R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2012-14

Monetary and Credit Information Review

MCIR

Volume XIV ♦ Issue 5 ♦ November 2017

Banking Regulation

Banking Facility for Senior Citizens and Differently abled Persons

The Reserve Bank on November 9, 2017 advised banks to put in place appropriate mechanism with specific provisions for meeting the needs of senior citizens and differently abled persons to enable them to avail the bank's services without any difficulty.

Dedicated Counters/Preference to Senior Citizens, Differently Abled Persons

Banks are advised to provide a clearly identifiable dedicated counter or a counter which provides priority to senior citizens and people who are differently abled including visually impaired persons.

Illustration:Anupam Sharma

Ease of submitting Life Certificate

The Reserve Bank advised banks to ensure that the life certificate, submitted in any branch, including a non-home branch, of the pension paying bank, is updated/uploaded promptly in Core Banking Solution (CBS) by the receiving branch itself, to avoid any delay in credit of pension.

As per extant guidelines issued by Department of Government and Bank Accounts, in addition to the facility of digital life certificate under "Jeevan Praman" Scheme, pensioners can submit physical life certificate form at any branch of the pension paying bank. However, it is observed that often the same is not updated promptly by the receiving branch in the CBS system of the bank, resulting in avoidable hardship to the pensioners.

Cheque Book Facility

The Reserve Bank advised banks to:

- Issue cheque books to customers, whenever a request is received, through a requisition slip, which is part of the cheque book issued earlier;
- Provide minimum 25 cheque leaves every year, if requested, in savings bank account, free of charge;
- Not to insist upon physical presence of any customer including senior citizens and differently abled persons for getting cheque books; and
- Issue cheque books, on requisition, by any other mode as per bank's laid down policy.

It is further clarified that providing such facility in Basic Savings Bank Deposit Account (BSBDA) will not render the account to be classified as non-BSBDA.

Automatic Conversion of Status of Accounts

The Reserve Bank also advised banks to automatically convert a fully KYC compliant account into a 'Senior Citizen Account' based on the date of birth available in bank's records. Presently, in some banks, even fully Know Your Customer (KYC)-compliant accounts are not automatically converted into 'Senior Citizen Accounts' on the basis of date of birth maintained in the bank's records.

Additional Facilities to Visually Impaired Customers

Banks are advised that the facilities provided to sick/old/incapacitated persons regarding operations of accounts through identification of thumb/toe impression/mark by two independent witnesses and authorising a person who would withdraw the amount on behalf of such customers shall also be extended to the visually impaired customers.

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Introduction of LEI for Large Corporate Borrowers

The Reserve Bank on November 2, 2017 decided that the banks should make it mandatory for existing large corporate borrowers having total exposures of ₹50 crore and above to obtain Legal Entity Identifier (LEI). Borrowers who do not obtain LEI as per the schedule, are not to be granted renewal/enhancement of credit facilities. A separate roadmap for borrowers having exposure between ₹5 crore and up to ₹50 crore would be issued in due course. The Reserve Bank also advised banks to encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates. This will facilitate assessment of aggregate borrowing by corporate groups, and monitoring of the financial profile of an entity/group.

Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF)–the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

Background

The LEI code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post global financial crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide.

The LEI for the participants of the Over the Counter (OTC) derivatives market has since been implemented in a phased manner.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11154&Mode=0)

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Banking Facility for Senior Citizens and Differently abled Persons

Ease of Filing Form 15G/H

Banks are advised to provide senior citizens and differently abled persons Form 15G/H once in a year (preferably in April) to enable them to submit the same, where applicable, within the stipulated time.

Door Step Banking

The Reserve Bank advised banks to make concerted effort to provide basic banking facilities, such as, pick up of cash and instruments against receipt, delivery of cash against withdrawal from account, delivery of demand drafts, submission of Know Your Customer (KYC) documents and life certificate at the premises/ residence of such customers. The advice was issued keeping in view the difficulties faced by senior citizens of more than 70 years of age and differently abled or infirm persons (having medically certified chronic illness or disability) including those who are visually impaired. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11163&Mode=0)

Non - Banking Regulation

Managing Risks and Code of Conduct by NBFCs

The Reserve Bank on November 9, 2017, put in place necessary safeguards in its directions on 'Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs (Non-Banking Financial Companies)' in public interest. These directions cover a wide range of regulatory issues, such as, material outsourcing, NBFC's role and regulatory and supervisory requirements, role of the Board, responsibilities of the senior management, evaluation of the risks, reporting of transactions to Financial Intelligence Unit (FIU) or other competent authorities, outsourcing within a group/conglomerate and off-shore outsourcing of financial services. Some of these directions are:

- The NBFC outsourcing its activities, need to ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from outsourced activities.
- NBFCs shall not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened.
- NBFCs which desire to outsource financial services would not require prior approval from the Reserve Bank. However, such arrangements would be subject to on-site/off-site monitoring and inspection/scrutiny by the Reserve Bank.
- NBFCs which choose to outsource financial services shall, however, not outsource core management functions including internal audit, strategic and compliance functions and decision-making functions, such as, determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio.
- NBFCs would be responsible for the actions of their service provider including direct sales agents/direct marketing agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider. NBFCs shall retain ultimate control of the outsourced activity.
- It is imperative for the NBFC, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.
- Outsourcing arrangements shall not affect the rights of a customer against the NBFC, including the ability of the customer to obtain redress as applicable under relevant laws.
- The service provider shall not impede or interfere with the ability of the NBFC to effectively oversee and manage its activities nor shall it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.
- NBFCs need to have a robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.
- The service provider, if not a group company of the NBFC, shall not be owned or controlled by any director of the NBFC or their relatives; these terms have the same meaning as assigned under Companies Act, 2013.

NBFCs are advised to conduct a self-assessment of their existing outsourcing arrangements and bring these in line with the directions within two months. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11160&Mode=0)

Financial Market Regulation

Secondary Market Transactions in G-Secs

The Reserve Bank on November 16, 2017 decided that market participants undertaking 'notional' short sale need not compulsorily borrow securities in the repo market. While the short selling entity may ordinarily borrow securities from the repo market, in exceptional situations of market stress (such as, short squeeze), it may deliver securities from its own Held to maturity (HTM)/Available for sale (AFS)/Held for Trading (HFT) portfolios. If securities are delivered out of its own portfolio, it must be accounted for appropriately and reflect the transactions as internal borrowing. All 'notional' short sales must be closed by an outright purchase in the market. It may be ensured that the securities so borrowed are brought back to the same portfolio, without any change in book value. The short selling entity must adhere to the extant regulations and accounting norms governing sale or valuation of securities in its portfolios. The bank may frame a Board approved policy for this purpose.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11171&Mode=0)

OTC Government Securities Transaction by FPIs

The Reserve Bank on November 16, 2017 permitted Foreign Portfolio Investors (FPIs) to settle Over-the-Counter (OTC) secondary market transactions in Government Securities either on T+1 or on T+2 basis. It may be ensured that all trades are reported on the trade date itself. FPIs were earlier required to settle transactions in Government Securities in the OTC market on a T+2 basis.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11172&Mode=0)

Foreign Exchange Management

Guidelines on Simplified Hedging Facility

The Reserve Bank on November 9, 2017 introduced Simplified Hedging Facility for Risk Management and inter-bank dealings as per the announcement made in the Statement on Developmental and Regulatory Policies dated August 2, 2017. The scheme of simplified hedging facility was first announced by the Reserve Bank in August 2016 and the draft scheme was released on April 12, 2017. The facility, which will be effective from January 1, 2018, is being introduced with a view to simplify the process for hedging exchange rate risk by reducing documentation requirements, avoiding prescriptive stipulations regarding products, purpose and hedging flexibility, and to encourage a more dynamic and efficient hedging culture.

As per the Guidelines, users like resident and non-resident entities (other than individuals), can hedge exchange rate risk on transactions, contracted or anticipated, permissible under Foreign Exchange Management Act (FEMA). The products covered will be any Over the Counter (OTC) derivative or Exchange Traded Currency Derivative (ETCD), and the cap on outstanding contracts is USD 30 million, or its equivalent, on a gross basis. If hedging requirement of the user exceeds the limit in course of time, the designated bank (an AD category-I bank appointed by the user to assess the hedging requirement of the user and set a limit up to the stipulated cap on the outstanding contracts) will re-assess and, at its discretion, extend the limit up to 150 per cent of the stipulated cap.

The Reserve Bank has further advised banks to have an internal policy regarding the time limit up to which a hedge contract for a given underlying can be rolled-over or rebooked by the user. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11162&Mode=0)

Investment by Persons Resident outside India

The Reserve Bank on November 7, 2017 amended select regulations to regulate investment in India by a Person Resident outside India through transfer or issue of security. The amended regulations covers a wide range of topics, namely, definitions, restriction on investment by a person resident outside India, restriction on receiving investment, permission for making investment by a person resident outside India, acquisition through a rights issue or a bonus issue, transfer of capital instruments of an Indian company by or to a person resident outside India and other relevant issues. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11161&Mode=0)

Suno RBI Kya Kehta Hai

The Reserve Bank on November 10, 2017 launched a public awareness campaign through SMSes to educate the members of the public about various banking regulations and facilities available to them.

To begin with, the Reserve Bank sent its first message on November 10, 2017 cautioning the people against falling prey to unsolicited and fictitious offers received through emails/SMSes/phone calls. The second SMS in the series, was sent on November 22, 2017 with the aim of making the members of the public aware about the recourse available with them on receiving a fake offer via sms/phone call/email. The caution messages were sent from 'RBISAY' sender id.

Illustration:Anupam Sharma

The Reserve Bank started its awareness campaign with these messages as, of late, there has been a spate of fictitious offers and incidents of people losing money due to sharing of bank details/OTP/CVV, etc. The fraudsters have taken every opportunity to mislead gullible victims into sharing bank details, OTP, CVV, passwords. The most common pretext of current phone calls is 'share your OTP/CVV etc., to link the bank account with Aadhaar number' and the gullible members of public tend to believe this easily. Members of public are, therefore, requested to make these messages viral by circulating them among their family and friends through the social media network.

The Reserve Bank has been alerting members of the public against such offers through press releases (https://www.rbi.org.in/Scripts/RBICautions.aspx) issued from time to time. This is the first time the Reserve Bank used the same media (SMS and emails) as those used by the fraudsters. Members of public can give a missed call to 8691960000 to get more information through Interactive Voice Response System (IVRS) on fake calls/emails as well as investing wisely and cautiously in chit funds. They can also send their feedback on the campaign by email (rbikehtahai@rbi.org.in). (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=42214)

Mint Street Memo

From Cash to Non-cash and Cheque to Digital:The Unfolding Revolution in India's Payment Systems

The Reserve Bank, on November 24, 2017, placed on its website the Mint Street Memo (MSM) on the topic "From Cash to Non-cash and Cheque to Digital: The Unfolding Revolution in India's Payment Systems."

The memo empirically evaluated the impact of demonetisation on inter-bank payment and settlement systems against the backdrop of progressive use of electronic modes and capping service charges. The study found that (i) there has been a reduction in the usage of cheques prior to demonetisation; and (ii) since demonetisation, cash transactions have moved in a sustained manner to non-cash mode of payment systems via retail electronic payment systems, point of sale terminals and cheques.

Cheques

Prior to the mandated use of electronic payments, the number of inter-bank cheque clearing transactions showed a statistically significant increasing trend. After the Reserve Bank's intervention, however, the *number* of inter-bank cheque clearing transactions showed a decreasing trend over time, which is statistically significant. Thus, the Reserve Bank's intervention significantly altered customer behaviour in cheque usage. In the post-demonetisation period (April 2017-August 2017), an increase in the number of cheque transactions is observed. The ratio of currency with public to GDP reduced substantially during 2016-17.

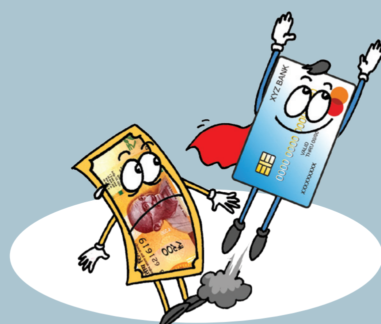

Illustration:Anupam Sharma

Electronic Payment Modes

The Reserve Bank's interventions in enhancing the efficiency and inclusiveness of electronic payment systems have effectively driven up both volumes and values of electronic payment products against traditional instruments, such as, cheques.

Impact of Demonetisation on Payment Systems

To understand the impact of demonetisation on payment systems, the payment systems data have been grouped into three time buckets, that is, pre-demonetisation period from April 2016 to October 2016; demonetisation period from November 2016 to March 2017; and post-demonetisation period from April 2017 to August 2017. Cheque volumes and values contracted during the pre-demonetisation period but recorded positive growth during demonetisation as well as post-demonetisation period. There was a sharp growth in card transactions at Point of Sale (POS) for both demonetisation and post-demonetisation periods.

Conclusion

The memo, through its investigation, revealed that the Reserve Bank's interventions on promoting electronic modes of payment have facilitated a reduction in the usage of paper-based instruments, such as, cheques. Demonetisation impacted the inter-bank payment and settlement systems significantly in moving cash transactions to non-cash modes of payments in three segments, such as, retail electronic payments, card usage at POS terminals and cheques. The increased usage of these three instruments during the demonetisation period has been sustained in the post-demonetisation period as well, suggestive of a fundamental shift being underway in payment habits of the Indian economy. (https://www.rbi.org.in/Scripts/MSM_Mintstreetmemos7.aspx)

Government and Bank Accounts

Agency Commission for GST Receipt Transactions

Apropos the introduction of GST, the Reserve Bank on November 16, 2017 modified the Agency Commission for GST Receipt Transactions and advised all agency banks, authorised to collect GST, to submit their agency commission claims pertaining to GST receipt transactions at Mumbai regional office only. The revised formats for claiming agency commission for all agency banks and separate and distinctive set of certificates to be signed by the branch officials and chartered accountants have to be submitted as prescribed. These certificates would be in addition to the usual certificate from ED/CGM (in charge of government business) to the effect that there are no pension arrears to be credited/delays in crediting regular pension arrears thereof.

Agency banks are required to submit their claims for agency commission in the prescribed format to Central Accounts Section (CAS) Nagpur in respect of central government transactions and the respective regional office of the Reserve Bank for state government transactions. However, agency commission claims with respect to GST receipt transactions will be settled at Mumbai regional office of the Reserve Bank only. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11170&Mode=0)

Working Group Report on Hedging of Commodity Price Risk

The Reserve Bank on November 16, 2017 placed on its website the Report of the Working Group on Hedging of Commodity Price Risk by Residents (Chairman: Shri Chandan Sinha, former Executive Director, RBI) and sought suggestions/feedback from the members of the public. Suggestions/comments, if any, on the Report may be forwarded to: The Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department,1st Floor Mumbai Regional Office, Shahid Bhagat Singh Marg, Mumbai – 400001 or by email (fmrdfeedback@rbi.org.in) with subject line: Feedback on Hedging of Commodity Price Risk by December 15, 2017. (https://www.rbi.org.in/Scripts/BSPressReleaseDisplay.aspx?prid=42293)

Edited and published by Jose J. Kattoor for the **Reserve Bank of India**, Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001. **MCIR can be accessed at https://mcir.rbi.org.in**