



## Volume XI ♦ Issue 7 January 2015

# MONETARY AND CREDIT INFORMATION REVIEW

### Highlights of Banking and Financial Developments in 2014

#### January 2014

- The Reserve Bank revised instructions to non-banking finance companies (NBFCs) for lending against gold jewellery in respect of loan-to-value (LTV) ratio; standardisation of value of gold in arriving at LTV; ratio verification of the ownership of gold auction process and procedures.
- The Reserve Bank introduced incremental provisioning and capital requirements for bank exposures to entities with unhedged foreign currency exposures.

#### February 2014

- The Reserve Bank issued guidelines on intra-group transactions and exposures (ITEs) for banks relating to their transactions and exposures to entities belonging to the bank's own group (group entities). The guidelines included quantitative limits on financial ITEs and prudential measures for the non-financial ITEs to ensure that banks engage in ITEs in a safe and sound manner in order to contain concentration and contagion risks arising out of ITEs.
- The Reserve Bank advised members of public to exchange banknotes printed prior to 2005 at bank branches. Members of public could, however, exchange any number of these old series notes from the bank branches where they have their accounts, even after the deadline.

#### March 2014

- The Reserve Bank issued guidelines regarding the "Framework for Revitalising Distressed Assets in the Economy". The guidelines pertained to -(i) refinancing of project loans (ii) sale of financial assets to securitisation companies (SCs)/reconstruction companies (RCs)(iii) purchase/sale of non-performing assets (NPAs) to other banks(iv) use of counter-cyclical/floating provisions(v) bank loans for financing promoters' contribution.
- Banks were advised to be in readiness to take necessary action as "The Depositor Education and Awareness Fund (the Fund) Scheme 2014" was finalised and forwarded to the Government of India for notifying in the Official Gazette. The Reserve Bank also advised all banks to designate a single contact point for any correspondence/queries in connection with the 'Depositor Education and Awareness Fund Scheme, 2014'.
- The Reserve Bank advised banks to accept e-Aadhaar downloaded from the website of the Unique Identification Authority of India (UIDAI) as an officially valid document subject to certain conditions. Banks were also advised to note that physical Aadhaar card/letter issued by UIDAI containing details of name, address and Aadhaar number received through post and e-KYC process, would continue to be accepted as an 'Officially Valid Document'.

- Chief Information Security Officers(CISOs) of banks were advised to report all information security related incidents on the security incident tracking platform, developed by the Institute for Development and Research in Banking Technology (IDRBT). The Platform would enable banks to report security incidents in an anonymous manner; thus keeping the information reported by the banks confidential. The platform would be hosted on the Indian Financial Network (INFINET) and the access would be provided only to the CISOs of respective banks.
- A comprehensive IT-based system called Export Data Processing and Monitoring System (EDPMS) was operationalised for better monitoring of export of goods and software and facilitating authorised dealer (AD) banks to report various returns through a single platform. It is a major green initiative as paper reporting requirement will be eliminated to a substantial extent.

#### April 2014

- The Reserve Bank granted "in-principle" approval to two applicants, namely, IDFC Limited and Bandhan Financial Services Private Limited, to set up banks under the 'Guidelines on Licensing of New Banks in the Private Sector'.
- A separate category of non-banking finance companies (NBFCs) was created, namely, Non-Operative Financial Holding Company (NOFHC). NOFHC would be registered as a non-deposit taking non-banking financial company (NBFC) with the Department of Non-Banking Supervision (DNBS) the regulatory and supervisory framework of NOFHC including prudential norms and submission of returns would be governed by the instructions issued by Department of Banking Operations and Development (DBOD).
- The Reserve Bank advised stand-by letter of credit (LC)/ bank guarantee (BG) issuing bank and the gold metal loan (GML) providing banks to take into account certain additional guidelines to mitigate the risk of frauds/misuse of the scheme by the GML borrowers.
- The Reserve Bank advised banks to take into account the incentives available to micro and small enterprises (MSE) borrowers in the form of the credit guarantee cover of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the zero risk weight for capital adequacy purpose for the portion of the loan guaranteed by the CGTMSE and provide differential interest rate while pricing their loans for such MSE borrowers. However, such differential rate of interest must not be below the base rate of the bank.
- The Reserve Bank accepted the recommendations of the Committee on Financial Benchmarks (Chairman: Shri P. Vijaya Bhaskar, Executive Director) on measures/principles to be adopted in respect of major Indian Rupee interest rate and Foreign exchange benchmarks to strengthen their quality, setting

methodology and the governance framework. The Reserve Bank has since advised Fixed Income Money Market and Derivatives Association of India (FIMMDA) and Foreign Exchange Dealers' Association of India (FEDAI) to act as the Administrator of the Indian Rupee interest rate and Foreign exchange benchmarks respectively and to take necessary steps to implement the recommendations of the Committee.

- The Reserve Bank put in place a framework for investments under a new scheme called 'Foreign Portfolio Investment' scheme.

#### May 2014

- The Reserve Bank advised banks that a minor of any age could open a savings/fixed/recurring bank deposit account through his/her natural or legally appointed guardian; Minors above the age of 10 years should be allowed to open and operate savings bank accounts independently, if they so desire. On attaining majority, the minor should confirm the balance in his/her account and if the account is operated by the natural guardian/legal guardian, fresh operating instructions and specimen signature of the erstwhile minor should be obtained and kept on record for all operational purposes.
- The Reserve Bank advised banks to take necessary steps to provide all existing ATMs/future ATMs with ramps so that wheel chair users/persons with disabilities could easily access them. Banks were advised to take appropriate steps, including providing of ramps at the entrance of the bank branches, wherever feasible, so that the persons with disabilities/wheel chair users can enter bank branches and conduct business without difficulty. Banks were also advised to make all new ATMs installed from July 1, 2014 as talking ATMs with Braille keypads. Banks were also advised to provide magnifying glasses in all bank branches for the use of persons with low vision, wherever they require, for carrying out banking transactions with ease.
- The Reserve Bank asked banks not to charge foreclosure charges/pre-payment penalties on all floating rate term loans sanctioned to individual borrowers.
- The Reserve Bank also prohibited banks from levying penal charges for non-maintenance of minimum balances in any inoperative account, including the basic savings bank deposit accounts (BSBDAs).
- Foreign branches/subsidiaries of Indian banks who propose to offer structured financial and derivative products that are not specifically permitted by the Reserve Bank in the domestic market, could do so only at the established financial centres outside India like New York, London, Singapore, Hong Kong, Frankfurt, Dubai, etc. At other centres, banks may offer only those products that are specifically permitted in India.
- The name of "Bharatiya Mahila Bank Limited" has been included in the Second Schedule to the Reserve Bank of India Act, 1934.

#### June 2014

- The requirement of submission of 'proof of address' with regard to the know your customer (KYC) norms while opening a bank account, were simplified:(a) Customers could submit only one documentary proof of address (either current or permanent) while opening a bank account or while undergoing periodic updation; (b) In case the proof of address furnished by the customer is not the local address or address where the customer is currently residing, the bank may take a declaration of the local address on which all correspondence will be made by the bank with the customer.
- Guidelines on Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards were finalised taking into account comments and feedback of stakeholders.

- The nomenclature of Special Ways and Means Advances granted to the State Governments was changed as Special Drawing Facility from June 23, 2014.
- The 'Timelines for Regulatory Approvals' and 'Citizens' Charter' for delivery of services as part of implementation of the non-legislative recommendations of the Financial Sector Legislative Reforms Commission (FSLRC) was announced.
- Authorised dealers of foreign exchange were advised, to allow all residents and non-residents (except citizens of Pakistan and Bangladesh and also other travellers coming from and going to Pakistan and Bangladesh) to take out Indian currency notes up to ₹ 25,000 while leaving the country.
- Authorised dealer (AD) category – I banks were advised to allow remittances up to USD 125,000 per financial year, under the Liberalised Remittance Scheme (LRS), for any permitted current or capital account transaction or a combination of both.
- The Reserve Bank advised non-banking financial companies (NBFCs), both deposit accepting and non-deposit accepting, that prior approval of the Reserve Bank is required in case of any takeover/acquisition of shares of an NBFC; or merger/amalgamation of an NBFC with another entity; or any merger/amalgamation of an entity with an NBFC, that would give the acquirer/another entity control of the NBFC, or would result in acquisition/transfer of shareholding in excess of 10 percent of the paid up capital of the NBFC.
- The Reserve Bank decided to enable the 'Hybrid' and 'Future value dated transaction' features in the Real Time Gross Settlement System (RTGS) from July 14, 2014. The hybrid feature will be configured to do off-setting every five minutes.
- The Reserve Bank issued certificates of authorisation to three non-bank entities, namely, (i) BTI Payments Private Limited, Bangalore, (ii) Srei Infrastructure Finance Limited, Kolkata, (iii) Riddi Siddhi Bullions Limited, Mumbai, for setting up and operating white label ATMs (WLAs) in India. Earlier, four entities were authorised to operate as WLAs, namely, Tata Communications Payment Solutions Limited, Mumbai; Prizm Payment Services Pvt. Ltd., Mumbai; Muthoot Finance Limited, Kochi and Vakrangee Limited, Mumbai.

#### July 2014

- The Reserve Bank released the draft guidelines for "Licensing of Payments Banks" and for "Licensing of Small Banks". The Reserve Bank sought views/ comments on both the draft guidelines from all interested parties and general public.
- Banks were advised certain operational guidelines and incentives in the form of flexibility in loan structuring and refinancing, and also granting exemptions from regulatory pre-emptions, such as, cash reserve ratio (CRR), statutory liquidity ratio (SLR) and priority sector lending (PSL).
- The Reserve Bank released the "Framework for dealing with Domestic Systemically Important Banks (D-SIBs)".
- Rural bank branches were mandated to conduct minimum of one financial literacy camp in a month.
- Draft guidelines for setting up of and operating Trade Receivables Discounting System (TReDS) were released seeking comments from the public/stakeholders.

#### August 2014

- The Reserve Bank permitted banks to refinance existing project loans, by way of full or partial takeout financing, even without a pre-determined agreement with other banks/financial institutions, and fix a longer repayment period. Further, this would not be considered as restructuring in the books of the existing as well as taking over lenders, subject to certain conditions.

- Scheduled commercial banks including RRBs/urban co-operative banks/state co-operative banks/district central co-operative banks/authorised card payment networks were advised to immediately stop entities from evading the mandatory additional authentication process, where payments are made by customers for a service via 'Card Not Present' (CNP) transactions.
- The Reserve Bank advised the authorised dealers/full-fledged money changers (FFMCs) selling pre-paid foreign currency cards for travel purposes to comply with the same rigorous standards of due diligence and know your customer (KYC) as they would in case they were selling foreign currency notes/travelers cheques to their customers.
- Certain modifications were made to the "Guidelines on Registration and Operations of Mortgage Guarantee Companies (MGCs)", in the wake of representations received from the industry and keeping in view the long term beneficial impact of development of the mortgage guarantee industry. The modifications related to capital adequacy; contingency reserve; classification on investments; provision for loss on invoked guarantees.

#### September 2014

- The Reserve Bank 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. Measures taken for simplification included -single document for proof of identity and proof of address; no separate proof of address is required for current address; relaxation regarding officially valid documents for low risk customers; and periodic updation of KYC.
- The Reserve Bank advised 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.
- Private sector banks were advised 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, beyond which nobody should continue in the post.
- The Reserve Bank, 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.
- The scheduled commercial banks were advised to adhere to certain client due diligence measures including identifying and verifying the customer and beneficial owner on the basis of reliable and independent information and data or documentation, 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, 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 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'.

- The commercial banks were advised 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.
- 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.

#### October 2014

- The Reserve Bank advised all scheduled commercial banks including RRBs/UCBs/state co-operative banks/district central co-operative banks that with effect from November 1, 2014, (i) they can not charge any fees to their savings bank customers for five transactions (inclusive of both financial and non-financial) in a month carried out at other bank ATMs irrespective of the location of the ATMs; (ii) Three transactions would be free of charge if carried out at other bank ATMs located in six metro centres, namely, Mumbai, New Delhi, Chennai, Kolkata, Bengaluru and Hyderabad. Banks are, however, free to offer more number of free transactions per month at other bank ATMs in any geographical location.
- The Reserve Bank advised scheduled commercial banks (excluding regional rural banks)/local area banks/all India financial institutions that:(i) Banks need not seek fresh proofs of identity and address at the time of periodic updation, from those customers who are categorised as 'low risk', in case of no change in status with respect to their identities and addresses. A self-certification by the customer to that effect should suffice in such cases. Banks may not insist on physical presence of such low risk customer at the time of periodic updation. Further, if an existing Know Your Customer (KYC) compliant customer of a bank desires to open another account in the same bank, there should be no need for submission of fresh proof of identity and/or proof of address for the purpose.

#### November 2014

- The Reserve Bank advised Scheduled commercial banks (excluding regional rural banks) to adhere to the additional guidelines with effect from April 1, 2015, while levying charges for non-maintenance of minimum balance in savings bank account.
- The regulatory framework for NBFC (Non-Banking Finance Company) sector was revised to an activity based regulation of NBFCs.
- The Reserve Bank advised scheduled commercial banks (excluding RRBs)/local area banks to review and strengthen the controls in the cheque presenting/passing and account monitoring processes and to ensure that all procedural guidelines including preventive measures are followed meticulously by the dealing staff/officials.

#### December 2014

- The Reserve Bank, allowed scheduled commercial banks (excluding local area banks and regional rural banks) to flexibly

structure the existing project loans to infrastructure projects and core industries projects with the option to periodically refinance these loans as per certain norms.

- The Reserve Bank released "Guidelines for Licensing of Payments Banks" on the Reserve Bank's website. Guidelines aimed at financial inclusion by providing (a) small savings accounts, and (b) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users. Guidelines included parameters for eligible promoters; scope of activities: deployment of funds: capital requirement. "Guidelines for Licensing of Small Finance Banks in the Private Sector" were also issued.
- The Reserve Bank released "Guidelines for setting up and operating the Trade Receivables Discounting System" (TReDS) outlining the requirements and the basic tenets of operating the TReDS, including the system participants, their roles, transaction process flow, settlement process, the eligibility criteria for entities desirous of setting up and operating such a system.
- The Reserve Bank in its guidelines on White Level ATMs (WLAs) issued on December 5, 2014, allowed WLAs to accept international credit/debit/prepaid cards; permitted the facility of Dynamic Currency Conversion (DCC) for the use of international cards at WLAs; enabled delinking cash supply from that of sponsor bank arrangements and advised WLA operators who have been authorised under PSS Act 2007 and have commenced operations to intimate the Reserve Bank regarding commencement of the services.
- The Reserve Bank advanced RTGS business hours to 8:00 hours from 9.00 hours and extended closing time of RTGS to 20.00 hours on week days. RTGS business window remains open from 8.00 hours to 15.30 hours on Saturdays. Customer transaction cut-off time has not been changed.

### Important Monetary Policy Decisions in 2014

Monetary Policy Review	Policy Repo Rate under the Liquidity Adjustment Facility (LAF)	Cash Reserve Ratio (CRR)* of Scheduled Commercial Banks	Statutory Liquidity Ratio (SLR) * of Scheduled Commercial Banks	Liquidity under 7-day and 14-day term repos of NDTL of the banking system	Liquidity under overnight repos under the LAF	Liquidity provided under the Export Credit Refinance (ECR) Facility
Third Quarter Monetary Policy Review, January 28, 2014	8.00 percent, increased by 25 basis points from 7.75 per cent	4.0 percent, kept unchanged	23 percent of NDTL No change	Continued to provide liquidity under 7-day and 14-day term repos of NDTL of the banking system-0.5 percent	Continued to provide liquidity under overnight repos under the LAF 0.5 per cent of bank wise NDTL	50 percent of eligible export credit outstanding No change
First Bi-Monthly Monetary Policy, April 1, 2014	8 percent, kept unchanged	4.0 percent, kept unchanged	No change	Increased liquidity under 7-day and 14-day term repos from 0.5 percent to 0.75 percent of NDTL of the banking system	Decreased liquidity under overnight repos under the LAF from 0.5 per cent of bank wise NDTL to 0.25 percent	No change
Second Bi-Monthly Monetary Policy, June 3, 2014	8 percent, kept unchanged	4.0 percent, kept unchanged	Reduced by 50 basis points from 23 per cent to 22.5 percent of NDTL with effect from June 14, 2014	Continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 percent of NDTL	No change	Reduced from 50 per cent of eligible export credit outstanding to 32 per cent; Introduced a special term repo facility of 0.25 percent of NDTL to ECR reduction
Third Bi-Monthly Monetary Policy, August 5, 2014	8 percent, kept unchanged	4.0 percent, kept unchanged	Reduced by 50 basis points from 22.5 percent to 22.0 percent of NDTL with effect from August 9, 2014	Continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 percent of NDTL of the banking system	Continued to provide liquidity under overnight repos at 0.25 percent of bank wise NDTL	No change
Fourth Bi-Monthly Monetary Policy, September 30, 2014	8 percent, kept unchanged	4.0 percent, kept unchanged	No change	Continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 percent of NDTL of the banking system	Continued to provide liquidity under overnight repos at 0.25 percent of bank wise NDTL	Reduced liquidity provided under the ECR Facility from 32 per cent of eligible export credit outstanding to 15 percent with effect from October 10, 2014
Fifth Bi-Monthly Monetary Policy, December 2, 2014	8 percent, kept unchanged	4.0 percent, kept unchanged	No change	Continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 percent of NDTL of the banking system	Continued to provide liquidity under overnight repos at 0.25 percent of bank wise NDTL	No change

\* As percent of NDTL