amendments to the policy guidelines for issuance and operation of prepaid payment instruments (PPIs) in India-

Categorisation/Value Limits of PPIs Rationalised

The earlier five categories of semi-closed PPIs have been replaced with three broad categories as under:

(i) Semi-closed system prepaid payment instruments can be issued up to Rs.10,000 by accepting the customer`s minimum details provided, the amount outstanding at any point of time does not exceed Rs 10,000 and the total value of reloads during any given month also does not exceed Rs 10,000. These can be issued only in electronic form.

(ii) Semi-closed system prepaid payment instruments can be issued from Rs. 10,001 to Rs. 50,000 by accepting any 'officially valid document' defined under Rule 2 (d) of the Prevention of Money Laundering Act. Such PPIs can be issued only in an electronic form and should be non-reloadable in nature.

(iii) Semi-closed system prepaid payment instruments can be issued up to Rs.50,000 with full `know your customer` (KYC) and can be reloadable in nature.

Strengthening Escrow Management

(i) Non-bank entities issuing prepaid payment instruments are required to maintain the outstanding balance in an escrow account with any scheduled commercial bank subject to the conditions stipulated in the Reserve Bank`s guidelines dated April 27, 2009 and November 24, 2010.

(ii) The escrow account should be credited immediately as and when the issuer/agent/distributor sells a PPI to the end-user. The balances in the escrow account should be adequate to cover the outstanding balances on the PPIs with end-users and the obligations to merchants arising out of the usage of the PPIs by the end-users at any given point of time.

Domestic Money Transfer

In terms of extant guidelines, domestic fund transfer is permissible from (i) a prepaid payment instrument to another prepaid payment instrument issued by the same issuer; and (ii) a prepaid payment instrument issued with full KYC to a bank account up to Rs 5000, with a monthly ceiling of Rs 25,000 per remitter. It has been decided that all the three categories of prepaid payment instruments mentioned above will now qualify for domestic money transfer.

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CO-OPERATIVE BANKING

Financial Restructuring of UCBs

The Reserve Bank has advised that it would, henceforth, consider financial restructuring proposals submitted by primary urban co-operative banks (UCBs) involving conversion of deposits into equity/IPDI, even if the net worth of the bank does not become positive after such conversion of deposits, provided the depositors agree voluntarily for such conversion.

It may be recalled that in its circular of January 23, 2009, the Reserve Bank had stated that it would consider financial restructuring proposals as an additional option for resolution of problem banks.

Unique Customer Identification Code for Bank Customers

The Reserve Bank has advised UCBs to initiate steps for allotting unique customer identification code (UCIC) to all their customers while entering into any new relationships with individual customers. Similarly, existing individual customers may also be allotted unique customer identification code by end-May 2013.

The unique customer identification code 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. While some Indian banks have already developed UCIC, there is no unique number to identify a single customer across the organisation in many banks. A Working Group constituted by the Government of India has proposed introduction of unique identifiers for customers across different banks and financial institutions for setting up a centralised KYC registry. While such a system for the entire financial system is desirable, it is likely to take quite some time for a complete roll out.

INFORMATION

High Level Financial Inclusion Advisory Committee

The Reserve Bank has constituted a high level Financial Inclusion Advisory Committee (FIAC) to spearhead the efforts towards greater financial inclusion. The collective expertise and experience of the members of the committee is expected to explore issues, such as, developing viable and sustainable banking services delivery models focussing on accessible and affordable financial services, developing products and processes for rural as well as urban consumers presently outside the banking network and suggest appropriate regulatory framework to ensure that financial inclusion and financial stability move in tandem.

The Committee will be chaired by Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India and will comprise the following members -

(i) Shri Y.H. Malegam, Member, Central Board of Directors, Reserve Bank of India

(ii) Professor Dipankar Gupta, Member, Central Board of Directors, Reserve Bank of India

(iii) Ms Ela Ramesh Bhatt, Member, Central Board of Directors, Reserve Bank of India

(iv) Shri D.K. Mittal, Member, Central Board of Directors, Reserve Bank of India & Secretary, Department of Financial Services, Ministry of Finance, Government of India

(v) Dr. Nachiket Mor, Member of the Governing Council, IKP Trust and former Deputy Managing Director of ICICI Bank

(vi) Professor M.S. Sriram, Independent Researcher & Adjunct Professor, Indian Institute of Management, Ahmedabad and Indian Institute of Management, Indore

(vii) Shri R.S. Sharma, Director General, Unique Identification Authority of India (UIDAI)

(viii) Shri B. Sambamurthy, Director, Institute of Development & Research in Banking Technology (IDRBT)

(ix) Ms. Rama Vedashree, Vice President, NASSCOM and Member of NABARD's Advisory Board on Financial Inclusion Fund and Financial Inclusion Technology Fund

(x) Shri P.D.K. Rao, Managing Trustee, Sodhana Charitable Trust

(xi) Shri K.R. Kamath, Chairman & Managing Director, Punjab National Bank & Chairman, Indian Banks' Association

The Executive Director in-Charge of the Reserve Bank`s Rural Planning and Credit Department (RPCD) will be the Convenor of the Committee and RPCD, Central Office, RBI will provide the Secretariat to the Committee.

There has been a significant, albeit slow, progress towards greater financial Inclusion. However, ensuring accessible and affordable financial services in all the 6 lakh villages in India is a herculean task and given the enormity of the task, a lot of ground still needs to be covered. This calls for a partnership of all the stakeholders – the Reserve Bank, other sectoral regulators like the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority (IRDA), the Pension Fund Regulatory and Development Authority (PFRDA), the National Bank for Agriculture and Rural Development (NABARD); banks; governments; civil society; non-governmental organisations (NGOs), etc.

While the regulators and the Government of India are already part of the Technical Group on Financial Inclusion and Literacy of the sub-committee of the Financial Stability and Development Council, a need was felt to engage members from the civil society/NGOs and others for a sound and purposeful collaboration. The Committee, if necessary, would call other market players like corporate business correspondents, technology vendors etc., as special invitees to the meetings. Since the financial inclusion model selected in India is primarily bank-led, the Financial Inclusion Advisory Committee may also invite the chairperson/managing directors of banks to each of its meetings to gather the perspective of banks.

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